# How Effective are LDC-specific International Support Measures?

Chapter 2

## A. Introduction

This chapter examines whether international support measures, which have been specifically designed to help LDCs promote development and poverty reduction and reduce their marginalization and vulnerability in today's global economy, are working effectively. It shows that there has been increasing recognition of the need for special support measures and actions designed specifically for LDCs, particularly in the last 15 years. But the chapter argues that so far such measures have had largely symbolic, rather than practical, developmental effects.

*A comparative assessment of LDC-specific international support measures enables the identification of some common weaknesses.*

This conclusion is based on a comparative analysis of how the following eight specific measures are working:

1. Aid targets of 0.15 or 0.20 per cent of donors' GNI to be allocated to LDCs;
2. The OECD-DAC Recommendation of 2001 to untie aid to LDCs;
3. Special consideration given to LDCs in their accession to the World Trade Organization (WTO);
4. Special and differential treatment for LDCs in WTO agreements;
5. Preferential market access for LDCs;
6. Article 66.2 of the TRIPS Agreement on transfer of technology to LDCs;
7. The Integrated Framework for Trade-related Technical Assistance (IF) which has now been succeeded by the Enhanced Integrated Framework (EIF); and
8. The Least Developed Countries Fund (LDCF) established to implement the work programme of the United Nations Framework Convention on Climate Change (UNFCCC).

*The eight measures have been chosen because they represent the most concrete cases of actions in favour of the LDCs.*

The assessment of these measures is based on information derived from existing published evaluations of these measures, but adds value to those evaluations by juxtaposing them and comparing their findings. For example, there has been no comparison of the relative success of the IF and LDCF as they operate in different domains. But a comparative assessment enables the identification of some common weaknesses.

The eight measures listed above have been chosen as representing the most concrete cases of actions in favour of the LDCs. In three major conferences focusing on LDCs organized by the United Nations in 1981, 1991 and 2001, the international community agreed decadal programmes of action for these countries. Each of these conferences called for commitments to multiple actions by both the LDCs and their development partners. The Brussels Programme of Action (BPOA) of 2001, for example, listed commitments to

156 actions by the LDCs themselves and 178 actions by their development partners.[1] But the progress in meeting those commitments is unclear, as there are no accountability mechanisms to enable monitoring of implementation nor detailed assessments of progress[2]. The eight specific measures examined in this chapter are inscribed in the three programmes of action, but they are also being implemented or monitored by specific international organizations, such as OECD-DAC, WTO, UNFCCC and the World Intellectual Property Organization (WIPO), or they form part of the targets of the Millennium Development Goals (MDGs) which have been the focus of efforts by the international community over the past decade. Therefore, the fact that these measures have had only limited development impacts is not for lack of action following agreements at global conferences. Indeed, some resources are being committed, institutions are being established, and information is being collected. But it is not leading to major practical development effects.

*The progress in meeting the commitments of development partners is unclear, as there are no accountability mechanisms to enable monitoring of implementation.*

The conclusion of the chapter echoes that of the Committee for Development Policy (CDP) of the United Nations Economic and Social Council, which, in evaluating the benefits that derive from LDC status, and in particular the effects of existing international support measures (United Nations, 2010a, 2010b, 2010c and 2010d), found that they "generated limited results" (United Nations, 2010a: 10). This is due to a number of common shortcomings in the design and implementation of those measures as shown in this chapter's comparative analysis.

The chapter is organized in three sections. Section B briefly describes the increasing but incomplete recognition by the international community of the special problems of the LDCs. Section C summarizes the evaluations of the eight special international support measures, and section D undertakes a comparative analysis and identifies common shortcomings in their policy design and implementation.

## B. The increasing but incomplete recognition of the special needs of LDCs

### 1. Increasing recognition[3]

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The need for special international support measures to address the special structural handicaps of the "least developed countries amongst the developing countries" was first articulated in 1964 by Raul Prebisch, the then Secretary-General of UNCTAD. It was further recognized in a resolution of the United Nations General Assembly in December 1969. Subsequently, a section of the international development strategy which was agreed at the start of the Second International Development Decade in 1970 was devoted to special measures for the LDCs (Resolution 2626/XXV). This was followed in 1971, by the adoption by the United Nations General Assembly of recommendations which formally established a special LDC category. It agreed on a list of 25 countries, which, owing to their very low levels of industrialization and human resources, were considered particularly handicapped amongst low-income countries, and thus deserving of particular advantages in international cooperation.[4] In 1981, a Substantial New Programme of Action for the 1980s for the Least Developed Countries was agreed by the international community at the first United Nations Conference for LDCs held in Paris in 1981. Subsequently, new decadal frameworks for international cooperation for the LDCs were

discussed and agreed at the second and third United Nations conferences for the LDCs held in Paris in 1991 and in Brussels in 2001. Preparations are now under way for a Fourth United Nations Conference on LDCs to be held in Istanbul from 29 May to 3 June 2011.

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A quick comparison of the contents of the programmes of action emerging from the three United Nations conferences for LDCs reveals that the problems of these countries have been taken increasingly seriously. The first programme of action for the 1980s had a chapter on international support measures, including specific recommendations on official development assistance (ODA), preferential market access and commodity agreements. But the national actions which LDCs were meant to take as a complement to these measures were founded on a State-centric approach to development planning. This programme of action was thus effectively obsolete at its birth, given the pivotal role which Structural Adjustment Programmes (SAP) played in policy formulation throughout the 1980s and 1990s. The second programme of action for the 1990s was founded on a new compact whereby the LDCs undertook to implement economic reform programmes that required downsizing State intervention and freeing market forces. Their development partners once again undertook to provide special support measures, including specific targets for ODA provision amounting to a given percentage of their GDP. This programme of action was not ideologically sidelined, but its implementation was asymmetrical: in practice, the LDCs undertook deep economic liberalization as required, but aid flows fell by 45 per cent in real per capita terms from 1990 to 2000 (UNCTAD, 2002). This second programme of action also drew attention to the debt problems of LDCs. However, measures to deal with official debt throughout the 1990s were too few and too late, leading to an increase in the debt overhang. In short, there was no effective partnership between the LDCs and their development partners

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The third programme of action for the 2000s was centred on the partnership principle. It reiterated the targets for ODA as an international support measure for the LDCs, but placed much greater emphasis on the role of international trade in promoting development in these countries. This programme of action included quantitative targets both for growth and investment and for poverty reduction and human development, reflecting the spirit of the Millennium Declaration and agreements reached at major United Nations conferences in the 1990s. It also gave more attention to the provision of social services, good governance, institutional reform, the rule of law and the participation of civil society (United Nations, 2010d). In contrast to the second programme of action, this decade was characterized by more concerted action by the LDCs on the one hand, and their development partners on the other. But, as argued in the *LDC Report 2008*, the critical issue is how the development partnership works in practice when there are enormous differences in resources, capabilities and power.

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Outside the United Nations conferences, further impetus to recognizing the need for special support measures for LDCs was provided at the conclusion of the Uruguay Round of trade negotiations. This included a decision for special and differential treatment in favour of the LDCs and for “expeditious implementation of the special differential measures in favour of least-developed countries”. In 1997, the WTO organized a High-Level Meeting on Integrated Initiatives for Least-Developed Countries’ Trade Development, which endorsed the creation of a special mechanism for delivering trade-related technical assistance. At the WTO Doha Ministerial Conference in November 2001, Ministers committed to addressing the marginalization of

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the LDCs in international trade and to improving their effective participation in the multilateral trading system. A WTO Work Programme on LDCs was adopted in February 2002, to address seven issues: (i) market access for LDCs, (ii) trade-related technical assistance, (iii) providing, as appropriate, support to agencies assisting with the diversification of least-developed countries' production and export base, (iv) mainstreaming into the WTO's work in the implementation of the Brussels Programme of Action, (v) participation of the LDCs in the multilateral trading system, (vi) accession of LDCs to the WTO, and (vii) follow-up to WTO Ministerial Decision and Declarations. The Hong Kong Ministerial Declaration of 2005 adopted a number of other decisions in favour of the LDCs, in particular to facilitate preferential market access. The Declaration reaffirmed that "least developed country members will only be required to undertake commitments and concession to the extent consistent with their individual development, financial or trade needs, or their administrative and institutional capacities." (WTO, 2005, p. 44).

*The LDCs are also now recognized within the UNFCCC, and a special fund, the Least Developed Countries Fund was established for the preparation and implementation of national adaptation programmes of action.*

The commitment of the international community to the United Nations MDGs gave further recognition to the LDC category. Goal 8 — Developing a Global Partnership for Development — is critical to the achievement of the poverty and human development goals. Specific targets for international support in favour of the LDCs, notably in the areas of aid provision and preferential market access, are among the targets within Goal 8, to be achieved by 2015, and progress towards which need to be monitored.

The LDCs are also now recognized within the UNFCCC. Article 4(9) of the UNFCCC commits all parties to the Convention to "take full account of the specific needs and special situations of the least developed countries in their actions with regard to funding and transfer of technology". The special needs and circumstances of the LDCs were reiterated at the seventh session of the UNFCCC's Conference of the Parties (COP),[5] and an LDC work programme was established to implement the provisions of Article 4(9). This work programme includes:

- Supporting preparation and implementation of national adaptation programmes of action (NAPAs),
- Strengthening existing and, where needed, establishing national climate change secretariats and/or focal points to enable effective implementation of the Convention and of the Kyoto Protocol,
- Providing training in negotiation skills and language,
- Promoting public awareness programmes,
- Development and transfer of technologies, particularly adaptation technologies, and
- Strengthening meteorological and hydrological services to collect, analyse, interpret and disseminate weather and climate information to support implementation of the NAPAs (UNFCCC, 2002).

*A final important area of international support for LDCs is through the orientation of the work of the United Nations system relating to the LDCs.*

A special fund, the Least Developed Countries Fund (LDCF), was also established to support the LDC work programme, notably for the preparation of NAPAs, and a Least Developed Countries Expert Group (LEG) was created to support LDCs in the preparation and implementation of their NAPAs (UNFCCC, 2009b).

A final important area of international support for LDCs is through the orientation of the work of the United Nations system relating to the LDCs.

This includes, apart from the organization of the decennial conferences, the provision of financial support for the participation of LDCs in annual sessions of the United Nations General Assembly, as well as caps on their contribution to the regular budget of the United Nations. The Committee for Development Policy (CDP), working with UN-DESA and supported by inputs from UNCTAD, has advised the Economic and Social Council of the UN regarding countries which should be added to or those that could be graduated from the list of LDCs. In addition, a special Office of the High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (OHRLLS) was set up after UN-LDC III. Its purpose was to advocate support for all these countries, which were regarded as having specific geographical handicaps, and to monitor progress towards achieving goals and targets set at various international conferences relating to their special needs.

*Several United Nations agencies have established special programmes that provide financial or technical assistance to the LDCs.*

Several United Nations agencies have also established special programmes that provide financial or technical assistance to the LDCs (United Nations, 2010a). For example, the United Nations Capital Development Fund focuses on support to decentralize public investment and foster private investment through microfinancing. It currently operates in 37 out of the 49 LDCs; the World Meteorological Organization (WMO) has a special programme to strengthen the capacities of LDCs' national meteorological and hydrological services (NMHSs); and UNCTAD has a Division for Africa, Least Developed Countries and Special Programmes, which produces the *Least Developed Countries Report* annually that contains analyses of development issues specific to LDCs and proposes national and international policies to address them.

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There is no systematic overview of all the activities of the United Nations system in favour of the LDCs. However, according to the most recent estimates, the United Nations system's expenditures on operational activities related to LDCs increased from $2.4 billion in 2000 to $7.0 billion in 2008 (United Nations, 2010e). This represents an increase from 28 per cent of total expenditures to 38 per cent for operational activities, both developmental and humanitarian. It is also estimated that more than 50 per cent of country-level expenditure in 2008 went to LDCs, up from 39 per cent in 2003 (United Nations, 2010f, p 31). It is therefore clear that a major way in which LDCs derive financial benefit from the LDC status is through the operational activities of the UN system.

*Whereas the LDC category is well accepted within the United Nations system, it is virtually absent from the international financial architecture, and in particular from the aid architecture and debt relief regime.*

## 2. Incomplete recognition

Whereas the LDC category is well accepted within the United Nations system, as reflected in the design of the international trade regime and within the emerging regime of climate change mitigation and adaptation, it is virtually absent from the international financial architecture, and in particular from the aid architecture and debt relief regime. An exception is the 2001 DAC Recommendation on untying aid to the LDCs, discussed below.

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Significantly, neither the World Bank nor the International Monetary Fund (IMF) recognize the LDC category in their operational work; instead, they use the concepts of "low-income countries" (LICs), "low-income countries under stress" and "heavily-indebted poor countries". In addition, both the international financial institutions and bilateral donors are increasingly using the concept of "fragile States", or some related concept. All these concepts

overlap with that of LDCs, but imperfectly. In 2003, the CDP decided to align the threshold for gross national income (GNI) used in identifying LDCs with that used by the World Bank to identify LICs. But there is still a difference between LDCs and LICs. The LDCs are identified as "low-income countries that suffer severe structural handicaps to growth, particularly low human resources and high economic vulnerability" (United Nations, 2010c: 3). There is also a maximum population size criterion, which excludes some low-income countries that meet the other criteria. Finally, there are specific criteria for graduation from LDC status, including a low-income threshold which is set at a level 20 per cent above the inclusion threshold. Thus the LDCs include some countries which are not low-income countries (in 2006, for example, 41 of the LDCs were low-income countries), and some low-income countries do not qualify to be LDCs (in 2006 this included 15 low-income developing countries and 4 low-income transition economies).

*The non-recognition of the LDC category by these two institutions and the increasing interest of bilateral donors in the category of "fragile States" affect the way in which special international support measures for the LDCs actually work.*

The concept of the "fragile State" has gained in importance over the past decade as donors have become increasingly selective in their aid allocations. The donors are tending to focus more on countries with policy and institutional environments where aid should work according to their expectations. There are also growing concerns about the fate of the countries which are perceived to have operationally difficult environment, and which therefore are in danger of being ignored. The notion of the fragile State has gained greater importance in this context. But it is very different from that of an LDC. While the former category is defined by weak governance (according to specified criteria and, in particular, the inability to manage aid effectively), the latter is defined by structural weaknesses. The notion of the fragile State is as contentious as its sister concept, the failed State. "Weak governance" is very difficult to measure, and in practice what has become important is a minimum threshold of achievement based on the World Bank's country policy and institutional assessment (CPIA). But countries can jump in or out of this governance categorization much more quickly than in or out of the structural weakness categorization which is at the heart of the LDC definition. Moreover, there are no agreed or even public listings of "fragile States".

*The international support measures do not work alone; rather, they work alongside and interact with systemic regimes which guide the international economic relations.*

Most LDCs are heavily dependent on aid, and the World Bank and IMF play a major role in both their access to, and use of, all official financial resources. The non-recognition of the LDC category by these two institutions and the increasing interest of bilateral donors in the category of "fragile States" thus affect the way in which special international support measures for the LDCs actually work. In essence, the international support measures do not work alone; rather, they work alongside and interact with systemic regimes which guide the international economic relations of all developing countries, including the LDCs and sub-categories of developing countries — such as "low-income countries", "heavily-indebted poor countries" and "fragile States" — which imperfectly overlap with the category of LDC.

*The global economic regimes which enable or constrain development in LDCs are much more powerful than the special international support measures for LDCs.*

In general, the global economic regimes which enable or constrain development in LDCs are much more powerful than the special international support measures for LDCs. For example, economic development in the LDCs in the 2000s was much more affected by the Poverty Reduction Strategy Papers (PRSP) process — and its appropriateness in the LDC context — than by any aspects of the Brussels Programme of Action. Similarly, the design and implementation of the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) have also deeply influenced development outcomes in many LDCs, though neither programme is LDC-specific.

It is argued in the next chapter that the major systemic regimes have not been working effectively for development and poverty reduction in the LDCs. The weak development dimensions of the global economic regimes and the adoption of a one-size-fits-all approach have had particularly adverse consequences for the LDCs, given their very low levels of development and structural weaknesses. In addition, there is a disarticulation between the systemic regimes and the special international support measures for LDCs which can completely undermine both the intent and the outcomes of the latter.

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Three examples serve to illustrate this point. The first example is the relationship between the LDC-specific development goals embodied in the BPOA and the MDGs. The BPOA was drafted, negotiated and agreed after the Millennium Declaration but before the inter-agency agreement on the precise statistical targets which would be monitored to measure progress towards achieving the MDGs. The BPOA was inspired by the Millennium Declaration and it represented a pioneering attempt to give a renewed emphasis to the principle of partnership as a cornerstone of international development cooperation which emerged in the late 1990s. One of the main aims of the BPOA, in contrast to earlier programmes of action, was to set quantitatively measurable goals and targets. To this end, the drafting of the BPOA drew upon the agreed outcomes of the major international conferences of the 1990s in much the same way as those that specify the MDGs with measurable indicators. But because the latter process occurred after the former, and because the former involved political negotiations, there is a mismatch and imperfect fit, overall, between the goals and targets of the two. In some ways, the BPOA's goals are more advanced than the MDGs as they include a mix of human development goals, particularly focusing on health and education to build human capacities, as well as goals related to the development of productive capacities, notably growth targets, investment ratios and infrastructure development targets. But in practice, the general development goals embodied in the MDGs, rather than specific LDC development goals, have been the focus of attention. Certain BPOA goals thus become important by default, to the extent that they conform with the MDGs. Other BPOA goals have been neglected by the international community.

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A second example relates to mainstreaming trade in development strategies. As noted below, this is an important goal of the EIF which is one of the major LDC-specific support measures. But, as argued in earlier *LDC Reports* (UNCTAD, 2004 and 2008), the problem of trade mainstreaming is an issue of ownership, and in particular the limited country ownership of the macroeconomic framework of the poverty reduction strategies. This macroeconomic framework contains forecasts of export and import growth that have no connection with the detailed trade objectives and policy measures contained in the main text of the PRSPs. This disconnect arises because of the weak relationship between the macroeconomic framework and the rest of the document, because the framework is owned only by a narrow circle of officials, or, worse still, because the trade forecasts are not made by the appropriate authorities within the country concerned. Whatever the cause, any special measure to integrate trade into poverty reduction strategies will simply be swimming against the tide so long as the general processes in the design and implementation of PRSPs undermine country ownership, and in particular if the processes which limit the ability of a country to exercise leadership in the design of the macroeconomic framework are not also addressed. In effect, the special measures and the systemic regime are working at cross-purposes.

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The third example of the way special international support measures are embedded in a wider field of international action which is not LDC-specific is the Everything-But-Arms (EBA) Initiative of the EU. This initiative played a very important symbolic role in catalysing action to give preferential market access to the LDCs. But its initial practical benefits were small. This was partly because, in terms of tariffs and quotas, the EU already had a relatively open trade regime for LDC producers. For example, Stevens and Kennan (2001) estimated that in 1997 only 11 out of 502 items exported to the EU from the LDCs as a group with a value of more than $500,000 were not eligible for duty- and quota-free access. But beyond this, many African LDCs already enjoyed market access preferences under the Cotonou arrangement, which had more flexible rules of origin and were therefore preferred by African LDC exporters to the EU. As a consequence of the interaction of these different regimes, Brenton (2003: 6) found that only “three one hundredths of one per cent of total LDC exports to the EU” entered under the EBA in 2001.

The way in which the international economic architecture affects the LDCs is thus the product of the interaction of systemic regimes, special international support measures for the LDCs and measures designed for other sets of countries which overlap imperfectly with the LDC category. These different regimes are often working at cross-purposes — an observation that has very important implications for policies to improve the way in which the international environment works to support development and poverty reduction in the LDCs. This issue is taken up in the next chapter. The rest of this chapter focuses on assessing how effective the special international support measures for LDCs are in their own right.

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## C. Effectiveness of special international support measures for LDCs

This section summarizes the conclusions of evaluations of eight special international support measures in favour of the LDCs, and makes a comparative assessment of their results. The measures relate to the volume and effectiveness of aid flows to LDCs, enhancing LDCs’ participation in world trade and in the international trading system, encouraging technology transfer to the LDCs, and promoting climate change adaptation in these countries.

### 1. Aid

#### *(a) Targets for the volume of aid*

The Report of the Secretary-General of UNCTAD to UNLDC I proposed establishing the following targets for ODA for LDCs: 0.15 per cent of donors’ gross national product (GNP) by the first half of the 1980s, rising to 0.20 per cent during the second half of the 1980s. These proposals were reflected in the Substantial New Programme of Action for LDCs adopted at the conference, and since then they have been reiterated in each Programme of Action in various forms. The Paris Programme of Action for LDCs for the 1990s modulated the commitments, enabling donor countries to adopt a more flexible approach. Thus:

- Donor countries providing ODA of more than 0.20 per cent of their GNP to LDCs would continue to do so and increase their efforts;

- Other donor countries which had met the 0.15 target would undertake to reach the 0.20 per cent target by 2000;
- Other donor countries which had committed themselves to the 0.15 target would reaffirm their commitment and undertake either to achieve the target within the next five years or to accelerate their efforts to reach the target; and
- Other donor countries would exercise individual best efforts to increase their ODA to LDCs with the effect that, collectively, their assistance to LDCs would significantly increase (UNCTAD, 1992: para 23).

In the Brussels Programme of Action agreed at UNLDC III in 2001, donor countries agreed to implement the above actions to which they had committed "as soon as possible", as well as "to support LDCs' efforts to develop information systems which record, at the recipient country level, indicators and other relevant information relating to aid effectiveness" (United Nations, 2002: para. 83).

*The aggregate ratio of ODA to GNI for DAC members increased from 0.05 per cent in 2000 to 0.09 per cent in 2008, but this was still well below the lower 0.15 target. The increase in the 2000s actually represented only a return to the same level of aid as in 1990.*

These aid targets are so flexible that it is difficult to know which donors have committed to what. They therefore risk ending up like the many actions contained in the various programmes of action which appear to be agreed and then ignored. However, the targets are included here within the eight measures because they are also a target of Goal 8 of the MDGs, whereby donor countries should reach aid targets for ODA to LDCs, now measured as either 0.15 or 0.20 per cent of GNI. In addition, OECD-DAC has been monitoring progress towards achieving the targets in its annual *Development Cooperation Reports*. Thus the aid targets can not simply be seen as an empty commitment.

There has been some progress in the achievement of the targets by DAC donors (charts 14a and 15). The aggregate ratio of ODA to GNI for DAC members increased from 0.05 per cent in 2000 to 0.09 per cent in 2008, but this was still well below the lower 0.15 target. Moreover, the increase in the 2000s actually represented only a return to the same level of aid as in 1990. In 2008, only 9 out of 23 OECD-DAC donors met the 0.15 target — Luxembourg, followed by Norway, Denmark, Sweden, Ireland, Netherlands, Belgium, the United Kingdom and Finland. This was five more than met the lower target in 2000.

*The actual aid amount in 2008 represented a shortfall of between $23.6 billion and $43.8 billion vis-à-vis the aid targets.*

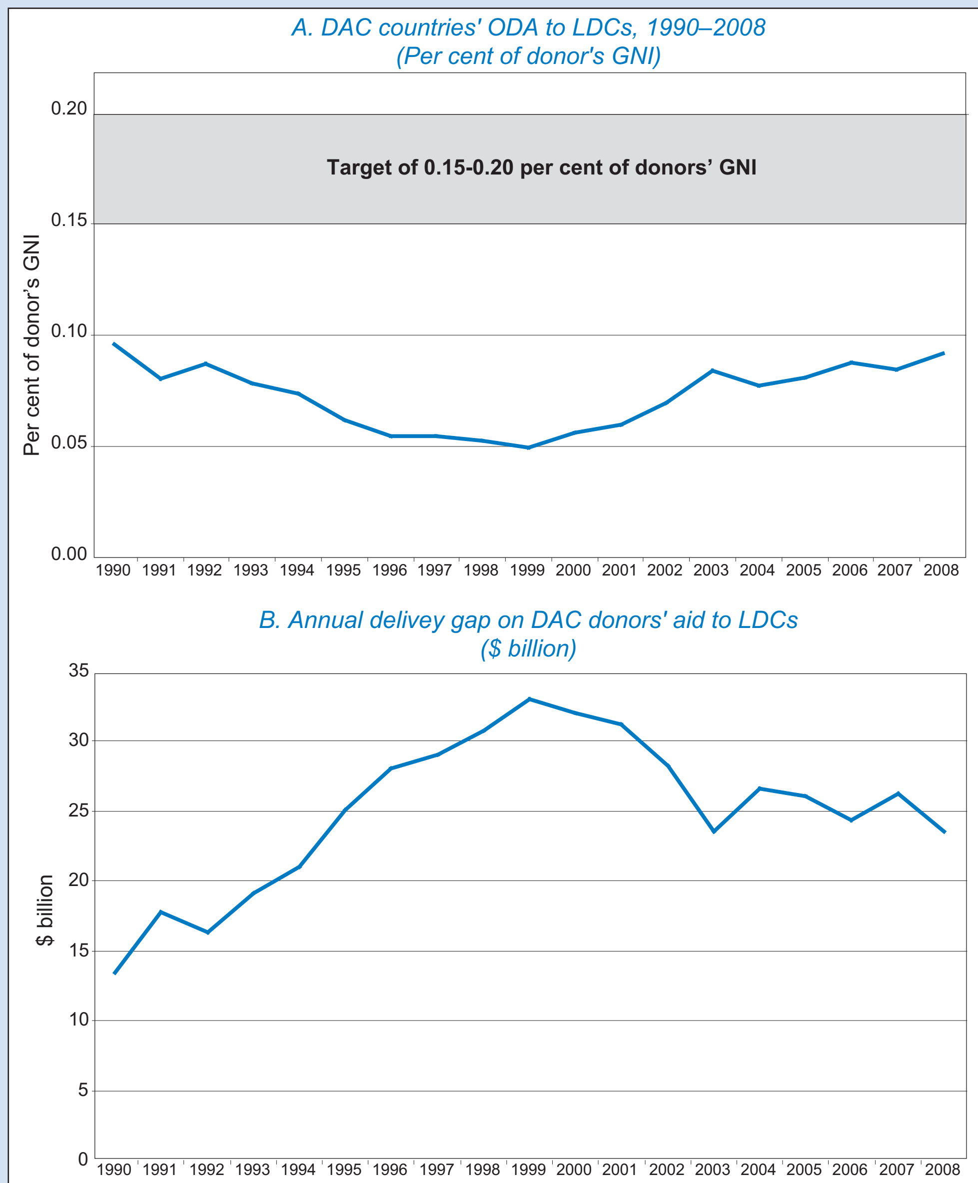
Net ODA flows to the LDCs amounted to $37 billion in 2008, as of data published in August 2010. However, if the ODA target of 0.15 per cent of GNI had been achieved, the total amount would have been $60.7 billion, and if the target of 0.20 per cent of GNI had been achieved, it would have been $80.9 billion. Thus the 2008 amount represented a shortfall of between $23.6 billion and $43.8 billion vis-à-vis the aid targets. Aid inflows would have to increase by between 64 per cent and 118 per cent to reach those targets.

*The cumulative shortfall in aid flows to the LDCs over the period 2000–2008 in relation to the lower aid target was equivalent to 51 per cent of the GNI of the LDCs as a group in 2008.*

It is also possible to estimate the scale of the shortfall over time (chart 14b). Even though the aid flows to LDCs increased during the 2000s, the quantitative shortfall in relation to the aid target was actually larger during this decade than in the 1990s when aid declined. The simple reason is that even though some progress towards the target was made, donor GNI was higher which made the shortfall higher. The cumulative shortfall in aid flows to LDCs from 2000 to 2008 in relation to the 0.15 aid target was equivalent to 51.3 per cent of the GNI of the LDCs as a group in 2008. Moreover, the cumulative shortfall in aid flows to the LDCs over the period 1990–2008 for the same target was equivalent to 100 per cent of the GNI of the LDCs as a group in 2008.

**Chart 14**

**DAC countries' aid to LDCs, 1990–2008**




*Source*: UNCTAD secretariat calculations, based on OECD *Stat* database.
*Notes*: ODA includes net bilateral and imputed multilateral disbursements. Data in constant 2008 dollars.
Gap calculations are based on the lower (0.15 per cent of GNI) aid target.

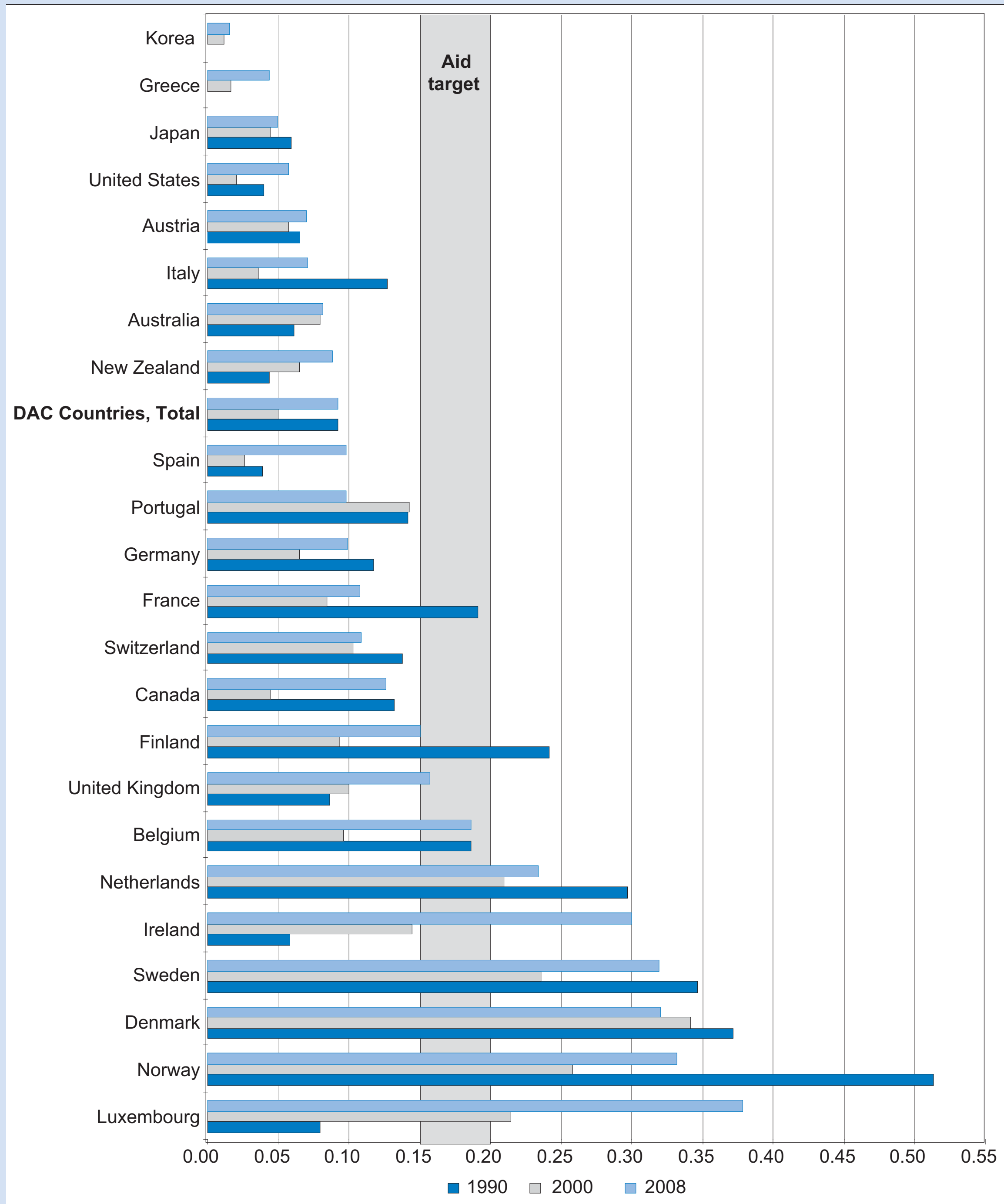
There are no empirical studies of how the donors use the LDC category in their aid allocation decisions. It seems to be significant for some donors who are achieving the target, but they, like other donors, are quite selective about which countries they choose to aid. Thus the achievement of the target is associated with aid flows to a few selected LDCs with which the donors might have special relationships. For example, one fourth of total net ODA disbursement to LDCs in 2006 went to the Democratic Republic of the Congo, Afghanistan and Sudan (UNCTAD, 2008).

*Aid inflows to LDCs more than doubled in the 2000s, but the increase in aid flows was proportional to the increase in aid flows to other developing countries.*

The analysis of the CDP (United Nations, 2010c) indicates that, although aid inflows to LDCs more than doubled in the 2000s, the increase in aid flows was proportional to the increase in aid flows to other developing countries. The share of LDCs in total aid has thus hovered at around 30 per

**Chart 15**

**Net ODA from individual DAC member countries to LDCs, 1990, 2000 and 2008**
*(Per cent of donor country GNI)*




*Source*: UNCTAD secretariat based on OECD, *International Development Statistics* database (online) (accessed July 2010).
*Notes*: Net disbursments including imputed flows through multilateral channels.
Donor countries in descending order of the ODA to GNI ratio in 2008.

cent. Econometric analyses of the variables affecting aid allocation indicate that LDCs receive more aid than other developing countries mainly because of their characteristics — such as low level of income, weak human assets and size. There is no evidence that LDC status per se affects aggregate aid allocation (United Nations, 2010c). Moreover, there is no relationship between aid allocation and structural vulnerability as measured by the Economic Vulnerability Index (EVI), which is one of the criteria for identifying the LDCs.

*There is no evidence that LDC status per se affects aggregate aid allocation.*

### *(b) DAC Recommendation of 2001 on untying aid*

With regard to the tying of aid, in 2001 OECD-DAC members, after extended and difficult negotiations, adopted a Recommendation to untie much of the ODA to LDCs. Untied aid is defined in this context as loans and grants the proceeds of which are fully and freely available to finance procurement from all OECD countries and substantially all developing countries. Technical cooperation, food aid and donor administrative costs were excluded from the Recommendation, as well as small contracts (of less than SDR 700,000), and threshold levels for the application of the Recommendation were removed in 2006. A reporting system was established to monitor progress towards achievement of the 2001 Recommendation, along with numerical targets of tying status and effort-sharing. The 2005 Paris Declaration on Aid Effectiveness reiterated the Recommendation and envisaged that progress in untying be monitored (OECD 2005, Para 31).

*Although donors have made rapid progress in the formal untying of their aid by removing legal and administrative impediments to the procurement of goods and services outside the donors' own markets, the de facto tying of aid continues to be widespread.*

The 2001 DAC Recommendation on Untying Aid is monitored by the OECD Development Cooperation secretariat each year on the basis of agreed indicators. It is difficult to obtain a sense of trends over time because the tying status of a high proportion of aid was not reported at the start of the decade. But the data indicate unequivocally that the DAC members have reached the targets they set themselves. The tying status of members' bilateral aid in 2008 (excluding administrative costs) reported to the OECD Creditor Reporting System shows 81 per cent as untied and 15 per cent as tied aid, while the remaining 4 per cent was not reported (OECD, 2010: 4). In addition, in line with Accra Agenda for Action commitments, most, but not all, members have action-oriented strategies (including targets and timelines) to significantly increase the share of their untied aid. But at the same time "… only slightly more than $1 billion or 25% of the total value was procured from companies located in developing countries" (OECD, 2010: 5). This implies that although aid is *de jure* untied, de facto aid flows remain substantially tied.

*The reasons for the de facto tying include: (i) donor regulations; (ii) lack of local capacity; (iii) local and regional contractors being unable to compete internationally; (iv) unequal access to information; (v) potential risk aversion at donors' headquarters; and (vi) pressure for speedy implementation.*

An in-depth evaluation of implementation of the Recommendation throws more light on this (Clay, Geddes and Natali, 2009). It shows that although donors have made rapid progress in the formal untying of their aid by removing legal and administrative impediments to the procurement of goods and services outside the donors' own markets, the de facto tying of aid continues to be widespread. Thus "many formally untied projects were found to be de facto tied or have only some untied components" and "even where procurement is being handed over to partners, most donors try to influence project implementation, through long term technical assistance or management consultant from their home country" (p.ix). The evaluation shows that despite formal untying, the aggregated aid flows from a donor have a significant impact on that donor's exports. As the evaluation points out, the gap between de jure and de facto untying "calls into question to a certain extent the genuineness of untying efforts" (p.ix).

The reasons for the de facto tying include: (i) donor regulations; (ii) lack of local capacity; (iii) local and regional contractors being unable to compete internationally — a factor that is influenced by the design of the contracts, particularly in terms of their size; (iv) unequal access to information; (v) potential risk aversion at donors' headquarters; and (vi) pressure for speedy implementation. Underlying these factors is a major difference in perception between donor and recipient countries about what untying means. For the donors, it is matter of meeting legal and administrative requirements. For the recipients, untying is understood to be the transferring of responsibility for

planning and managing funds from donors to recipients and it should offer local businesses an opportunity to compete successfully for contracts.

## 2. International trade

Measures to help LDCs develop their international trade cover four major areas: (i) support for LDCs' accession to the WTO, (ii) preferential market access, (ii) special and differential treatment with regard to obligations within multilateral agreements on trade, and (iv) support for trade-related capacity-building through the Enhanced Integrated Framework for Trade-related Technical Assistance.

*For the recipients, untying is understood to be the transferring of responsibility for planning and managing funds from donors to recipients and it should offer local businesses an opportunity to compete successfully for contracts.*

### *(a) WTO accession*

Of the 49 LDCs, 32 are members of the WTO.[6] As such, their trade policies are bound by the commitments and obligations of their terms of accession. Another 12 LDCs are at present negotiating their accession to the WTO. Recognizing the challenges faced by these countries, because of their weak human and institutional capacities, limited technical knowledge and scarce financial resources, the WTO General Council adopted a Decision on the Accession of LDCs in December of 2002 (WTO, 2003). In so doing, it sought to mainstream the BPOA into WTO work. The Decision's aim was to facilitate and accelerate LDCs' negotiations for accession through simplified and streamlined accession procedures with a view to concluding these negotiations as quickly as possible.

*The accession process for LDCs has proved to be as cumbersome and protracted as it has been for other countries. Several of them have been negotiating for more than a decade so far, and still have not completed the process.*

Specifically, the member States of the WTO were called upon to: exercise restraint in seeking concessions and commitments on trade in goods and services from acceding LDCs; provide them with full benefits of special and differential treatment (SDT); grant transitional periods foreseen under specific WTO agreements to enable the acceding LDCs to effectively implement their commitments and obligations; and not use commitments to accede to any of the plurilateral trade agreements or participate in any other optional sectoral market access initiatives as a precondition for accession to the WTO.

However, an analysis of the accession process and the commitments of LDCs suggests that, in general, these objectives have not been met. The accession process for LDCs has proved to be as cumbersome and protracted as it has been for other countries. Several of them have been negotiating for more than a decade so far, and still have not completed the process (table 12). For example, the Sudan started the process in 1994, Vanuatu in 1995, the Lao People's Democratic Republic in 1997, Samoa in 1998, Bhutan in 1999 and Yemen in 2000. Only two countries — Cambodia and Nepal — have acceded to the WTO since 2000.

*While weaker States de jure have the right to benefit from special and differential treatment, they are de facto stripped of this right in the accession process.*

An assessment of the terms of accession of these two countries shows that both were given flexibilities, particularly in technically complex areas such as TRIPS, customs valuation, TBT [technical barriers to trade] and SPS [application of sanitary and phytosanitary measures]. However, substantial questions remain about whether WTO members did in fact exercise restraint in seeking concessions and commitments on trade in goods and services from Cambodia and Nepal. The commitments undertaken by them go well above and beyond the levels of concessions and commitments undertaken by the existing 30 WTO LDC members (UNCTAD, 2004). In effect, "while weaker States *de jure* have the right to benefit from special and differential treatment",

***Table 12***

**Status of LDCs' ongoing WTO accession negotiations**

| Country | Application | Working Party Established | Memo-randum | First/Latest* Working Party Meeting | Number of Working Party Meetings | Goods offer | | Services offer | | Draft Working Party Report[b] |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Initial | Latest* | Initial | Latest[a] | |
| Afghanistan | Nov. 2004 | Dec. 2004 | Mar. 2009 | | | | | | | |
| Bhutan | Sep. 1999 | Oct. 1999 | Feb. 2003 | Nov. 2004/ Jan. 2008 | 4 | Aug. 2005 | Nov. 2007 | Aug. 2005 | Nov. 2007 | Dec. 2007 |
| Comoros | Feb. 2007 | Oct. 2007 | | | | | | | | |
| Equatorial Guinea | Feb. 2007 | Feb. 2008 | | | | | | | | |
| Ethiopia | Jan. 2003 | Feb. 2003 | Jan. 2007 | May 2008 | 1 | | | | | |
| Lao People's Dem.Rep. | Jul. 1997 | Feb. 1998 | Mar. 2001 | Oct. 2004/ Jul. 2009 | 5 | Nov. 2006 | Jun. 2009 | Oct. 2007 | Jun. 2009 | Jun. 2009 (FS) |
| Liberia | Jun. 2007 | Dec. 2007 | | | | | | | | |
| Samoa | Apr. 1998 | Jul. 1998 | Feb. 2000 | Mar. 2002 | 1 | Aug. 2001 | | Aug. 2001 | Feb. 2006 | May 2009 |
| Sao Tome and Principe | Jan. 2005 | May 2005 | | | | | | | | |
| Sudan | Oct. 1994 | Oct. 1994 | Jan. 1999 | Jul. 2003/ Mar. 2004 | 2 | Jul. 2004 | Oct. 2006 | Jun. 2004 | Oct. 2006 | Sep. 2004 (FS) |
| Vanuatu | Jul. 1995 | Jul. 1995 | Nov. 1995 | Jul. 1996/ Oct. 1999 | 2 | Accession Package: Oct. 2001 | | | | |
| Yemen | Apr. 2000 | Jul. 2000 | Nov. 2002 | Nov. 2004/ Jul. 2009 | 6 | Sep. 2005 | Aug. 2008 | Aug. 2005 | Aug. 2008 | Dec. 2009 |

*Source*: UNCTAD secretariat compilation, based on the WTO website (www.wto.org).
*Note*: *a* As of December 2009; *b* Most recent Factual Summary (FS), draft Working Party Report or Elements of a Working Party Report.

they are "*de facto* stripped of this right in the accession process" (Ibid, p. 62).

### *(b) Preferential market access*

Preferential market access entitles exporters to pay lower tariffs or even to enter the market quota-free and/or duty-free. These are granted under the following general preferential schemes: (i) the Generalized System of Preferences (GSP), which is non-reciprocal; and (ii) the Global System of Trade Preferences Among Developing Countries (GSTP) — a reciprocal scheme available to signatories.

*LDCs receive greater preferences in view of their special circumstances. Preferential market access entitles exporters to pay lower tariffs or even to enter the market quota-free and/or duty-free.*

LDCs receive greater preferences in view of their special circumstances. Such special treatment takes the form of: (i) extending the range of products of particular interest to LDCs within the framework of preferences granted to all developing countries, and (ii) granting LDCs special concessions not available to other preference-receiving developing countries (e.g. greater tariff reductions or more liberal treatment with respect to rules of origin). This was first proposed by UNCTAD expert groups in 1969 and 1972, and later within the Substantial New Programme of Action for LDCs in 1981 (see UNCTAD, 1969, paras 24–32; 1972, paras 40–46; and 1983, paras 430–464). In 1994, the UNCTAD Special Committee on Preferences, at its twenty-first session, concluded that a priority task of the international community should be to assist LDCs in maximizing their utilization of the GSP scheme; improving the scheme by extending its product coverage, duty- and quota-free treatment; and offering more flexible rules of origin in favour of LDCs. It further called for these improvements to be complemented by greater liberalization of non-tariff barriers affecting products of particular export interest to LDCs, and by international support measures to increase the capacity of LDCs to design, produce and market products.

These proposals received further impetus from the WTO Ministerial Conference in Singapore in 1996, which adopted a Plan of Action for LDCs, including providing predictable and favourable preferential market access conditions, and by the adoption of the Everything-but-Arms Initiative by the EU in 2001, which provided a model for emulation by other countries. The BPOA also included commitments of developed countries that "development partners will aim, including through actions in relevant multilateral fora, at…improving preferential market access for LDCs by working towards the objective of duty-free and quota-free access for all LDC products." (United Nations, 2002, para 68h). Furthermore, it called for consideration to be given to a proposal for developing countries to contribute to improved market access for LDCs' exports. In addition, target 8b of the MDGs required developed countries to increase the proportion of their duty-free and quota-free (DFQF) imports (by value) from LDCs. Finally, a decision on DFQF market access was reached at the Sixth Ministerial Conference in Hong Kong, China, which states that "developed-country Members shall, and developing-country Members declaring themselves in a position to do so should: (i) Provide DFQF market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period in a manner that ensures stability, security and predictability." It further states that "(ii) Members facing difficulties at this time to provide market access as set out above shall provide duty-free and quota-free access for at least 97 per cent of products originating from LDCs, defined at the tariff line level, by 2008 or no later than the start of the implementation period." (WTO, 2005).

*Trade preferences are an area where there is perhaps the greatest international momentum to provide special treatment for LDCs. But the critical question is whether this has made a difference to LDCs' trade development.*

A non-inclusive list of initiatives taken by developed and developing countries indicates that over the period 2000 to 2010, 23 countries took 36 initiatives to improve market access for LDCs (WTO, 2010a; see also table 13). This may seem to be an impressive record of implementation. Trade preferences are an area where there is perhaps the greatest international momentum to provide special treatment for LDCs. But the critical question is whether this has made a difference to LDCs' trade development.

A large proportion of LDCs' exports to developed countries have benefited from duty-free access, increasing from 68 per cent of total developed-country imports in 1996 to 92 per cent in 2008 (table 14). However, if arms and oil are excluded, this share has remained more or less stable at around 80 per cent since 1998. What is of particular concern is that these trends suggest that preferences accorded to LDCs have been eroded. Since the more advanced developing countries are benefiting from increased duty-free access to developed-country markets, LDCs' preferential market access is becoming less of an advantage. Excluding arms and oil, the preferential market access of other developing countries increased from 54 per cent of the total in 1996 to 80 per cent in 2008. This is largely due to the proliferation of trade agreements between developed and developing countries, which give the latter preferential access to the markets of the former.

*Excluding arms and oil, the proportion of LDCs' exports to developed countries with duty-free access has remained constant at 80 per cent from 1998, while that of other developing countries has increased from 54 per cent to 80 per cent. Thus, certain LDCs and certain sectors have suffered considerably from the erosion of preferences.*

In addition, as many countries have reduced their tariff rates on certain products to zero per cent, exports from LDCs that are entitled to duty-free access have to compete on an equal footing with exports from other countries. The analysis by UNCTAD (2007) suggests that certain LDCs and certain sectors have suffered considerably from the erosion of preferences.

Data reveal that developed countries' (average) import tariffs have been on the decline for agricultural products, textiles and clothing from both other developing countries and LDCs (table 15), although they still remain relatively

*Table 13*

**Preferential market access measures in favour of LDCs**

| Preference-granting countries | Description | Entry into force | Benefiaries | Coverage / margin of preference | References |
|---|---|---|---|---|---|
| Australia | Duty-free and quota-free (DFQF) entry | 1 Jul 2003 | LDCs | All products | WT/COMTD/N/18 |
| Belarus | Harmonized System of preference by the Eurasian Economic Community (EAEC) | May 2001 | 47 LDCs | Duty-free access for all products | WT/TPR/S/170 |
| Canada | GSP - Least-developed Countries' Tariff prorgramme (LDCT) | 1 Jan 2003, extended until 30 Jun 2014 | LDCs | Duty-free access under all tariff items for imports from LDCs, with exception of over-quota tariff items for dairy, poultry and egg products | WT/COMTD/N/15/Add.1 and Add.2 WT/COMTD/W/159 |
| China | Asia-Pacific Trade Agreement (APTA) - amandment to the Bangkok Agreement | 1 Sept 2006 | Bangladesh Lao PDR | Tariff concessions granted exclusively to LDC members on 161 products with average margin of preference of 77.9% | WT/COMTD/N/22 |
| | | | Bangladesh | On top of APTA, unilateral special preferential tariffs (zero rated) offered on additioanl 87 tariff lines | Information Gov. China |
| | Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China | 1 Jan 2006 | Cambodia | Duty-free treatment on 418 tariff lines | Information Gov. China |
| | | | Cambodia | On top of this Framework Agreement, unilateral special preferential tariffs (zero rated) offered on additioanl 420 tariff lines | Information Gov. China |
| | | | Lao PDR | Duty-free treatment on 330 tariff-lines | Information Gov. China |
| | | | Lao PDR | On top of this Framework Agreement, unilateral special preferential tariffs (zero rated) offered on additioanl 399 tariff lines | Information Gov. China |
| | | | Myanmar | Duty-free treatment on 220 tariff lines | Information Gov. China |
| | | | Myanmar | On top of this Framework Agreement, unilateral special preferential tariffs (zero rated) offered on additioanl 226 tariff lines | Information Gov. China |
| | Forum on China-Africa Cooperation | | LDCs in Africa having diplomatic relations with China | By 1 Jan 2008, 30 LDCs in Africa came under the cover of DFQF market access. Zero tariff treatment will be phased-in for 95% of products, starting with 60% of products in 2010. | WT/COMTD/W/164 WT/COMTD/M/77 |
| | Special preference tariff | | Afghanistan, Maldives, Samoa, Vanuatu, Yemen | Unilateral special preferential tariffs (zero rated) offfered on 286 categories of products | Information Gov. China |
| European Union | GSP - Everything But Arms (EBA) initiative | 5 Mar 2001 | LDCs | EBA granting DFQF access for all products from all LDCs (except arms and ammunitions). Transitioanl provisions for imports of rice and sugar fully liberalized by Oct 2009. | WT/COMTD/N/4/Add.2 and Add.4 WT/TPR/S/177/Rev.1 |
| | Contonou Agreement expired on 31 Dec 2007; EPAs being negotiated with the African, Caribbean and Pacific (ACP) countries will replace the unilateral preferences granted under the Contonou Agreement | | 79 ACP countries, 40 of which LDCs | Dutry-free treatment on industrial, certain agricultural and fishery products, subject to a safeguard clause. Certain products (bananas, beef and veal, sugar) governed by commodity protocols. | WT/TPR/S/177/Rev.1 WT/TPR/S/214/Rev.1 |
| Iceland | GSP - Tariff Preferences in Regard to the Importation of Products Originating in the World's Poorest Developing Countries | 29 Jan 2002 | LDCs | All products except some agricultural products (HS chapters: 04, 15, 18, 19, 21, 22) and non-agricultural products (HS sub-headings: 3502, 3823 and all of HS 16 except sub-headings 1603 to 1605) | WT/COMTD/N/17 and Corr.1 WT/TPR/S/164 |
| India | Asia-Pacific Trade Agreement (APTA) - amandment to the Bangkok Agreement | 1 Sept 2006 | Bangladesh Lao PDR | Tariff concessions granted exclusively to LDC members on 48 products with average margin of preference of 39.7% | WT/COMTD/N/22 |
| | Duty-Free Tariff Preference Scheme (DFTP) | | LDCs | Duty-free access on 85% tariff lines at HS 6-digit level within a five-year time frame | WT/COMTD/M/69 |
| | South Asian Free Trade Area (SAFTA) | 1 Jan 2006 | Bangladesh, Bhutan, Maldives, Nepal | Special concessions exclusively granted to LDC members. In 2006/2007, preferential rates granted on 84.4% of all tariff lines at average rate of 10.6% (while 15% for non-LDC members) | WT/COMTD/10 WT/TPR/S/182/Rev.1 WT/COMTD/N/26 |
| | Bilateral agreement | 13 May 2003 | Afghanistan | Tariff reductions on 38 HS 6-digit lines (margins of preferences of 50% or 100% of MFN tariff) | WT/TPR/S/182/Rev.1 |
| | Bilateral agreement (extended on 29 Jul 2006 for 10 years) | | Bhutan | All products | WT/TPR/S/182/Rev.1 WT/COMTD/N/28 |
| | Bilateral agreement | | Nepal | Tariff exemptions for all goods subject to rules of origin. Imports of certain goods subject to annual quota | WT/TPR/S/182/Rev.1 |
| Japan | GSP - Enhanced DFQF market access | 1 Apr 2007 | LDCs | Duty-free on 8859 tariff lines (or 98% of tariff line level) | WT/COMTD/N/2/Add.14 |

**Table 13 (contd.)**

| Preference granting countries | Description | Entry into force | Benefiaries | Coverage / margin of preference | References |
|---|---|---|---|---|---|
| Kazakhstan | Harmonized System of preference by EAEC | May 2001 | 47 LDCs | Duty-free for all products | WT/TPS/S/170 |
| Korea, Rep. of | Presidential Decree on Preferential Tariff for LDCs | 1 Jan 2000 | LDCs | Duty-free access granted on 87 tariff items (HS 6-digit) | WT/COMTD/ N/12/Rev.1 WT/ TPR/S/137 |
| | Asia-Pacific Trade Agreement (APTA) - amandment to the Bangkok Agreement | 1 Sept 2006 | Bangladesh Lao PDR | Tariff concessions granted exclusively to LDC members on 306 products with average margin of preference of 64.6% | WT/COMTD/ N/22 |
| Kyrgyz Republic | Harmonized System of preference by EAEC | May 2001 | 47 LDCs | Duty-free for all products | WT/TPR/S/170 |
| Moldova | GSP | | LDCs | Duty-free for all products | WT/ACC/ MOL/37 |
| Morocco | Preferential tariff treatment for LDCs | 1 Jan 2001 | LDCs | HS 4 to 10-digit level | WT/LDC/SWG/ IF/18 G/C/6 |
| New Zealand | GSP - Tariff Treatment for LDCs | 1 Jul 2001 | LDCs | All products | WT/COMTD/27 WT/TPR/S/115 |
| Norway | GSP - DFQF market access | 1 Jul 2002 | LDCs | All products | WT/TPR/S/138 WT/COMTR/N/6/ Add.4 |
| Pakistan | South Asian Free Trade Area (SAFTA) | 1 Jan 2006 | Bangladesh, Bhutan, Maldives, Nepal | Special concessions for least-developed contracting states; tariffs to be reduced to a 5% ceiling on imports from LDC members by 2009 | www.saarc-sec. org WT/TPR/ S/193 |
| Russia | Harmonized System of preference by EAEC | May 2001 | 47 LDCs | Duty-free for all products | WT/TPR/S/170 |
| Sri Lanka | South Asian Free Trade Area (SAFTA) | 1 Jan 2006 | Bangladesh, Bhutan, Maldives, Nepal | Special concessions for least-developed contracting states | www.saarc-sec. org |
| | Asia-Pacific Trade Agreement (APTA) - amandment to the Bangkok Agreement | 1 Sept 2006 | Bangladesh Lao PDR | Tariff concessions granted exclusively to LDC members on 72 products with average margin of preference of 12% | WT/COMTD/ N/22 |
| Switzerland | GSP - Revised Preferential Tariffs Ordinance | 1 Apr 2007 | LDCs | Duty-free access for all prodcuts originating from all LDCs as of Sept 2009. Phase-in periods for some products completed by Sept 2009 | TN/CTD/M/28 WT/COMTD/N/7/ Add.2 and Add.3 |
| Tajikistan | Harmonized System of preference by EAEC | May 2001 | 47 LDCs | Duty-free for all products | WT/TPR/S/170 |
| Turkey | GSP | 31 Dec 2005 | LDCs | Duties eliminated for LDCs on the basis of EU's EBA initiative | WT/TPR/S/192 |
| United States | GSP for least-developed beneficiary developing countries (LDBDC) | 1 Jan 1976, extended until 31 Dec 2010 | 44 LDCs | 1420 articles exclusively available for LDC beneficiaries for duty-free treatment | WT/COMTD/N/1/ Add.4 and Add.5 TW/TPR/S/160 WT/TPS/S/200/ Rev.1. www.ustr. gov |
| | African Growth and Opportunity Act (AGOA) | May 2000, extented until 30 Sept 2015 | 38 Sub-Saharan countries (incl. 24 LDCs) | 1800 products, including textiles and apparel, available for duty-free treamtent | WT/COMTD/N/1/ Add.3 WT/ TPR/S/160 WT/ TPR/S/200/Rev.1 WT/L/754 |
| | Caribbean Basin Trade Partnership Act (CBTPA) | 1 Oct 2000, extended until 31 Dec 2014 | 19 Central American/Carib-bean countries (incl. 1 LDC) | Duty-free for most products, including textiles sand apparels. The Haitian Hemispheric Opportunity through Partnership Encouragement Act enhances Haiti's benefits under CBERA. | WT/TPR/S/160 WT/TPR/S/200/ Rev.1 WT/L/753 |
| Uzbekistan | Harmonized System of preference by EAEC | May 2001 | 47 LDCs | Duty-free for all products | WT/TPS/S/170 |

*Source*: UNCTAD secretariat compilation, based on WTO (2010a).

***Table 14***

**Proportion of total developed country imports from developing countries and LDCs admitted free of duty (excluding arms and oil)**

*(Percentage of total developed country imports)*

| | 1996 | 1998 | 2000 | 2004 | 2006 | 2008 |
|---|---|---|---|---|---|---|
| **(a) Excluding arms** | | | | | | |
| Developing | 53 | 54 | 63 | 76 | 81 | 84 |
| LDCs | 68 | 81 | 75 | 82 | 89 | 92 |
| **(b) Excluding arms and oil** | | | | | | |
| Developing | 54 | 54 | 65 | 76 | 77 | 80 |
| LDCs | 78 | 78 | 70 | 80 | 79 | 81 |

*Source*: *The Millennium Development Goals Report 2010: Statistical Annex*, www.mdg-trade.org (accessed September, 2010).

*Table 15*
**Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries and the LDCs**
*(percentage)*

| | 1996 | 2000 | 2004 | 2008 |
|---|---|---|---|---|
| **(a) Agricultural goods** | | | | |
| Developing | 10.5 | 9.3 | 9.1 | 8.0 |
| LDCs | 3.9 | 3.6 | 3.0 | 1.6 |
| **(b) Textiles** | | | | |
| Developing | 7.3 | 6.6 | 5.2 | 5.1 |
| LDCs | 4.6 | 4.1 | 3.2 | 3.2 |
| **(c) Clothing** | | | | |
| Developing | 11.5 | 10.8 | 8.6 | 8.2 |
| LDCs | 8.2 | 7.8 | 6.4 | 6.4 |

*Source*: *The Millennium Development Goals Report 2010: Statistical Annex*, www.mdg-trade.org (accessed September, 2010).

high for clothing. In addition, there are regional and sectoral variations in terms of market access conditions, between other developing countries and LDCs as well as among LDCs. Generally, other developing-countries continue to face somewhat higher average tariffs than LDCs for their exports, including exports of agriculture, textiles and clothing. However, that difference is now less than two percentage points for textiles and clothing, which means that preferential market access has ceased to offer any meaningful advantage to LDCs. Within the LDCs as a group, small island and African LDCs have gained, or at least maintained, some preferences in major markets for their exports, while Asian LDCs, which tend to be more competitive, continue to face higher tariffs and are granted lower duty-free access, especially on their clothing and textile exports.

*Market access under existing preferential schemes does not offer LDCs much possibility to change the composition of their exports.*

Moreover, there are important variations among developed countries. For example, LDCs' agricultural products still face most-favoured-nation (MFN) tariffs of more than 8 per cent in the United States and preferential tariffs which are 6 per cent higher than the average of developing countries. Preferential rates for LDCs' garments entering the United States market average more than 11 per cent and the rates for textiles are about 6 per cent. Hence, some developed countries impose their highest tariffs on imports of garments and agriculture from developing countries, and especially from LDCs.

Market access under existing preferential schemes does not offer LDCs much possibility to change the composition of their exports, because tariffs on goods that are of export interest to LDCs (e.g. textiles, clothing, leather, footwear and rubber) are generally higher than tariffs on other goods, and, furthermore, these escalate as the level of processing increases (UNCTAD, 2003; Elliot, 2009). Most tariff peaks are in agriculture, including processed products, which has a very discouraging effect on upgrading by LDCs. Thus, since the special trade support measures are skewed towards existing, not new, activities, they offer limited possibilities for LDCs to diversify their production structure and move up the technological ladder (Farfan, 2005).

*While market access preferences for LDCs play an important symbolic role in expressing solidarity with LDCs, their practical value for trade expansion has generally been very limited, owing to lack of full product coverage ...*

Many empirical studies of how preferences work in practice[7] show that while market access preferences for LDCs play an important symbolic role in expressing solidarity with LDCs, their practical value for trade expansion has generally been very limited, owing to lack of full product coverage. As noted by Elliot (2010:8), "…because both rich-country tariff peaks and LDC exports tend to be relatively concentrated in similar sectors, even a small number of product exclusions can rob the initiative of any meaning." LDCs thus get "essentially no gain from 97 per cent [product] coverage" in DFQF access to OECD markets.

Even if there were to be better coverage of products, it has been found that the utilization rate of preferences, the proportion of imports eligible for special treatment which actually receive it, is often low. This is attributed, in particular, to restrictive rules of origin which require that eligible imports be substantially transformed in the beneficiary country. There has been some progress with regard to those rules during this past decade, most notably through the African Growth and Opportunity Act (AGOA) of the United States and Canada's preferential access programme, but much more could be done. Furthermore, it has been found that the proliferation of various non-tariff barriers, such as SPS provisions, mean that products which could potentially benefit from DFQF access are unable to do so in practice. Investors are less willing to take advantage of preferential market access if programmes have to be renewed frequently, and if eligibility conditions (such as respect for human rights) are numerous, non-transparent or applied arbitrarily. Also the preference margins given to LDCs in comparison with other countries are very low and have eroded over time. In this regard, Carrere and de Melo (2009) find that the preference margins enjoyed by LDCs in the EU and United States markets are very small when compared with the effective tariff paid by competing sellers. In the EU, the current adjusted preference margin is only around 3 per cent, and in the United States it is negative. The latter finding means that the LDCs are actually discriminated against in the United States for the main products they sell there because the United States has free trade agreements (FTAs) with other trade partners (United Nations, 2010c).

*... the utilization of preferences is also often low due to restrictive rules of origin which require that eligible imports be substantially transformed in the beneficiary country.*

Finally, due to limited supply capacities, exporters in LDCs are unable to take full advantage of preferential market access. Such access is only a hypothetical opportunity unless the commercial conditions for market entry can be achieved. As UNCTAD (2004: 250) has stated: "Improved market access for LDCs is commercially meaningless if the LDCs cannot produce in the sectors in which they have preferential treatment and if they lack the marketing skills, information and connections to convert market access to market entry. Moreover, unless the new production stimulated by the preferences strengthens the development of national technological and entrepreneurial capabilities through learning by doing, the sustainability of the development process may be questionable."

*One study has found that the preference margin enjoyed by LDCs in the EU is around 3 per cent, and in the United States is negative.*

### *(c) Special and differential treatment*

There are currently 148 special and differential treatment (SDT) provisions in the various WTO agreements, 14 of which are explicitly targeted at LDC members of the WTO (WTO, 2010b).[8] These provisions provide LDCs with more flexibility than is given to other WTO members (see box 5).

*There are currently 148 special and differential treatment (SDT) provisions in the various WTO agreements, 14 of which are explicitly targeted at LDC members of the WTO.*

One feature of these provisions is that they give LDCs more time to implement WTO agreements, enabling them to prepare institutionally (i.e. with laws, regulations and procedures) for multilateral disciplines. However, it does not help in terms of developing their productive capacities. For this, the transition period is simply arbitrary. Specifically, a 7- or 10-year transition period in most cases is not sufficient to develop viable domestic production in a particular sector. In addition, conditions in each country vary, so that they would need different transition periods for the development of their productive capacities.

An assessment of SDT provisions in UNCTAD (2004) concluded that it was doubtful that current provisions were sufficient to enable the LDCs to actively promote their economic development and reduce their international economic marginalization. It showed that:

### Box 5. Special and Differential Treatment provisions in WTO agreements[a]

LDC members of the WTO, as well as developing-country members can benefit from a number of special and differential treatment provisions contained in WTO agreements. The total number of such provisions amounts to 148, 14 of which are applicable only to the LDCs, and they fall into six categories:[b]

(i) Provisions aimed at increasing the trade opportunities of developing-country members (i.e. market access);

(ii) Provisions requiring WTO members to safeguard the interests of developing-country members;

(iii) Flexibility, commitments to action and use of policy instruments;

(iv) Transitional time periods;

(v) Technical assistance; and

(vi) Provisions relating to LDC members.

The provisions can also be classified according to the WTO agreements in which they are contained. The following are the special considerations granted specifically to the LDCs:

***Agreements relating to trade in goods (5 provisions)***

The Agreement on Agriculture exempts LDCs from undertaking reduction commitments in the areas of market access, export competition and domestic support, whereas developing-country WTO members must implement the reduction commitments within a period of up to 10 years (Article 15.2).

Article 16.1 of this Agreement stipulates that developed-country members shall take action as provided for within the framework of the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries (paragraphs 3 (i), (ii) and (iii), 4, 5). That is, they will:

(i) Review periodically the level of food aid and initiate negotiations for food aid commitments sufficient to meet the legitimate needs of developing countries during the reform programme.

(ii) Adopt guidelines to ensure that an increasing proportion of basic foodstuffs is provided to least-developed and net-food-importing developing countries in fully grant form and/or on appropriate concessional terms.

(iii) Ensure that any agreement relating to agricultural export credits makes appropriate provisions for differential treatment in favour of least-developed and net- food-importing developing countries.

(iv) Enable developing countries to draw on resources of international financial institutions in order to address short-term difficulties in financing normal levels of commercial imports.

(v) Consider the requests for the provision of technical and financial assistance to least-developed and net-food-importing developing countries to improve their agricultural productivity and infrastructure.

Article 16.2 requests the Committee on Agriculture to monitor the follow-up to this Decision.

The Agreement on Technical Barriers to Trade recognizes that developing countries, and LDCs in particular, may face institutional and infrastructural difficulties in the preparation and application of technical regulations and standards. Therefore, it calls on WTO members to give priority to the needs of the LDCs in providing advice and technical assistance (Article 11.8)

The Agreement on Trade-Related Investment Measures (TRIMs) allows LDCs more flexible implementation of the elimination of certain investment measures that have a distorting effect on trade in goods. At the Sixth Ministerial Conference of the WTO in Hong Kong, China, in 2005, members agreed to grant LDCs an additional seven years to maintain existing measures that deviate from their obligations under TRIMs, with the possibility of additional extensions. All measures, however, should be phased out by 2020 (Article 5.2)

***Agreement on trade in services (2 provisions)***

The Agreement on Trade in Services (GATS) requests that ‘‘ […] Negotiating guidelines shall establish modalities for the treatment of liberalization undertaken autonomously by Members since previous negotiations, as well as for the special treatment for least-developed country Members […]’’ (Article XIX: 3). Moreover, it calls for increased participation of developing countries in world trade and that ‘’Particular account shall be taken of the serious difficulty of the least-developed countries in accepting negotiated specific commitments in view of their special economic situation and their development, trade and financial needs’’ (Article IV:3).

***Agreements relating to trade-related intellectual property rights (3 provisions)***

Under the Preamble of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) the special needs of the LDCs are recognized, and flexibility is granted for the implementation of laws and regulations in order to enable them to create a sound and viable technological base. Article 66.1 specifies that LDCs are not required to apply the provisions of this Agreement, other than Articles 3, 4 and 5, for a period of 10 years. In 2005, the transition period was extended to July 2013, while for certain obligations relating to pharmaceutical products the period was extended to January 2016. Given their lack

**Box 5 (contd.)**

of domestic pharmaceutical manufacturing capacity, LDCs are not required to submit a notification about importing cheaper generic versions of patented medicines. Moreover, developed-country members of the WTO are required to provide incentives to enterprises and institutions in their territories to encourage technology transfers to LDCs (Article 66.2).

***Understanding on rules and procedures governing the settlement of disputes (2 provisions)***

Pursuant to the Understanding on Rules and Procedures Governing the Settlement of Disputes, WTO members "shall exercise due restraint in raising matters under these procedures involving a least-developed country Member" and "exercise due restraint in asking for compensation or seeking authorization to suspend the application of concessions or other obligations pursuant to these procedures" (Article 24.1). Moreover, it offers the LDCs conciliation and mediation mechanisms and, upon request, the good offices of the Director-General or the Chairperson of the Dispute Settlement Board to find acceptable solutions prior to a request for a panel (Article 24.2).

***Agreement on government procurement (2 provisions)***

The Agreement on Government Procurement grants suppliers in LDCs special treatment with respect to products or services originating in their countries (Article V.12). Developed-country parties are also required to provide assistance to potential tenderers in LDCs in submitting their tenders and assisting them to comply with technical regulations and standards relating to the products or services of the intended procurement (Article V.13).

*a* Based on the WTO, 2010b, and United Nations, 2008.
*b* Classified according to the typology outlined in WT/COMTD/W/77/Rev.1.

The majority of the provisions that are granted exclusively to the group of least developed countries are provisions that encourage advanced WTO members to consider the interest of the least developed WTO members, rather than provisions that provide the least developed WTO members with exemptions from WTO rules and regulations in line with their level of development. Many of the provision are best endeavor clauses rather than obligations. They are also by their nature transitory. Rather than being concerned with the development of productive capacities they are (a) intended to facilitate the implementation of the WTO Agreements by the LDCs and other developing countries and (b) to encourage these countries to design and implement trade policies in conformity with WTO Agreements (UNCTAD 2004: 245).

*Rather than being concerned with the development of productive capacities, SDT provisions are: (a) intended to facilitate the implementation of the WTO Agreements by the LDCs and other developing countries; and (b) to encourage these countries to design and implement trade policies in conformity with WTO Agreements.*

There is need for research on how effective SDT provisions are, and to what extent they are implemented in practice. However, anecdotal evidence suggests that some aspects of SDT, such as the ability to provide export subsidies or the granting of temporary exemptions with regard to IPRs, could be meaningful for the development of productive capacities, but such measures are not used by LDCs. There are a number of reasons for this, including their lack of financial resources, or because they are advised not to use them, or their unease or even fear that implementing them would go against the prevailing development orthodoxy. The end result is that *de jure* SDT provisions are de facto meaningless for development.

*The end result is that de jure SDT provisions are de facto meaningless for development.*

### *(d) Building trade capacity*

With regard to trade capacity building there is a special initiative to support LDCs — the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF). This was first introduced in 1997 as a response to the Uruguay Round Decision on Measures in Favour of Least Developed Countries, which called for "substantial increased technical assistance in the development, strengthening and diversification of their production and export bases, including those of services, as well as trade promotion to enable them to maximize the benefits from liberalized access to markets (GATT, 1994: 441). In October 1997, six multilateral agencies — the United Nations Development

*With regard to trade capacity building there is a special initiative to support LDCs — the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF).*

Programme (UNDP), UNCTAD, World Bank, IMF, WTO and the International Trade Centre of UNCTAD/WTO (ITC) — were mandated to cooperate and combine their efforts to assist LDCs develop their trade capacities. But this did not work as initially intended, and an evaluation completed in June 2000 identified several weaknesses of the approach at that time, notably: poor links of the process of trade capacity building with overall development strategies, weak country ownership, and inadequate coordination and funding. In 2001, a number of changes were made to improve the IF's effectiveness, including a focus on increasing the capacity to mainstream trade into poverty reduction strategies, the introduction of the Diagnostic Trade Integration Study (DTIS) and an Action Matrix as key tools for identifying priority trade development projects. In addition, a trust fund was created with two windows: Window 1 would fund the DTIS and ancillary activities and Window 2 would serve as an interim bridging mechanism for funding priority capacity-building activities identified in the Action Matrix.

*A long series of steps with high transaction costs for the LDC Governments were involved before any concrete projects stemming from the IF could be implemented.*

A long series of steps with high transaction costs for the LDC Governments were involved before any concrete projects stemming from the IF could be implemented. Moreover, despite the revamping of the IF, LDCs continued to express concerns about what it delivered, alleging that it placed more emphasis on diagnostic activities than on concrete outcomes. For their part, the donors have always insisted that the aim of the IF process was not to deliver aid for trade but to increase the capacity of LDC Governments to obtain and effectively use aid for trade. An evaluation of the World Bank (2004) concluded that the programme had been raising awareness about the role of trade in development at the national level, for donors and also international agencies, including the World Bank. But it also identified a number of problematic issues, notably: (i) IF processes did not lead to a prioritization of Technical Assistance (TA) needs; (ii) IF was not sufficiently demand-driven or related to LDC development strategies; and (iii) governance was weak and division of responsibilities between agencies unclear. It also noted that LDCs and donors had different perceptions of IF objectives. Donors believed the objective of the IF was to improve the efficiency of the TA that had already been provided, but the LDCs envisioned it as an additional source of funding for TA and other activities (World Bank, 2004). Another evaluation concluded that IF's operational approach was "a sound approach capable of achieving positive results" (CAPRA-TFOC Consortium, 2003), but it also noted the divergent expectations of the IF. LDCs continued to stress the lack of adequate resources to implement the findings of the DTIS and the low level of disbursements, particularly in relation to transaction costs of engagement in the process, as well as slow implementation.

*In the 2005 Hong Kong Ministerial Declaration, high priority was given to the effective implementation of the Integrated Framework...*

*... the resulting Enhanced Integrated Framework for Trade-Related Technical Assistance (EIF) focused more strongly on outcomes, and recognized the need for predictable and sustainable funding and greater donor coordination.*

In the 2005 Hong Kong Ministerial Declaration, high priority was given to the effective implementation of the Integrated Framework (paragraph 48). A task force was set up in 2006 to make proposals for an enhanced IF that could tackle the programme's weaknesses and be guided by the aid effectiveness principles set out in the Paris Declaration. Accordingly, the resulting Enhanced Integrated Framework for Trade-Related Technical Assistance (EIF) focused more strongly on outcomes, and recognized the need for predictable and sustainable funding — in line with the DTIS findings — and greater donor coordination. The governance structure of the EIF was revised, with a strengthened and accountable EIF secretariat that reported to an EIF Board, and there was an independent Trust Fund Manager (United Nations Office for Project Services). To increase ownership, the programme stressed the need for buy-in across government departments, especially at senior level, and envisaged stronger support for the national focal points.

Since the new EIF became operational only on 1 July 2009, it is still too early to evaluate the EIF processes and outcomes. The EIF Trust Fund received more funding pledges (increasing from $37 million in 2006 to more than $100 million in 2010 as at June 2010), but as at 31 March 2010, only 27 per cent of EIF funds had been allocated. Half of these were for DTIS, DTIS updates and related activities, and the other half for the executive secretariat, agency funding, the Trust Fund manager and fees. Since October 2008, 20 LDCs have been able to receive funding for so-called Tier-1 projects (DTIS and related activities) which is indicative of a faster project approval process. However, up to June 2010, no Tier-2 projects had been approved as the procedures are still in the process of being finalized. Large-scale projects cannot and are not intended to be funded through this mechanism.

*Since the EIF became operational only on 1 July 2009, it is still too early to evaluate its processes and outcomes.*

All but two LDCs now participate in the programme and are at various stages of project formulation and implementation (table 16). However, the first 12 years of the IF show that this special international support mechanism for LDCs was ineffective in generating more resources for aid for trade in LDCs. The aid for trade commitments by OECD-DAC donors to LDCs and other developing countries have been on the rise and there has been an acceleration in this trend since 2002 (chart 16). But such commitments to LDCs have actually increased less than to other developing countries in spite of a dedicated mechanism for trade-related capacity-building, which should ideally provide the basis for securing more aid for trade. Turning to disbursements of aid for trade over the period 2002–2008, it is apparent that the LDCs' share in total aid–for-trade disbursements to all developing countries fell slightly, from 32 per cent in 2002–2003 to 28 per cent in 2007–2008. Total IF and EIF expenditures over this period were equivalent to less than 0.1 per cent of total aid for trade disbursements to LDCs (table 17). In aggregate, $52 million has been allocated to LDCs through the IF process since 2000, on average amounting to a little more than $1 million per country.

*$52 million has been allocated to LDCs through the IF/EIF process since 2000, on average amounting to a little more than $1 million per country.*

There is a consensus that the EIF has the potential to become an effective tool for delivering trade-related technical assistance. But the learning process has been very slow. Moreover, broad political will and commitment will be required to engineer a change from the past.

**Table 16**

**Aid for Trade disbursements and IF/EIF expenditures, 2002–2008**

*(In millions of dollars and per cent)*

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
|---|---|---|---|---|---|---|---|---|
| Developing countries | 13 762 | 13 663 | 16 893 | 20 035 | 20 823 | 23 044 | 26 449 | 134 670 |
| *Of which:* | | | | | | | | |
| ODCs | 9 404 | 9 199 | 12 016 | 14 403 | 15 524 | 16 609 | 19 093 | 96 247 |
| LDCs | 4 359 | 4 464 | 4 878 | 5 631 | 5 300 | 6 435 | 7 356 | 38 422 |
| Share of aid to LDCs in aid to all developing countries (percentage) | 31.7 | 32.7 | 28.9 | 28.1 | 25.4 | 27.9 | 27.8 | 28.5 |
| IF and EIF expenditures | | | | | | | | |
| Window 1 (IF) | 2.71 | 2.09 | 1.86 | 1.48 | 2.91 | 0.77 | 0.99 | 12.81 |
| Window 2 (IF) | | | 0.05 | 2.46 | 4.14 | 2.73 | 6.06 | 15.44 |
| Tier 1 (EIF), funds approved | | | | | | | 1.20 | 1.20 |
| Total IF and EIF expenditures | 2.71 | 2.09 | 1.91 | 3.94 | 7.05 | 3.50 | 8.25 | 29.45 |
| IF and EIF expenditures as percentage of total disbursements to LDCs | 0.06 | 0.05 | 0.04 | 0.07 | 0.13 | 0.05 | 0.11 | 0.08 |

*Source*: UNCTAD secretariat calculations, based on OECD, *International Development Statistics* database; UNDP, IF Trust Fund reports (several issues); and UNOPS, Trust Fund reports (several issues).
*Note*: : Values in constant 2008 dollars.

**Table 17**

**Status of IF and EIF activities and funding, as of June 2010**

| Country | Technical review | First DTIS (validated) | DTIS update | Window I projects (IF) | Window II projects (IF) | Tier I projects (EIF) |
|---|---|---|---|---|---|---|
| Angola | x | WB DTIS 2007 | | DTIS | | |
| Benin | x | WB DTIS 2005 | | DTIS | Projects approved | |
| Burkina Faso | x | WB DTIS 2007 | | DTIS | | |
| Burundi | x | WB DTIS 2003 | Funding approved | DTIS | Projects approved | NIU support and DTIS update (Feb 2010) |
| Cape Verde* | x | UNDP DTIS 2008 | | DTIS | | |
| Central African Rep. | x | WB DTIS 2007 | Funding approved | DTIS | Projects approved | NIU support and DTIS update (May 2010) |
| Chad | x | WB DTIS, awaiting validation | | DTIS | Projects approved | |
| Comoros | x | UNDP DTIS 2007 | | DTIS | Projects approved | |
| Dem. Rep. of the Congo | x | WB DTIS 2010 | | | | DTIS (Oct 2008); pre-DTIS (Jan 2010) |
| Djibouti | x | UNDP DTIS 2004 | | DTIS | Projects approved | |
| Equatorial Guinea | Pending | | | | | |
| Eritrea | x | | | Programme support | | |
| Ethiopia | x | WB DTIS 2004 | | Diagnostic study | Projects approved | |
| Gambia | x | WB DTIS 2007 | Funding approved | DTIS, programme support | | NIU support and DTIS update (Dec 2009) |
| Guinea | x | WB DTIS 2003 | | DTIS | Projects approved | |
| Guinea-Bissau | x | WB DTIS 2009 | | DTIS | | |
| Lesotho | x | WB ~DTIS 2003 | Funding approved | Diagnostic study | Projects approved | NIU support and DTIS update (Jan 2010) |
| Liberia | x | WB DTIS, 2008 | Funding approved | DTIS | | NIU support and DTIS update (Oct 2009) |
| Madagascar | x | WB DTIS 2003 | | DTIS | Projects approved | |
| Malawi | x | WB DTIS 2004 | Funding approved | DTIS | Projects approved | NIU support and DTIS update (Sept 2009) |
| Mali | x | WB ~DTIS 2004 | | Diagnostic study | Projects approved | |
| Mauritania | x | WB ~DTIS 2001 | | Diagnostic study, programme support | Projects approved | |
| Mozambique | x | USAID/WB ~DTIS 2004 | | Diagnostic study support | Projects approved | |
| Niger | x | WB DTIS 2008 | | DTIS | | |
| Rwanda | x | WB DTIS 2005 | Funding approved | DTIS | Projects approved | NIU support and DTIS update (Sept 2009) |
| Sao Tome and Principe | x | WB DTIS 2006 | | DTIS | Projects approved | |
| Senegal | x | WB DTIS 2003 | | DTIS, programme support | Projects approved | |
| Sierra Leone | x | WB DTIS 2006 | Funding approved | DTIS | Projects approved | NIU support and DTIS update (July 2009) |
| Somalia | | | | | | |
| Sudan | x | WB DTIS 2007 | | DTIS | | |
| Togo | x | WB DTIS 2010 | | | | DTIS (Oct 2008), Pre-DTIS (Jan 2010) |
| Uganda | x | WB DTIS 2006 | Funding approved | DTIS, programme support | Projects approved | NIU support and DTIS update (Sept 2009) |
| United Rep. of Tanzania | x | WB DTIS 2005 | | DTIS, programme support | Projects approved | |
| Zambia | x | WB DTIS 2005 | | DTIS | Projects approved | NIU support (Feb 2010) |
| Afghanistan | x | DTIS expected to be completed before end of year | | | | DTIS (Oct 2008) |
| Bangladesh | x | WB ~DTIS 2005 | | Programme support | | Pre-DTIS (xxx) |
| Bhutan | x | | | | | Pre-DTIS (Jan 2010) |
| Cambodia | x | WB ~DTIS 2001 | Funding approved | DTIS, programme support | Projects approved | NIU support and DTIS update (Sept 2009) |
| Kiribati | x | UNDP DTIS in process | | DTIS | | |
| Lao People's Dem. Rep. | x | WB ~DTIS 2006 | Funding approved | Diagnostic study | Projects approved | NIU support and DTIS update (Jan 2010) |

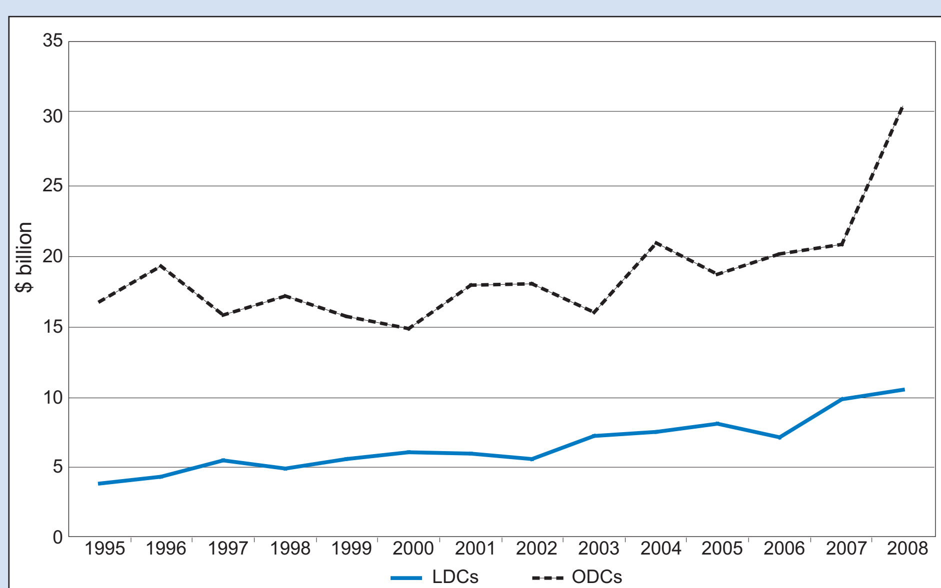
**Table 17 (contd.)**

| Country | Technical review | First DTIS (validated) | DTIS update | Window I projects (IF) | Window II projects (IF) | Tier I projects (EIF) |
|---|---|---|---|---|---|---|
| Maldives | x | UNDP DTIS 2006 | | DTIS | Projects approved | |
| Myanmar | | | | | | |
| Nepal | x | WB ~DTIS 2003 | UNDP/ITC ongoing** | DTIS | Projects approved | NIU support (Mar 2010) |
| Samoa | x | UNDP DTIS in process | | DTIS | | |
| Solomon Islands | x | UNDP DTIS 2008 | | DTIS | | |
| Timor-Leste | x | | | | | Pre-DTIS (Jan 2010) |
| Tuvalu | x | UNDP DTIS in process | | DTIS | | |
| Vanuatu | x | UNDP DTIS 2007 | | DTIS | Projects approved | |
| Yemen | x | WB DTIS 2003 | Funding approved | DTIS | Projects approved | NIU support and DTIS update (July 2009) |
| Haiti | x | | | Programme support | | |
| | | **Approved funds** *(Dollars)* | | | | |
| | | | | Window I projects (IF) | Window II projects (IF) | Tier I projects (EIF) |
| | | DTIS | | 10 500 000 | | 1 200 000 |
| | | Programme support | | 2 000 000 | | |
| | | Projects (WII or T2) | | | 24 500 000 | |
| | | Pre-DTIS | | | | 250 000 |
| | | NIU support + DTIS update | | | | 13 500 000 |
| | | TOTAL | | 12 500 000 | 24 500 000 | 14 950 000 |

*Source*: UNCTAD secretariat compilaiton, based on UNDP, Trust Fund reports (several issues), and UNOPS, Trust Fund reports (several issues).
* Graduated from LDC status on 1 Jan 2008.
** With multidonor fund other than IF/EIF.

***Chart 16***

**Aid for trade commitments to LDCs and ODCs, 1995–2008**
*($ billions)*




*Source*: UNCTAD secretariat calculations, based on OECD *Stat* database.
*Note*: Data in constant 2008 dollars.

### 3. Technology transfer – TRIPS Article 66.2

*Technology has been an undeveloped area of international support measures for LDCs. However, there is one area of SDT within WTO agreements that is specifically concerned with this issue, namely Article 66.2 of the Agreement on Trade-Related Aspects of Intellectual Property Rights.*

So far, technology has been an undeveloped area of international support measures for LDCs. However, there is one area of SDT within WTO agreements that is specifically concerned with this issue, namely Article 66.2 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). It states: "Developed Country Members shall provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to least-developed country members in order to enable them to create a sound and viable technological base." It therefore embodies a positive legal obligation (Correa, 2005: 253).

*A fundamental point of contention relates to the very concept of technology transfer, which could amount to anything from transfer of codified technology, tacit knowledge and know-how, to just vocational training and educational activities.*

Clearly, the intent of the provision is to encourage the transfer of technology to those LDCs that are members of the WTO. But the extent to which this has occurred in practice is a matter of intense dispute. A fundamental point of contention relates to the very concept of technology transfer, which could amount to anything, from transfer of codified technology (as in machinery and equipment, products and processes), tacit knowledge and know-how, to just vocational training and educational activities. A second important issue relates to the absence of an operative institutional apparatus that could help LDCs realize the objective of the Article.

*A second important issue relates to the absence of an operative institutional apparatus that could help LDCs realize the objective of the Article.*

Article 66.2 imposes an obligation on developed-country members to provide incentives to enterprises and institutions in their territories to promote and encourage technology transfer to LDC members of the WTO. But as Correa (2007a) points out, "the precise nature of the incentives is not established" and "unlike other obligations imposed by the TRIPS Agreement, there are no clearly set standards to assess compliance with this obligation" (p.18). Only the end is specified, namely to enable LDCs to create a sound and viable technological base.

The Council for TRIPS in February 2003 established a reporting mechanism to monitor implementation of the obligations of Article 66.2. It produces reports annually which provide information on: (i) the incentive regime established by developed-country members of the WTO, including any specific legislative, policy and regulatory frameworks, (ii) the type of incentives and the government agency or entity making those incentives available, (iii) eligible enterprises, and (iv) any information on the functioning in practice of those incentives, such as types of technology transfers and the LDCs to which the technologies have been transferred.

An assessment (Correa, 2007b) of the reports found that none of them "concretely inform about specific incentives made available to enterprises and institutions for the transfer of technology to LDCs", and that at least one country (New Zealand) reported not providing "any direct incentives to organizations to promote technology transfer to LDCs" (p.25). Instead, developed-country members interpreted the obligation in different and "overly broad" ways. Thus, incentives for transfer of technology included "activities as diverse as trade and investment promotion, training of IP and customs officials, funding provided to multilateral organizations such as the World Bank, granting of general incentives to their own enterprises, building capacity to ensure pest surveillance and management and phytosanitary matters, assistance in developing legislation, scientific cooperation and governance issues" (p.23). One country, Australia, argued that "programmes designed to promote innovation and competitiveness of the Australian economy…in turn can contribute to increased transfers of technology in export markets, including

LDCs, through exports and outward or direct investment by Australian firms in other countries or through joint ventures between Australian firms and overseas companies" (p.23). In effect the major outcome of Article 66.2 is the reporting mechanism. The incentives offered so far are "inappropriate or insufficient" in relation to the obligation.

*In effect the major outcome of Article 66.2 is the reporting mechanism. The incentives offered so far are inappropriate or insufficient in relation to the obligation.*

Another assessment sought to determine whether Article 66.2 has resulted in an increase in business between developed countries and LDCs (Moon, 2008). Based on country self-reports to the TRIPS Council between 1999 and 2007, and focusing mainly on the public policies and programmes that developed countries undertake to encourage their organizations/enterprises to engage in technology transfer, the study made two important findings. It concluded that a lack of clarity in definitions of key terms such as "technology transfer" and "developed country" render it difficult to conclude as to which WTO members are obligated to provide incentives, of what kind and towards what ends. Pointing to the fact that many countries did not submit the reports regularly to the WTO council and those that submitted did so irregularly, the review concluded that of 292 programmes and policies reported, only 31 per cent specifically targeted LDC members of the WTO. Of these, approximately a third of the programmes that targeted LDCs did not actually promote technology transfer. Thus, out of the 292 programmes, only 22 per cent involved technology transfer specifically targeted to LDC members (Moon, 2008:9). In order to generate more evidence on the issue, at the Fourth Session of the Committee on Intellectual Property and Development of WIPO in April 2010 the group of like-minded developing countries[9] called for a study on the extent to which obligations contained in the TRIPS Article 66.2 have been fulfilled.

*Out of the 292 programmes, only 22 per cent involved technology transfer specifically targeted to LDC members.*

## 4. Climate change – the LDC Fund

The LDC Fund (LDCF) was established in 2001 to support the LDC Work Programme set up as a result of the commitment of all parties to UNFCCC in Article 4 (9) to "take full account of the specific needs and special situations of the least developed countries in their actions with regard to funding and transfer of technology." The Work Programme and the LDCF have focused in particular on supporting the preparation and implementation of national adaptation programmes of action (NAPAs). This is important as it has offered LDCs a process through which they are able to "identify priority activities that respond to their urgent and immediate needs with regard to adaptation to climate change" and to obtain financing to support the activities they have identified (UNFCCC, 2009a: 5–7).

*The LDC Fund (LDCF) was established in 2001 to help LDCs identify priority activities that respond to their urgent and immediate needs with regard to adaptation to climate change and to obtain financing to support the activities they have identified.*

The LDCF relies on voluntary contributions from developed countries. Donor contributions to the Fund are held in trust by the World Bank, as part of its investment portfolio for all trust funds held by it (World Bank, 2010). According to that report, as on May 2010, 22 contributing participants had pledged contributions to the LDCF equivalent to $221.5 million and the total amount deposited was $169.1 million. The Global Environment Facility (GEF) secretariat had committed $76 million, of which $66 million related to LDCF projects (including preparation activities), $7 million to fees and $3 million were for corporate and administrative expenses. Only $24 million had been transferred to GEF agencies, the remaining $52 million were still outstanding for payment. Of the GEF agencies UNDP and the United Nations Environment Programme (UNEP) accounted for the largest share of LDCF commitments: 88 per cent and 10 per cent respectively.

By November 2009, 48 LDCs had received funding for the preparation of NAPAs and 43 had submitted their documents, with the remaining 5 expected to do so by 2011 (UNFCCC, undated). There were over 750 priority climate change project profiles identified in the submitted NAPAs. Of the priority project profiles submitted by October 2009, 20 per cent focused on food security, 16 per cent on territorial ecosystems, 14 per cent on water resources and 9 per cent on coastal zone and marine ecosystems (see chart 17). An important area was building the ability of the agricultural sector to adapt to climate change. By June 2010, the LDCF had funded 36 projects in 32 LDCs, allocating $126 million in total with an average project size of $3.5 million. The total cost of these projects (LDCF funding plus co-financing) is estimated to be $370 million.

*By June 2010, the LDCF had funded 36 projects in 32 LDCs, allocating $126 million in total with an average project size of $3.5 million.*

The activities of the LDCF comprise two stages: (i) preparation, and (ii) implementation of NAPAs. The first stage enables LDCs to identify priority activities, assess their vulnerabilities to current climate variability and extreme events due to climate change, and elaborate key adaptation measures and criteria for prioritizing activities, often in the form of potential projects or programmes of action. In stage two, the LDCF may support the implementation of activities identified and promote the integration of adaptation measures in national development and poverty reduction strategies. According to an informal ceiling agreed by the LDCF in conjunction with the LDCs, each LDC Party can access up to $7 million from the Fund for implementing priority projects, and thus projects require co-financing, for example in the form of bilateral grants or loans from the International Development Association (IDA) of the World Bank.

*The level of the Fund's financing for implementation of priority adaptation projects is inadequate, given the scale of the adaptation challenge which LDCs face — rising from an estimated $4 billion to $17 billion per annum by 2030.*

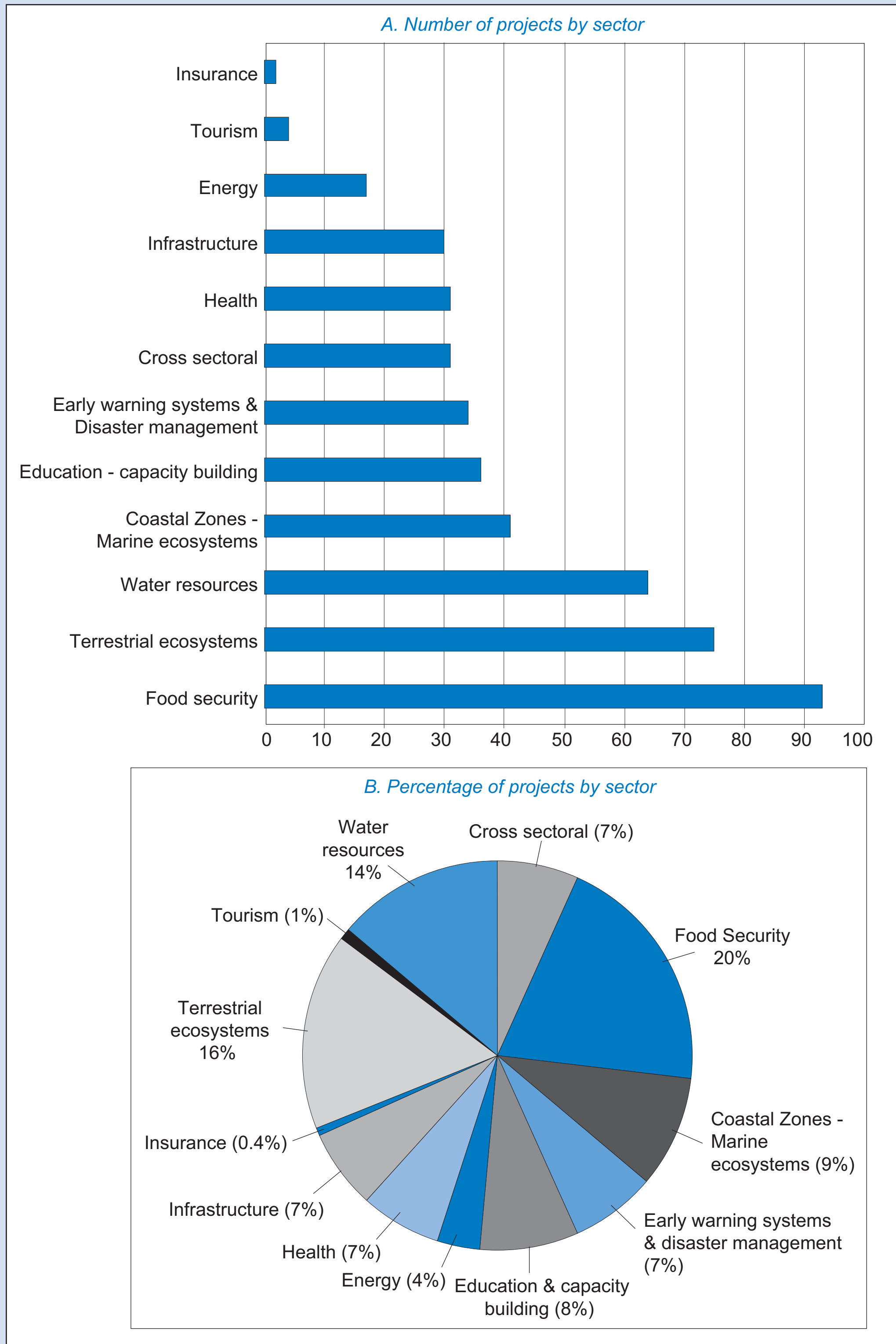
The process of developing a project for implementation under the LDCF begins with the LDC Party requesting a GEF agency to assist in submitting a project proposal to the GEF. GEF agencies[10] receive the funds from the Trustee and deliver the applications for funding to the LDCF administration. LDCs can decide which GEF agency to collaborate with, but have limited negotiating power with the agency.

For most LDCs, the NAPAs represent a first attempt to implement planning for climate change adaptation. Prior to the inception of NAPAs, there were no mechanisms by which LDCs could identify adaptation requirements and cost them for the purpose of seeking finance. Through the NAPAs, LDCs have been able to communicate urgent and immediate adaptation needs based on a "bottom-up" assessment, and submit priority projects for financing through the UNFCCC. However, at present the LDCF has a number of shortcomings. First, the level of the Fund's financing for implementation of priority adaptation projects is inadequate, given the scale of the adaptation challenge which LDCs face — rising from an estimated $4 billion to $17 billion per annum by 2030 (UNFCCC, 2009b: 2; UNFCCC, 2007: paras 746–753). The Fund is dependent on the voluntary contributions of developed countries and therefore the security of funding is not reliable enough to enable its administration to plan a comprehensive programme of implementation of adaptation needs for all LDCs. Opportunities to effectively address the climate adaptation needs of LDCs through NAPAs and strategic programmes of cross-sectoral adaptation activities have been missed due to the lack of financial and technical resources.

*The Fund is dependent on the voluntary contributions of developed countries and therefore the security of funding is not reliable enough to enable its administration to plan a comprehensive programme of implementation of adaptation needs for all LDCs.*

**Chart 17**

**Priority climate change adaptation projects identified in NAPAs through the LDCF by sector, as of November 2009**




*Source*: UNCTAD secretariat estimates, based on UNFCCC Lists of NAPA Priority Projects by Sector database - http://unfccc.int/files/co-operation_support/least_developed_countries_portal/napa_project_database/application/pdf/napa_index_by_sector.pdf (accessed November 2009).

Second, the lack of resources has led to a narrowing down of the NAPA processes, from a wide set of priority actions to a few top priority projects, usually on the basis of multi-criteria assessments and expert opinions rather than cost-benefit analyses. Although there are proposals for moving towards sectoral and programmatic approaches, including disbursing funds via budget support mechanisms,[11] the project-based approach now predominates (SEI, 2009: paras 62–70; UNFCCC, 2008: paras 199–204). Very few reports mention mainstreaming or policy reform co-objectives, which probably reflects the LDCF's funding constraints. NAPAs only cover a subset of LDCs' broader adaptation needs and address short-term requirements, thus neglecting medium- to long-term adaptation needs. Greater development coherence in adaptation funding is therefore difficult for the Fund to achieve because of the relatively small amount of funding available for priority projects. The LDCF's project-based delivery of climate-change-related financing limits comprehensive solutions to the adaptation and mitigation needs of the LDCs.

*The lack of resources has led to a narrowing down of the NAPA processes, from a wide set of priority actions to a few top priority projects, usually on the basis of multi-criteria assessments and expert opinions rather than cost-benefit analyses.*

Third, the project-based approach is weakly integrated into national development processes. The LDCF's project-based delivery of climate-change-related financing circumvents national public expenditure systems and strategic planning (UNFCCC, 2008: paras 200–202). It also increases transactions costs, relies heavily on imported technical assistance and does not generally build local capacity (IDD and Associates, 2006 cited in UNFCCC, 2008: para 200). Less reliance on independent consultants, greater use of public sector expertise and efforts to establishing intragovernmental arrangements in NAPA processes could lead to improved technical sustainability of the NAPA outputs (DANIDA, 2009). Although 43 NAPAs have been developed in LDCs, very few actions have been identified in the context of national development strategies, and they have attracted little donor funding (SEI, 2009). Nevertheless, this is not inevitable. Some LDCs, such as Bangladesh and Rwanda, have successfully integrated NAPAs into their PRSPs and national development strategies. Similarly, since 2007 Mozambique and Madagascar have sought to mainstream climate adaptation strategies into their PRSPs to highlight the prevention and mitigation of natural disasters and to improve forecasting and the mapping of risk zones as priorities for future investment.

*The project-based approach is weakly integrated into national development processes.*

Fourth, the LDCF's governance structure should enable direct accountability and reporting between the GEF and the LDCs. The GEF agencies developing these projects are only accountable to the GEF; they are not directly accountable to LDCs who have no direct access or control over the funds. The LDCs do not even have effective control over the LDCF decision-making processes regarding resource allocation, nor does it routinely inform the UNFCCC about adaptation project outcomes. The LDCs have little control over the LDCF's resources and thus limited effective negotiating power vis-à-vis the GEF agencies (DANIDA, 2009).

*The LDCF's governance structure does not enable direct accountability and reporting between the GEF and the LDCs.*

Although funding through the GEF is not formally conditional, there are some burdensome reporting and co-financing criteria. GEF agencies such as the UNDP and the World Bank often add further bureaucratic requirements to the process (Ayres and Huq, 2008). There is also dissatisfaction on the part of LDCs about access to climate-change-related funds. Developing countries have called for direct access to funding, notably through the UNFCCC, rather than funding mediated through external agencies. They would also like to see greater coherence and predictability of fund disbursements (SEI, 2009: 67–

69). Additionally, finance provided through the LDCF mechanism often has co-financing requirements, as its own funding only covers "full incremental or additional costs" as opposed to "full costs" which have to be borne either by the recipient Governments themselves or through financing leveraged through other sources. Similar arrangements apply to the World Bank's climate investment funds whereby access to the funds is mediated by multilateral development banks (MDBs), thus requiring eligible countries to have an "active MDB country programme" in place (World Bank, 2008a: para 17; see also World Bank, 2008b: annex A, para 16). Given current LDC institutional capacities, distinguishing "incremental or additional" costs of climate change impacts from baseline development needs is an extremely complex task. As most LDCs cannot afford to meet the baseline development costs, LDCF commitments of finance towards the additional costs are often inadequate in relation to the scale and urgency of their needs (Ayres and Huq, 2008).

*As most LDCs cannot afford to meet the baseline development costs, LDCF commitments of finance towards the additional costs are often inadequate in relation to the scale and urgency of their needs.*

Finally, a survey by an LDC Expert Group (LEG, 2009: chapter 3) conducted in 2009 emphasized the need for improving LDCs' capacity for project management and for mainstreaming adaptation into national policy, implementation and planning systems. There should also be support for LDCs to establish intragovernmental organizational structures capable of fostering inter-ministerial concerted action on climate adaptation. Despite substantial public and civil sector experience in most LDCs of developing PRSPs and national action plans (e.g. related to the United Nations Convention to Combat Desertification and the Convention on Biological diversity), the use of this expertise has been largely ignored in the development of NAPAs; instead, GEF agencies have preferred to use independent consultants (LEG, 2009). The LDCF should seek to institutionalize the NAPA process within government agencies so as to build (rather than displace) public sector human resource capacity, improve efficiency, and enhance the impact and sustainability of NAPA outputs.

*Despite substantial public and civil sector experience in most LDCs of developing PRSPs and national action plans, the use of this expertise has been largely ignored in the development of NAPAs; instead, GEF agencies have preferred to use independent consultants.*

## D. A comparative assessment

A juxtaposition of the assessments of how special international support measures for LDCs work in practice indicates some important commonalities which have prevented them from having real or substantial developmental impacts. These commonalities are related to either the design or the implementation of the support measures.

First, various features of the design of some of these special measures limit their effectiveness from the outset. Of the eight measures examined, the scope of SDT for LDCs within WTO agreements are for the most part not oriented to providing development benefits, but rather to providing transitional arrangements which facilitate implementation of those agreements by the LDCs. The other seven measures are targeted at bringing some concrete trade and development benefits, but these are limited by: (i) important exclusions which are explicitly incorporated into the design of the measures to protect commercial interests in the LDCs' development partners, and (ii) a failure to take account of the economic constraints within LDCs, which prevents these countries from effectively seizing the opportunities created by the special measures.

*Various features of the design of some of these special measures limit their effectiveness from the outset.*

*Very little action has been taken to implement two measures, namely SDT within WTO agreements and the decision to facilitate LDCs' accession to the WTO and exercising restraint in seeking concessions in the accession process.*

*There is a major breakdown in funding the implementation of special support measures which contrasts markedly with the United Nations system's expenditure on operational activities that is strongly focused on LDCs.*

*The development benefits to LDCs that could result from the special measures are sometimes stymied by inertia in existing policy practices. This is evident, for example, in the way the untying of aid actually works.*

*Implementation in ways which could bring greater developmental benefits to LDCs is also affected by different interpretations of what a measure actually means.*

Examples of the exclusions are market access preferences that offer 97 per cent product coverage, making potentially these preferences commercially meaningless since the remaining 3 per cent in many cases coincide with the export basket of LDCs, or the exclusion of food aid and technical cooperation from the 2001 DAC Recommendation to untie aid. Economic constraints of LDCs limit their utilization of trade preferences and also the ability of their domestic enterprises to benefit from the untying of aid. In each of these cases, these constraints could be overcome by improving the design of the support measures. For example, rules of origin which enable more sourcing from other developing countries, or special efforts to reduce the contract size in aid provision and thus facilitate more local procurement, could considerably enhance the trade and developmental effects of these support measures.

Second, very little action has been taken to implement two out of the eight international support measures for LDCs, namely SDT within WTO agreements and the decision to facilitate LDCs' accession to the WTO and exercising restraint in seeking concessions in the accession process. With regard to SDT, the failure of implementation is due to LDCs choosing not to utilize the few opportunities of SDT which exist within the agreements. With regard to WTO accession, the developed- country members of WTO have actually sought concessions above and beyond those that had been required of existing LDC WTO members. It is unclear whether the aid target is also being implemented directly by donors or is a by-product of other aid allocation priorities. The econometric evidence shows that LDC status does not affect the geographical allocation of aid for the LDCs as a whole.

Third, there is a major breakdown in funding the implementation of special support measures. The financial flows which have followed from the DTIS and NAPAs have fallen far short of needs. The total amount allocated to LDCs through the IF process between 2000 and 2010 is little more than $1 million per LDC, and the LDCF disbursed $4 million per LDC (in 32 countries) to support climate change adaptation projects between 2001 and June 2010. Similarly, TRIPS Article 66.2 has been implemented in such a way that rather than offering financial incentives for technology transfer, existing activities have simply been reclassified which could — at a stretch of the imagination – be said to fall within the ambit of the Article. The lack of funding for the LDC-specific international support measures contrasts markedly with the United Nations system's expenditure on operational activities which are strongly focused on LDCs.

Fourth, the development benefits to LDCs that could result from the special measures are sometimes stymied by inertia in existing policy practices. This is evident, for example, in the way the untying of aid actually works. Increased technical assistance for the LDCs is also often necessary to enable them to derive benefits from these measures, but it is not provided, or not provided in a way that allows them to utilize the measures. In some instances, one of the outcomes of the process has been an improvement in the capacities of the implementing agencies. For example, the capacities of the World Bank and UNDP in support of trade and development, which both were very weak in 2000, have certainly been enhanced through their active engagement in the IF and EIF processes.

Fifth, implementation in ways which could bring greater developmental benefits to LDCs is also affected by different interpretations of what a measure actually means. A recurrent pattern is that LDCs and their development partners have different expectations of what the special measures, such as the

2001 DAC Recommendation or indeed the whole EIF process, are intended to deliver. Another example is the interpretation by developed-country WTO members of TRIPS Article 66.2, which actually ignores incentives to enterprises and institutions in their territories to encourage technology transfer.

*Some of the special measures have extended beyond the LDC group and this can, though it does not necessarily, affect their overall developmental outcomes.*

Sixth, some of the special measures have extended beyond the LDC group and this can, though it does not necessarily, affect their overall developmental outcomes. Such extension of the geographical scope of measures is evident in market access preferences, some SDT provisions and the 2001 DAC Recommendation which was extended to non-LDC HIPCs in 2008. How this affects the development benefits of the measures requires further study. In the case of untying aid, for example, it may be expected to have no effects. However, for preferential market access, the effectiveness of the benefits depends crucially not simply on the preferential margins relative to MFN treatment but also on the kinds of preferences offered to other countries.

*Many of these measures remain best endeavours, and are based on voluntary contributions. Moreover, there are no enforcement mechanisms.*

Seventh, many of these measures remain best endeavours, and are based on voluntary contributions. Moreover, there are no enforcement mechanisms.

Eighth, a positive feature arising from the comparison is that there is clearly a learning process occurring in the design of international support measures for LDCs. This is perhaps most apparent in relation to the Integrated Framework which, since 1997, has been first improved and then enhanced, but it is also apparent in relation to the design of market access preferences. However, from the LDCs' point of view this learning process has been painfully slow. For example, it has taken 13 years to make the IF initiative more effective. Moreover, the major difficulties affecting the utilization of market access preferences by LDCs were known at least 40 years ago, and indeed it was precisely these difficulties which provided the rationale for designing special preferences for the least developed amongst the developing countries.

*A positive feature arising from the comparison is that there is clearly a learning process occurring in the design of international support measures for LDCs.*

Ninth, a recurrent important outcome of the international support measures is improved reporting and monitoring of what is happening. All five measures — Article 66.2, preferential market access (within the MDGs), the 2001 DAC Recommendation, the LDCF within UNFCCC and the associated Expert Group, and EIF — have instituted monitoring mechanisms. This has led to better data, for example with regard to reporting of the percentage of aid that is tied or the percentage of imports entering duty free in developed-country markets. Developed countries also now regularly report what they are doing in relation to TRIPS Article 66.2.

*One of the most important outputs of the special mechanisms has been studies which could lead to projects and programmes.*

Tenth, one of the most important outputs of the special mechanisms has been studies which could lead to projects and programmes. This has been the major outcome of both the EIF, which has produced 38 Diagnostic Trade Integration Studies, and the LDCF under which 43 NAPAs have been prepared and 48 LDCs have received funding for their preparation.

Overall, existing special international support measures do not work in a way which is developmentally effective, either because of limits in their design or the manner in which they are implemented. The way these measures work reflects the fact that LDCs have little bargaining power. Therefore, LDCs tend to accept whatever assistance they are given. Commercial interests of rich countries and wide differences of interpretation between LDCs and their development partners also continue to stymie their implementation. It is clear that the learning process in the design and implementation of these

*Overall, existing special international support measures do not work in a way which is developmentally effective, either because of limits in their design or the manner in which they are implemented.*

measures has been painfully slow. During the past decade there has been significant progress in ensuring that special measures are multilaterally agreed and monitored. Now, there is a need to accelerate their improvement and introduce new LDC-specific international support mechanisms so that they have genuine development impacts.

## Notes

1 The need to focus on actions within the Brussels Programme of Action was stressed by Mehmet Arda, Galatasaray University, and Government of Turkey Coordinator, Fourth United Nations Conference on LDCs, at the UN-OHRLLS brainstorming meeting on "Substantive Preparations for UNLDC IV- Towards a New Partnership for LDCs", held in New York on 14-16 July 2010.

2 The only exception is a short annual report produced by OHRLLS ( Office of the High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Developing States ) for ECOSOC which is submitted in compliance with General Assembly Resolution 64/213. The last Report was UN (2010e). Economic and social trends in the LDCs are also described in some of UNCTAD's annual Least Developed Countries Reports.

3 For a very useful summary of the identification of the LDC category and also an overview of special international support measures, see United Nations, 2008.

4 For a detailed early history, see United Nations, 2010c; Komlev and Encontre, 2004.

5 The UNFCCC is governed by the Conference of the Parties (COP) whose responsibility is to "keep under regular review the implementation of the Convention and any related legal instruments that the Parties may adopt" as well as to "make, within its mandate, the decisions necessary to promote the effective implementation of the Convention" (Article 7, UNFCCC, 2002).

6 These are: Angola, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, the Central African Republic, Chad, the Democratic Republic of the Congo, Djibouti, the Gambia, Guinea, Guinea-Bissau, Haiti, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Solomon Islands, Togo, Uganda, the United Republic of Tanzania and Zambia.

7 See, for example, Francois, Hoekman and Manchin, 2005; Elliott, 2009; Carrere and de Melo, 2009.

8 For an overview of SDT provisions granted to LDCs, see UNCTAD, 2004. The WTO (2010b) provides a complete list of documents on SDT within the multilateral framework.

9 The like-minded countries comprise the African Group, the Arab Group, Brazil and India.

10 The GEF develops its projects through ten Implementing Agencies: the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), the World Bank, the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the International Fund for Agricultural Development (IFAD), the United Nations Food and Agricultural Organization (FAO), and the United Nations Industrial Development Organization (UNIDO).

11 Budget support approaches have become a common means of delivering conventional ODA, and are increasingly used by bilateral and multilateral donors. There are many different modalities for budget support, but they generally involve channeling resources directly into a Government's budget using recipients' allocation, procurement and accounting systems" (UNFCCC, 2008: para 202), and expenditure is not ring-fenced around specific projects or activities. However, donors often insist on recipient Governments meeting pre-qualification criteria, including fiduciary standards and blueprints for achieving international development targets such as the World Bank and IMF-initiated PRSPs for low-income countries.

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# The Contours of a New International Development Architecture for LDCs

Chapter

3

## A. Introduction

This chapter presents a conceptual framework for the design of a New International Development Architecture (NIDA) for LDCs. NIDA is defined as a new architecture of formal and informal institutions, rules and norms, including incentives, standards and processes, which would shape international economic relations in a way that is conducive to sustained and inclusive development in the LDCs. The objectives of such a NIDA are: (a) to reverse the marginalization of LDCs in the global economy and to help them catch up; (b) to support a pattern of accelerated and sustained economic growth which would improve the general welfare and well-being of all people in the LDCs; and (c) to help LDCs graduate from LDC status. These objectives could be achieved through a greater emphasis on the development of productive capacities of LDCs and through a renewed role of the State in promoting development. The new architecture is intended to influence and shape the economic behaviour of all agents within the domains of finance, trade, commodities, technology, and climate change adaptation and mitigation. The NIDA for LDCs should be part of a broader set of systemic reforms which need to be taken in the wake of the financial crisis and global recession, and which would be beneficial for all countries, both developed and developing.

*NIDA is defined as a new architecture of formal and informal institutions, rules and norms, including incentives, standards and processes, which would shape international economic relations in a way that is conducive to sustained and inclusive development in the LDCs.*

Part of this new international development architecture must involve the design of a new generation of international support mechanisms (ISMs) for the LDCs. It is necessary to strengthen these measures by introducing institutional mechanisms for their implementation and by ensuring adequate financing. It is also important to move beyond a focus on trade, and in particular market access, to special measures which help build up the productive base of LDC economies. New ISMs should also seek to address emerging international challenges of the coming decade, and associated new structural weaknesses and vulnerabilities (see chapter 4 of this Report).

*The objectives of such a NIDA are: (a) to reverse the marginalization of LDCs in the global economy and to help them catch up; (b) to support a pattern of accelerated and sustained economic growth which would improve the general welfare and well-being of all people in the LDCs; and (c) to help LDCs graduate from LDC status.*

However, although a new generation of special ISMs targeted at LDCs is essential, it is not enough. This is because, as argued in chapter 2 of this Report, the existing international economic architecture which facilitates or constrains development and poverty reduction in the LDCs does not simply consist of special international support mechanisms specifically targeted at LDCs. These special mechanisms work within a more general framework of rules, norms, practices and understandings which guide the international economic relations of all developing countries, including the LDCs, as well as sub-categories of developing countries — such as "low-income countries", "heavily-indebted poor countries" and "fragile States" — which imperfectly overlap with the category of LDC. This general framework includes, for example, a strictly defined aid architecture and debt relief regime, currently accepted practices in the provision of agricultural subsidies in rich countries, and an increasingly

stringent intellectual property rights (IPR) regime for developing countries. At the same time, there is neither an effective international commodity policy nor a regime encouraging technology transfer. All these add up to conditions that are not conducive to sustained, inclusive development. Given the weaknesses in the design and implementation of special international support measures for LDCs, these general regimes actually now play a greater role in affecting development and poverty reduction in the LDCs than the special measures.

*Part of this new international development architecture must involve the design of a new generation of international support mechanisms (ISMs) for the LDCs. These should move beyond a focus on trade, and in particular market access, to special measures which help build up the productive base of LDC economies.*

This implies that even if it were possible to design, agree and implement a new generation of more effective international support mechanisms for LDCs, this in itself would be insufficient to promote more sustained and inclusive development within the LDCs. For this development to occur, the global economic regimes that are currently enabling or constraining development and poverty reduction in all developing countries, including the LDCs, would also have to support the same outcomes. To the extent that the general development architecture works in a way that does not support the special needs and interests of the LDCs, the overall results would be neutral or even negative. In effect, the right hand (the general framework) would take away what was given by the left hand (the special ISMs). A necessary condition to make the special international support mechanisms for LDCs effective is therefore not simply to improve them, but also to ensure that the global economic regimes affecting developing countries in general, including LDCs, and sub-categories within them which overlap with the LDCs, are also reformed so that they work to support development and poverty reduction in the LDCs.

*The term "international support mechanism" is used in this Report, rather than "international support measure", to convey the idea that special international support for LDCs is not simply a matter of designing new policy measures.*

The term "international support mechanism" is used in this Report, rather than "international support measure", to convey the idea that special international support for LDCs is not simply a matter of designing new policy measures. The Report calls for a new generation of LDC-specific international support mechanisms that should be accompanied by resources, including financial resources, institutions, policy frameworks and organizational entities, to make them implementable. Only then can the ISMs effectively address the specific structural weaknesses and vulnerabilities that confront LDC economies. Moreover, the ISMs will only be effective if they are embedded within a more general policy framework of reform.

*Although a new generation of special ISMs targeted at LDCs is essential, it is not enough.*

The chapter thus contends that the new generation of special ISMs for LDCs should be part of a larger agenda aimed at reforming and enhancing the effectiveness of the international development architecture and global governance for all developing countries. Combining ISMs for LDCs with a new international policy and cooperation framework that can deliver a more stable, equitable and inclusive global governance regime for all countries is one of the most pressing challenges facing the international community today. Doing so will not only contribute to the greater development effectiveness of special international support for LDCs but also to mainstreaming LDC issues into a wider development agenda.

*It is also necessary to reform global economic regimes which strongly affect development in LDCs.*

The chapter is organized in five sections. Section B summarizes some key weaknesses of the global economic regimes which impinge on development and poverty reduction efforts in the LDCs. Section C presents the design of a NIDA for LDCs, focusing on its pillars, the underlying principles and the processes involved in its creation. The last two sections focus on two fundamental issues in the design of a NIDA. Section D discusses the nature of the paradigm shift in policy which is envisaged to promote new, more sustainable and inclusive national development paths in LDCs, discussing

in particular the crucial need to incorporate the development of productive capacities in national development strategies and the role of the State in promoting development. The design of the international architecture follows closely from these core ideas to facilitate these national development processes. Section E re-examines the role of ISMs specifically targeted at LDCs, as these ISMs are a key part of the NIDA.

The conceptual framework developed in this chapter is applied in the rest of this Report. Chapter 4 proposes elements of an agenda for action to create a NIDA for LDCs that is attuned to some possible trends in the global economy over the coming decade, while the last three chapters of the Report discuss this positive agenda in more detail.

*The rationale for a new international development architecture for the LDCs stems from the weaknesses of the current international economic architecture.*

## B. Weaknesses of the global economic regimes from an LDC perspective

The rationale for a new international development architecture for the LDCs stems from the weaknesses of the current international economic architecture. Chapter 2 of this Report shows how existing LDC-specific international support measures are failing to have any significant developmental impact in LDCs. This section briefly examines the weaknesses of the global economic regimes from an LDC perspective as a basis for presenting a positive agenda that includes both systemic reforms as well as a new generation of ISMs for LDCs. In doing so it draws on analyses of previous *LDC Reports* since 2000.

*The major weaknesses of current global economic regimes are: (1) certain policy issues are missing; (2) the regimes are founded on models inappropriate for the LDCs...*

Four major weaknesses in the existing global economic regimes cause them to constrain rather than enable development and poverty reduction in the LDCs.

- First, there are certain policy issues that are missing from the international economic architecture even though they are very important to LDCs because of their stage of development and their form of integration into the global economy.
- Second, the global economic regimes are founded on models of trade, finance and technology that are inappropriate for the LDCs, given their initial conditions, structural weaknesses and vulnerabilities.
- Third, these models have been propagated through conditionalities and micro-incentives for encouraging compliance which have undermined country ownership of national development strategies and limited policy space. Rather than encouraging policy diversity and learning tailored to local conditions, a one-size-fits-all policy approach has been applied.
- Fourth, there is a lack of policy coherence between different components of the global regimes and between the global regimes and special international support measures for the LDCs.

*... (3) conditionalities have undermined country ownership and limited policy space; (4) there is a lack of coherence between different components of the economic architecture.*

### 1. Missing elements

*For LDCs, the major missing element is the lack of an international commodity policy.*

From an LDC perspective, the major element missing from the global economic regimes is the lack of an international commodity policy of any kind. This is important because many LDC economies are still commodity-dependent, and the way in which commodity markets behave and the increasing interdependence between these markets and financial markets, is integrally

associated with the boom-bust nature of the growth experience of the LDCs and their structural constraints. It also has a bearing on the interrelationship between the food, financial and climate crises and their effects on the LDCs.

*The poor long-term growth performance of the LDCs and pervasive extreme poverty are closely related to the commodity dependence of the LDCs.*

The poor long-term growth performance of the LDCs, as well as the persistence and all-pervasiveness of extreme poverty is closely related to the commodity dependence of the LDCs. Most of them were very badly affected by the collapse of commodity prices in the early 1980s. This price collapse amounted to a loss of real purchasing power of 40–60 per cent for many of the countries that were dependent on commodity exports. As noted by Maizels (1992), it was a deeper crisis than that caused by the Great Depression of the 1930s and was closely related to the emergence of the debt crisis in very poor countries. As a result, the commodity-dependent LDCs were caught in an international poverty trap in which an interrelated complex web of external trade and finance relationships reinforced domestic vicious circles of underdevelopment resulting in economic stagnation and persistent mass poverty (UNCTAD, 2002). By the end of the 1990s, 85 per cent of the LDCs dependent on non-oil primary commodity exports had an unsustainable external debt (ibid.: table 36). External indebtedness in turn was associated with the emergence of an aid-debt-service system which undermined the effectiveness of aid.

*People in LDCs were unable to fully reap the benefits of the price boom.*

Economic growth in LDCs picked up again with the commodity price boom of the 2000s, driven by rising demand from large, rapidly growing developing economies, and by the overall buoyancy of the global economy. But people in LDCs were unable to fully reap the benefits of the price boom due to various changes in international commodity markets, some of which were associated with the implementation of structural adjustment programmes and the dismantling of international commodity regulations. In agricultural commodity production and marketing, in particular, there are considerable asymmetries in market power and access to information, technology and marketing know-how between transnational corporations (TNCs), on the one hand, and local entrepreneurs, farmers and traders in developing countries, on the other. Thus, under the prevailing market structures, the potential benefits of productivity improvements tend to be appropriated largely by TNCs and global supermarket chains, instead of accruing to fragmented producers and farmers. Moreover, the governance structures of primary commodity value chains have become increasingly buyer-driven with a shift in the distribution of value skewed in favour of consuming countries. In the mineral sector, many State-owned enterprises were privatized in the 1990s (often as part of structural adjustment programmes), and, depending on how privatization was negotiated and implemented, a large share of the mineral rents from the recent commodity boom was not guaranteed to be used for economic development of the producer countries.

*In agriculture, there are considerable asymmetries between TNCs and local entrepreneurs, farmers and traders in developing countries.*

The heightened price volatility following the dissolution of international commodity agreements led to a rapid expansion of derivatives markets for many commodities, as demand for risk-hedging instruments intensified. The rapid growth of derivatives markets subsequently attracted new players who are not engaged in trading physical commodities and whose activities have led to a radical change in the structure of trading on commodity markets. This has led to a loosening of the relationship between derivatives markets and physical markets. But also, the "financialization" of commodity markets has further accentuated price volatility.

In the long term, a gradual transformation into more diversified economic structures of the LDCs is the key to more resilient, inclusive and sustained development and poverty reduction. But in the short and medium term, there is a vital need for some kind of international commodity policy that recognizes the increasing links between the commodity problem, development finance and debt issues. The persistent reluctance to recognize commodity-related development issues, and to act on them, has been extremely costly in terms of foregone development opportunities for commodity-dependent developing countries, and in particular LDCs. This is not a matter of going back to the old international commodity agreements. Elements of a new positive agenda for LDCs in the area of commodities are taken up in chapter 6 of this Report.

*Some kind of international commodity policy that recognizes the increasing links between the commodity problem, development finance and debt issues is required.*

### 2. Inappropriate models of finance, trade and technology

The structural weaknesses of the LDCs mean that the global economic regimes which constrain or enable development and poverty reduction in all developing countries (including the LDCs) do not work as expected in an LDC context. The evidence used to justify the national and international policies and practices associated with these regimes is usually drawn from more advanced developing countries, where data is more readily available. These frameworks are, by definition, not designed in a way that specifically addresses the structural weaknesses of LDCs. Policies and practices that could work in one context are often inappropriate in the LDC context. They do not produce the expected outcomes, and indeed they can often hinder the achievement of desired development and poverty reduction objectives. In short, failures have arisen from the application of models for finance, trade and technology that are not appropriate to address the structural weaknesses and vulnerabilities of the LDCs.

*Failures have arisen from the application of models for finance, trade and technology that are not appropriate to address the structural weaknesses and vulnerabilities of the LDCs.*

#### (a) Finance

At the heart of the development problem in LDCs are the low investment levels that prevent these countries from achieving sustained growth, structural transformation and poverty reduction. The scarcity of domestic resources available for financing not simply investment but also governance is due to their very low per capita incomes, a weak domestic formal sector and mass poverty. Yet LDCs do have latent resources, associated with the high levels of unemployment and underemployment of the population, which could be mobilized. Indeed, mobilizing domestic resources was one of the central aims of the development policies enacted by Governments before the current models were prescribed and came into prominence. However, the thrust of economic reforms which LDCs have been implementing has not been domestic resource mobilization but rather the attraction of foreign direct investment (FDI) and integration into global private capital markets. These reforms have actually curtailed the efforts of development banks, often parastatal, to promote domestic resource mobilization, and have thus perpetuated LDCs' heavy dependence on external finance.

*Economic reforms have curtailed the efforts of development banks to promote domestic resource mobilization, and have thus helped perpetuate LDCs' heavy dependence on external finance.*

The thrust of the continuing reforms in LDCs has been to diminish the role of the State in promoting development while encouraging a greater reliance on the creative power of market forces. However, in spite of financial liberalization, financial systems have not been able to mobilize and efficiently channel savings into investment and technical change. Growth of the domestic private sector has been hampered by the thinness of the domestic entrepreneurial class, small or missing markets and low technological

*In spite of financial liberalization, financial systems have not been able to mobilize and efficiently channel savings into investment and technical change.*

capabilities. In addition, firms in LDCs generally face a permanent credit crunch. Most LDCs have thus found it difficult to generate adequate levels of private investment and sufficient jobs as they have not succeeded in expanding formal employment activities. The economic reform process has certainly resulted in some micro-level entrepreneurial success stories. Indeed, the commodity boom during 2002–2008 resulted in a real estate boom in many LDCs and the associated expansion of service sectors. However, in the absence of any sectoral development policies and coordination of linkages between sectors, this has not added up to structural transformation.

*The key role of fiscal policy and public investment for crowding in private investment has been underutilized.*

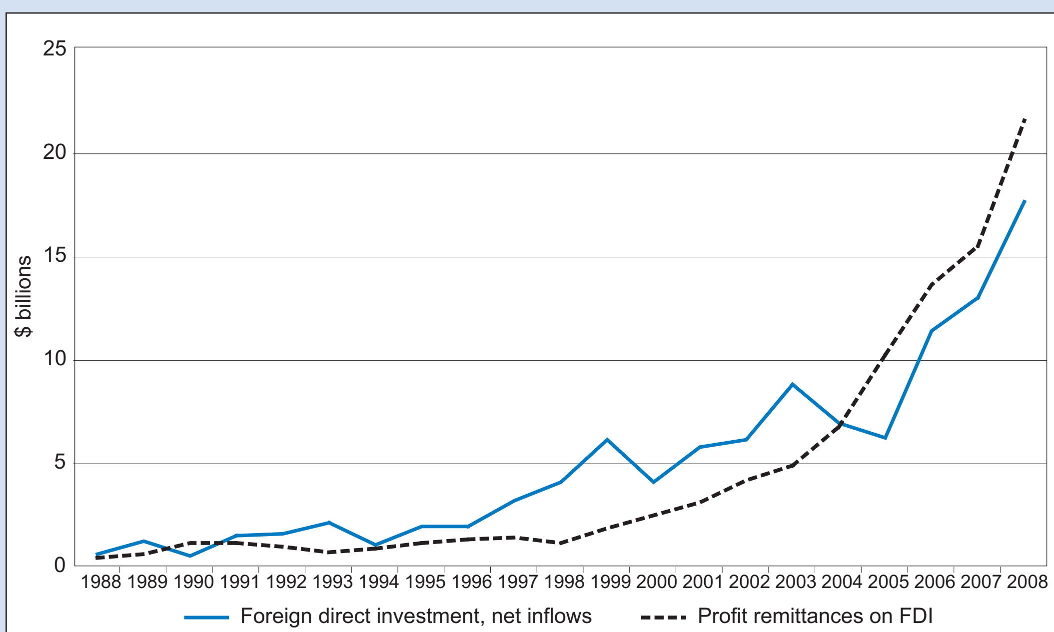
A further problem is that the economic reforms implemented by LDCs have included macroeconomic policies that have successfully controlled inflation but have not been oriented towards promoting economic growth and the creation of employment opportunities. The key role of fiscal policy and public investment for crowding in private investment has been underutilized (UNCTAD, 2009).

*In spite of extensive reforms, LDC Governments and enterprises still generally lack access to long-term international bank finance, and portfolio equity flows remain scarce.*

In spite of extensive reforms and the increasing globalization of production and finance since the 1980s, LDC Governments and enterprises still generally lack access to long-term international bank finance, and portfolio equity flows to most LDCs remain scarce. In general, foreign investors and lenders are still reluctant to place their money in most LDCs owing to the small scale of the majority of projects, the costs of asset development, high levels of risk that are rooted in the vulnerability of LDCs to shocks, lack of business support services, and weak physical infrastructure and governance problems (UNCTAD, 2000). It is true that net FDI inflows have increased significantly for LDCs as a group, but they remain concentrated in a few countries, have tended to focus on resource extraction and have generally involved increased profit remittances to the extent that the net transfers associated with FDI have been negative since 2005 (chart 18).

**Chart 18**

**FDI inflows and profit remittances on FDI in LDCs, 1988–2008**
**($ billions)**




*Source*: UNCTAD secretariat calculations, based on World Bank, *World Development Indicators* (online) (accessed June 2010).

Owing to the weakness of domestic resource mobilization and their limited integration into global private capital markets, LDCs have remained highly dependent on aid. Thus the major accumulation and budgetary processes in most LDCs are highly affected by the quantity and timing of aid, its composition and the effectiveness of its delivery. It is clear that aid has not been sufficient, given the scale of the development challenges that LDCs face. On top of this, there have also been major problems in the delivery of aid which have undermined its effectiveness in financing development.

*Owing to the weakness of domestic resource mobilization and their limited integration into global private capital markets, LDCs have remained highly dependent on aid.*

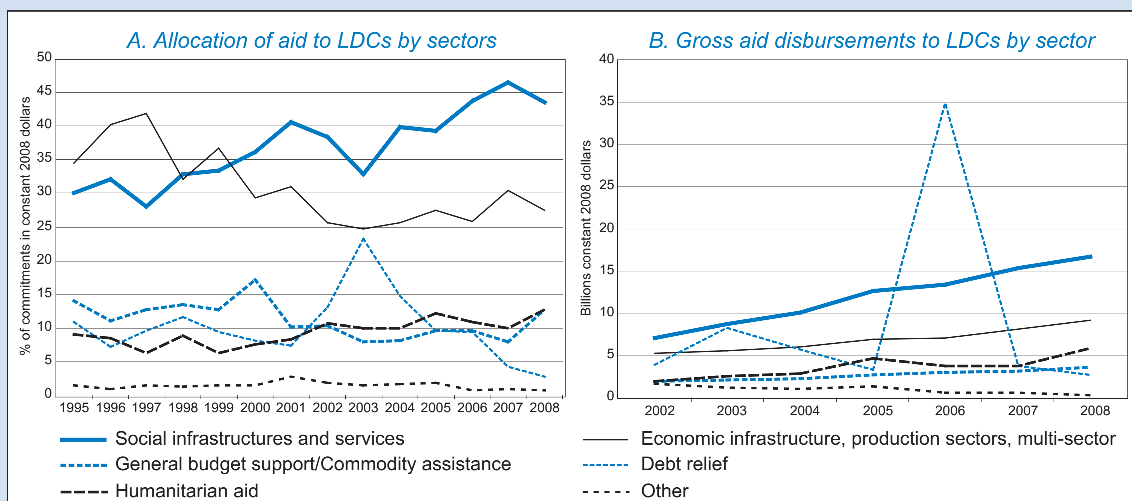
The dismantling of central planning institutions in LDCs during the economic reforms of the 1980s and 1990s meant that aid became highly fragmented. Government finances were distorted by the effects of uncoordinated project aid (often outside central budgetary processes) on the one hand, and policy conditionalities to reduce the government deficit on the other. One objective of the Poverty Reduction Strategy Papers (PRSPs) was to provide a policy framework around which aid could be coordinated, and the Paris process[1] has sought to increase harmonization and alignment of aid with national development objectives. However, donors still deliver part of their aid in ways that are off-plan, off-budget or simply unknown to national Governments (UNCTAD, 2008).

A second, key issue is the composition of aid. The evidence shows that an increasing proportion of aid to LDCs has been allocated to social infrastructure and services, and there is a concomitant decline in aid to production sectors and economic infrastructure. In 2006–2008 social infrastructure and services absorbed approximately 45 per cent of total aid commitments to LDCs, up from the 30 per cent of the mid-1990s (chart 19A). In real terms, they accounted for more than half of the scaling up of aid flows to LDCs between 2002 and 2008 (chart 19B). The increasing share of aid going to the social sectors mainly reflects donors' approach to poverty reduction. It has occurred at the same time as the PRSPs for LDCs have shifted to a greater stress on the importance of bolstering their production sectors. The focus of donors on social sectors, such as improving and extending public services in health and

*Major problems in the delivery of aid have undermined its effectiveness in financing development.*

**Chart 19**

**Aid commitments and disbursements to LDCs, 1995–2008**




*Source:* UNCTAD secretariat calculations, based on OECD, *International Development Statistics*, online (accessed August 2010) .

education, is certainly important. However, sustainable poverty reduction also requires the expansion of employment and income-earning opportunities, and for this reason, aid to the production sectors of an economy and for developing the economic infrastructure is vital.

A third issue is the extreme instability of disbursements of official development assistance (ODA) to LDC in the 2000s. During the period 2000–2008, the coefficient of variation of ODA allocations across LDCs was 43 per cent (Weeks, 2010). This was almost three times the variability of the net barter terms of trade of these countries, and for only 5 of 39 LDCs were the fluctuations in the terms of trade greater than ODA instability. Such strong instability, which donors could dramatically reduce, causes considerable difficulty for budget planning in recipient countries. A particularly serious problem is the unpredictability of disbursements in relation to commitments. Another problem is the timing of aid flows, which in the past has often been procyclical.

*Sustainable poverty reduction requires the expansion of employment and income-earning opportunities, thus aid to the production sectors and economic infrastructure is vital.*

#### *(b) Trade*

A central aspect of the economic reform process has been the implementation of deep and extensive trade liberalization. The implicit development strategy underlying trade liberalization was to increase the efficiency of domestic resource allocation by aligning domestic with international prices, and to promote export-led growth by removing the anti-export bias implicit in the previous import substitution policies. But the impact of trade liberalization on a particular country depends on the circumstances in which it takes place and on the complementary policies. In LDCs, trade liberalization has been undertaken at a much lower level of development than it was in the now developed countries and also in other developing countries. In the LDCs, few domestic enterprises have the ability to compete either internationally or even in their own domestic markets, and lack the necessary complementary industrial and technological policies to build up local capabilities. The overall productivity gap in terms of output per worker between developed countries and LDCs is 30 to 1 in the favour of the former. Agricultural productivity is particularly low in the LDCs. All of this has raised major issues of timing, sequencing and speed of trade liberalization.

*In the LDCs, few domestic enterprises have the ability to compete either internationally or even in their own domestic markets.*

Most LDCs have undertaken rapid and comprehensive trade liberalization to the extent that they now have open economies. Most undertook sweeping trade liberalization in the late 1980s and the 1990s, through a rapid succession of measures taken unilaterally, especially in the context of structural adjustment programmes (UNCTAD, 2004: 179–187). Subsequently this policy direction has been maintained and reinforced through several mechanisms, especially:

*Most LDCs have undertaken rapid and comprehensive trade liberalization to the extent that they now have open economies.*

(i) The continued use of trade-related conditionalities by international financial institutions and bilateral donors;

(ii) Membership of the World Trade Organization (WTO). Although all WTO agreements provide for special and differential treatment for LDCs, and the conditions for their initial membership were not very demanding, membership imposed some additional obligations on these countries. This was especially the case for those LDCs that acceded to the WTO after 1995. They were subject to much more demanding entry conditions, which required further liberalization (UNCTAD, 2004: 49–64);

(iii) Bilateral trade and investment agreements which LDCs have increasingly participated in, or are negotiating, especially with developed countries (e.g. Economic Partnership Agreements with the European Union). Many of these agreements require greater trade liberalization than the

WTO agreements, for example with regard to the trade in goods and services, investment and public procurement, as well as more stringent IPR protection than is required by the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Therefore, even today, LDCs are continuing their drive towards greater trade liberalization and stronger IPR protection.

*Even today LDCs are continuing their drive towards greater trade liberalization and stronger IPR protection.*

The extent of trade liberalization in the LDCs is evidenced by the fact that LDCs' average most-favoured-nation (MFN) tariff on agricultural products is at a similar level to that in other developing countries, and it is somewhat higher than in the transition economies and developed countries. Tariffs on industrial goods and on total trade are somewhat higher in LDCs than in other country groups (chart 20). The difference, however, is in single digits, which means that tariffs, on average, do not provide any substantial protection to LDCs' domestic firms.

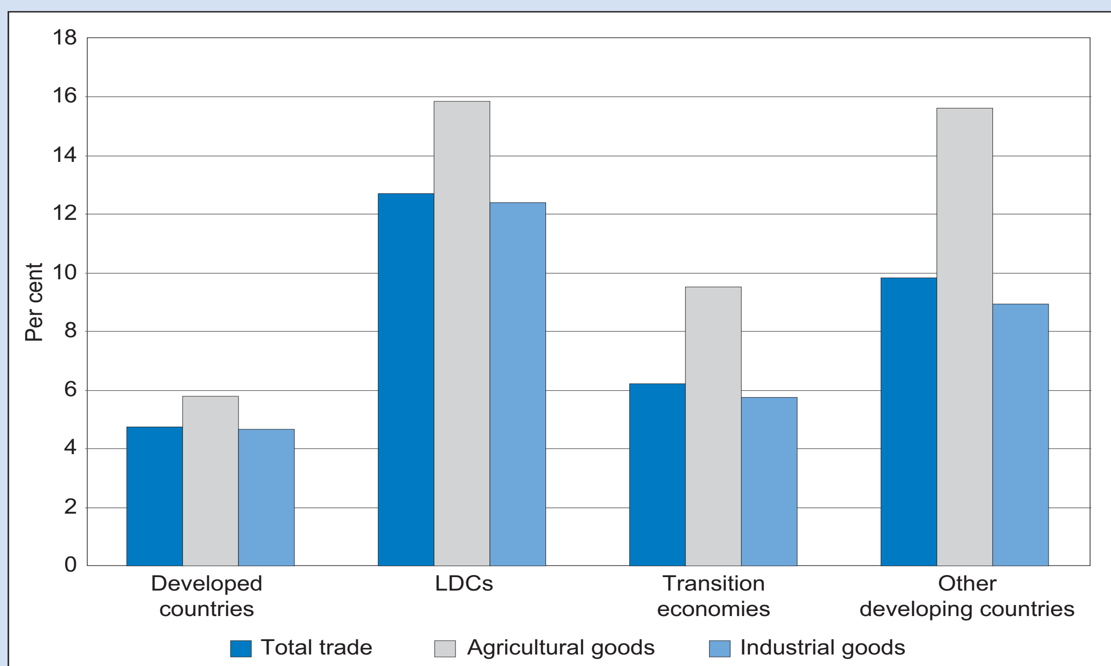
*Tariffs, on average, do not provide any substantial protection to LDCs' domestic firms.*

Chart 21 shows the distribution of MFN tariff rates on all goods for different country groups. The data suggest that most developed countries have a lower average tariff than other groups of countries. However, some of them also have higher average tariffs (chart 21D). This means that in the majority of developed countries trade liberalization has been somewhat deeper than in LDCs, but also that the average tariffs in some developed countries are at a similar level to or even higher than those in LDCs. The data for weighted average tariffs are even more conclusive in this regard, since it shows that there is a group of eight developed countries that have average tariffs in the 26–28 per cent range. Hence, some developed countries protect their economies much more than LDCs.

**Chart 20**

**Average MFN tariffs for country groups**

*(Unweighted average of countries' simple average tariff)*

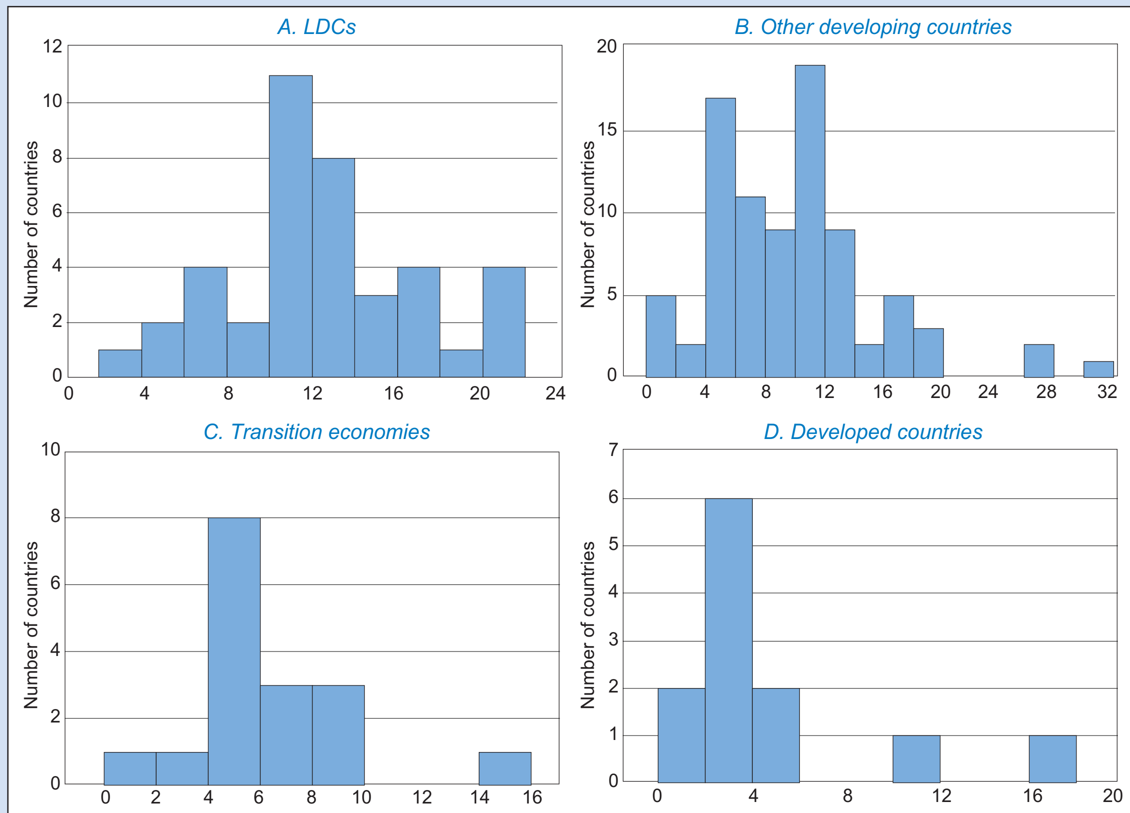



*Source:* UNCTAD secretariat calculations, based on *WITS* (accessed August, 2010).
*Note:* The goods classification is that of the WTO.

**Chart 21**

**Frequency distribution of MFN tariffs, by country groups**

*(Simple average, per cent)*




*Source:* UNCTAD secretariat calculations, based on *WITS*.
*Note*: Data are the latest available as of August 2010.

*Some developed countries protect their economies much more than LDCs.*

*There has been a "lock-in effect", whereby LDCs (as a group) have become more commodity-dependent or have focused on low-skill manufactures.*

Trade liberalization has been associated with an increase in LDCs' trade integration into the global economy. The share of total exports and imports in gross domestic product (GDP) for LDCs increased, on average, from 36 per cent in 1985 to 62 per cent in 2008. Exports have also boomed following trade liberalization. But the share of LDCs in world trade has been a constant at close to 0.33 per cent during the last 10 years if oil is excluded. Moreover, the composition of exports from the LDCs has become more concentrated. The process of liberalization is intended to change the incentive structure towards one where exported goods are more aligned with static comparative advantages. For LDCs, their comparative advantages have meant a concentration on commodities and labour-intensive, low-skill and low-value-added manufactures in their exports. As a result, there has been a "lock-in effect", whereby LDCs (as a group) have become more commodity-dependent or have focused on low-skill manufactures.

In addition, trade liberalization has failed to improve the balance-of-payments situation of many LDCs since they have tended to increase their imports more than their exports. The exceptions to this pattern are oil-exporting LDCs, which have benefited from the continuous increase in prices of their main export product over products over the past 10 years. Moreover, trade liberalization has adversely affected LDC's fiscal revenue earnings. Although their imports as a share of GDP have increased significantly, trade taxes have declined, from 39 per cent of all tax revenue in the early 1990s to 31 per cent during the 2000–2006 period.

Trade liberalization has also had the effect of weakening linkages among domestic firms. Those linkages had been established during the previous period, which was characterized by higher protection. Large-scale trade liberalization exposed domestic industries in LDCs to competition for which they were ill-equipped. As a result, large segments of the manufacturing sector have been wiped out in the past 20 years. This process of deindustrialization has been more severe in countries at lower levels of development.[2] It has intensified the problem associated with an enclave economy, where some sectors or firms are very closely integrated with the global economy, while having few links with the rest of the national economy. Coupled with the discouraging effect that agricultural subsidies in developed countries have on agricultural production in LDCs, trade liberalization has also been associated with LDCs' increased dependence on food imports and the delinking of rural-urban growth linkages.

*Trade liberalization has also had the effect of weakening linkages among domestic firms.*

On balance, the score card of the positive and negative effects of trade liberalization is very mixed (UNCTAD, 2004: 188–212). Instead of economic diversification, LDCs today have, on average, a less diversified economy and more concentrated exports. Instead of reducing their structural vulnerabilities, trade liberalization has accentuated them. In short, trade liberalization in LDCs was premature, given their level of development.

*Deindustrialization has been more severe in countries at lower levels of development and has intensified the problem associated with an enclave economy.*

### (c) Technology

In the area of technology, the global economic regimes have failed to devise mechanisms for technology transfer, while leading to the increasing application of an IPR regime that militates against learning and the development of a sound technological base in LDC economies.

Reconciling universal standards of protection of IPRs with the weak technological base of LDCs has been difficult for a variety of reasons. It was expected that the extension of IPRs would entail costs of various kinds for LDCs due to the considerable policy changes that would be required from these countries to conform to the TRIPS Agreement (Maskus, 2000: 6).[3] However, three types of benefits were also envisaged. As opposed to a direct increase of investments in research and development (R&D), these benefits were primarily supposed to have the following indirect effects in promoting innovation through: (a) an increase in FDI, technology transfer, licensing and technology sourcing of value-added goods through foreign subsidiaries, with potentially positive implications for domestic learning; (b) more innovative activities resulting from access to patent disclosures and technologies; and (c) competitive returns for innovative firms in developing countries from stronger IPRs and less legal uncertainty (Edwin, Lai and Qiu, 2003).

*Trade liberalization in LDCs was premature, given their level of development.*

After over a decade of studies on the relationship between IPRs, FDI and technological flows, some interesting results emerge. A global IPR regime appears to skew R&D systematically away from technologies that offer the greatest societal benefits, to those that offer the highest market returns. While there are some safeguards in the global IPR regime (notably parallel imports and compulsory licensing), these are limited in scope; and many countries have, in varying degrees, forgone these flexibilities by subscribing to "TRIPs-plus" bilateral agreements with major technology exporters. Ways and means to address these deficits and financing innovation of relevance to the poorer countries remain much-debated issues internationally, especially in areas of public interest such as health, agriculture and access to knowledge.

*The global economic regimes have failed to devise mechanisms for technology transfer, while leading to an IPR regime that militates against learning and the development of a sound technological base in LDC economies.*

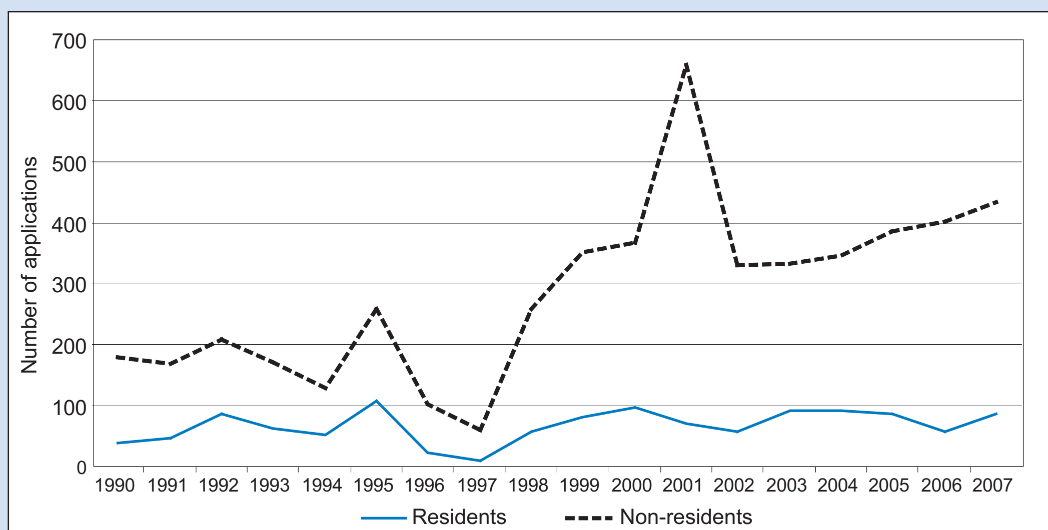
In a few countries where a positive relationship between IPRs and technology flows has been observed, some capacity to engage in technological learning has served as the mediating factor. Coined in the literature as absorptive capacity (Cohen and Levinthal, 1990), the presence of an appropriate physical and scientific infrastructure within countries and sectors, along with the requisite human skills to engage in technical change, are prerequisites for investment and innovation (Kanwar and Evenson, 2001; Chen and Puttitanun, 2005). Ho (1997) rightly notes in this context that technologies can rarely be transferred and introduced without adaptation, and therefore depend entirely on the degree of absorptive capacities at the local level. In LDCs such capacities barely exist, if at all (box 6). In such a context, empirical evidence reinforces earlier findings that strengthening IPR protection may not help attract technological knowledge when the level of local skills is low (Parello, 2008).

*Strengthening IPR protection may not help attract technological knowledge when the level of local skills is low.*

Present trends in patenting in LDCs support the conclusions above (chart 22). There have been more patent applications by non-residents than residents, but they have not been accompanied by FDI aimed at building productive capacity or by other channels of knowledge circulation between international firms and local actors through linkages such as joint ventures, partnerships and mobility of labour (UNCTAD, 2007: 91–138).

**Chart 22**

**Patent applications in LDCs by residents and non-residents, 1990–2007**




*Source:* UNCTAD Secretariat calculations, based on *WIPO Statistics Database* (online) (accessed December 2009).

**Box 6. Technological capabilities and physical infrastructure in LDCs**

Studies reiterating the complexity of knowledge accumulation and technological change in latecomers highlight the main binding constraints in such contexts. These include not only financial constraints, but also the lack of physical infrastructure and inadequate knowledge resources such as limited access to advanced education, serious problems in the retention of highly skilled scientists and technicians, and limited opportunities for the acquisition of key skills domestically. LDCs are particulary poorly endowed in these areas.

Comparing countries based on conventional knowledge indicators, such as private sector spending on research and development (R&D), exports of high-technology goods as a percentage of total exports, and the number of people (per million) engaged in R&D, shows the weaknesses of the current environment for technological learning and innovation in LDCs (box chart 3).

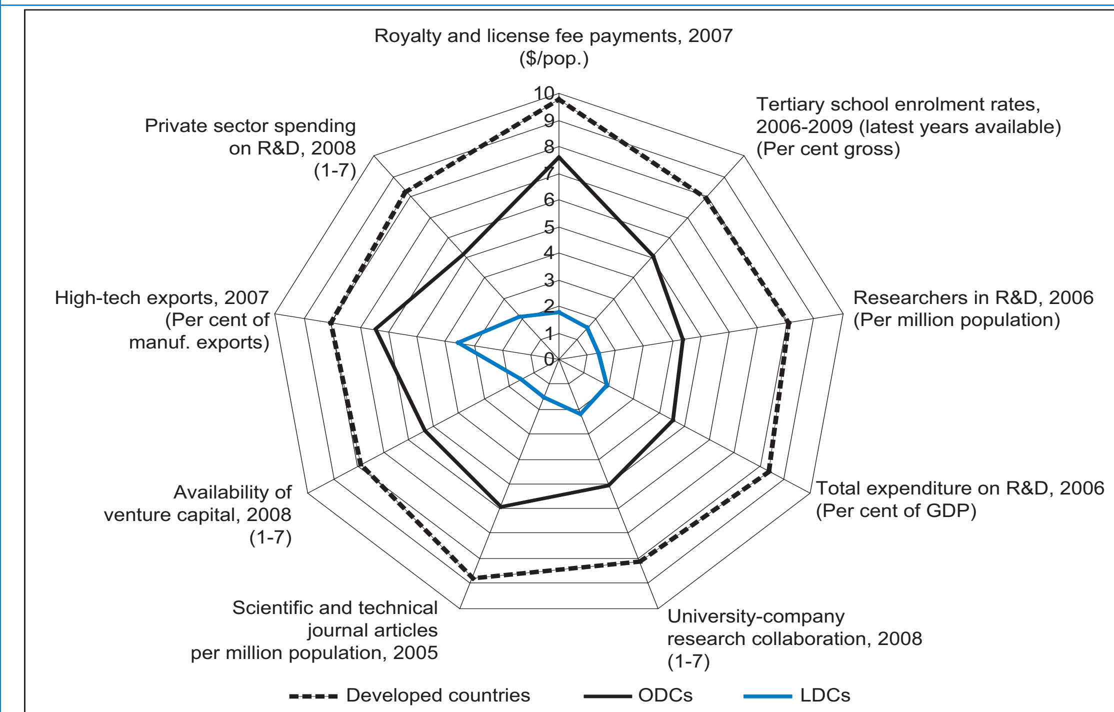
Human skills are also very underdeveloped (box chart 4). While the primary enrolment rate increased from 52.8 per cent in 2000 to 83.1 per cent in 2008, the enrolment rate in secondary education fell from 27.4 per cent to 26.8 per cent, and in tertiary education it increased slightly from 3.6 per cent to 5.6 per cent. It should be pointed out that secondary and tertiary education plays a major role in moving a society from using traditional domains of knowledge to employing incremental innovations and applications based on external sources of knowledge.

**Box 6 (contd.)**

Finally, physical infrastructure in LDCs is also very weak (box chart 5). There is a particularly strong "electricity divide" between the LDCs and both developed and developing countries, and, as argued in the *LDC Report 2006*, this is as important as the digital divide.

**Box chart 3**

**Selected knowledge indicators for LDCs, ODCs and developed countries, 2005–2009**

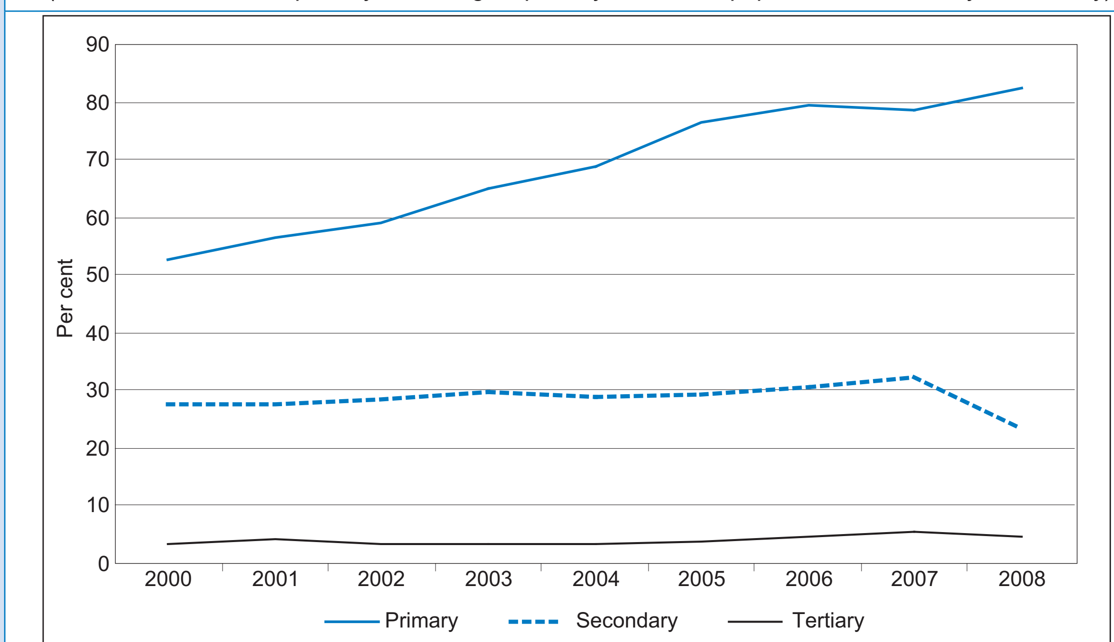



*Source:* UNCTAD secretariat calculations, based on World Bank, *Knowledge Assessment Methodology* database, 2010.
*Note*: Indicators are normalized to range from 0 to 10 (top performers).

**Box chart 4**

**LDC net enrolment rates in primary, secondary and tertiary education, 2000–2008**

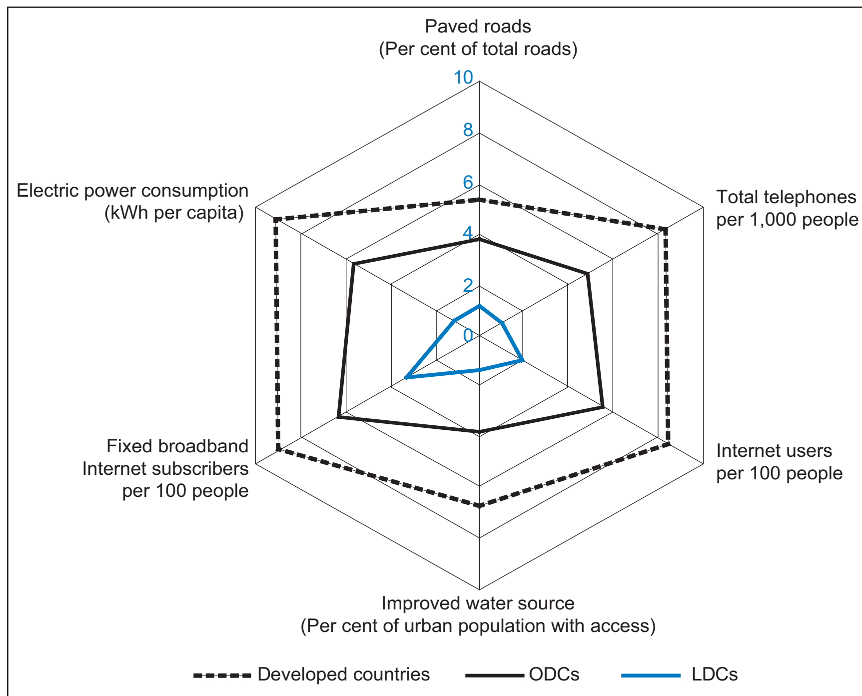
*(Per cent of children of primary school age – primary – and total population – secondary and tertiary)*




*Source:* UNCTAD secretariat calculations, based on World Bank, *World Development Indicators, 2009.*

**Box 6 (contd.)**

***Box chart 5***
**Selected physical infrastructure indicators in LDCs, ODCs and developed countries**




*Source:* UNCTAD secretariat calculations, based on World Bank, *Knowledge Assessment Methodology* database, 2010.
*Note*: Indicators are normalized to range from 0 to 10 (best performers).

*Very important impact of the greater proliferation of IPRs worldwide has been the shrinking policy space available to LDCs to develop their own catch-up policies.*

A second, very important impact of the greater proliferation of IPRs worldwide has been the shrinking policy space available to LDCs to develop their own catch-up policies. Innovation is continuously encouraged by the wide accessibility of society to already produced knowledge at low costs (Nelson, 1990; Foray, 1995), but IPRs limit the ways and means by which countries and firms can access knowledge locally to generate newer knowledge. Yet this has played a key role in economic development since the eighteenth century (Mokyr, 2003). It is also clear that in the short or medium term, universal IPR enforcement will reduce the freedom to design and implement technology acquisition and to use policies that are central to catch-up processes (Amsden and Chu, 2003). While the TRIPS Agreement contains flexibilities for the LDCs, most LDCs have, to varying degrees, forgone these flexibilities through "TRIPs-plus" regimes negotiated with major technology exporters or included in bilateral trade and investment treaties.

An urgent shift in focus is needed to ensure that the global knowledge framework addresses intellectual property, technology transfer and the growing knowledge divide between countries in a balanced way which addresses the complexity of process of technological acquisition in developing countries, and in particular LDCs, instead of focusing exclusively on the granting of private IPRs. Technology and its transfer are largely an annexure to provisions governing the granting of IPRs within the TRIPS Agreement. While some headway has been made, and the initiation of the WIPO Development Agenda is a big step (UNCTAD, 2007: 100–101), the current global technology framework relegates to secondary importance the issues of technology transfer, technical assistance and knowledge accumulation, all of which are extremely important for the creation of productive capacities in LDCs.[4] Elements of a

positive agenda for LDCs in these areas are taken up in chapter 6 of this Report.

*The current global technology framework relegates to secondary importance technology transfer, technical assistance and knowledge accumulation, which are extremely important for the creation of productive capacities in LDCs.*

### 3. Weak country ownership and lack of policy space

There is broad agreement that country ownership of development strategies and policies is essential for their effective implementation. It is also necessary to have strong development partnerships. Country ownership is understood in different ways, but at its core is the notion that Governments should be able to exercise leadership in the design and implementation of national development strategies. This is a prerequisite for devising solutions that are tailored to their specific circumstances. However, since the early 1980s, access to official aid has been conditional, in one way or another, on the implementation by LDC Governments of economic reform programmes designed to promote stabilization, liberalization and privatization, or on their implementation of poverty reduction strategies.

*Ownership of development strategies and policies is essential for their effective implementation.*

Few, if any, LDCs were in the vanguard of the trend towards liberalization, but they pursued it at an accelerated pace from the late 1980s and have further deepened liberalization over the past 10 years. Between 1988 and the end of the 1999, 33 out of 48 LDCs undertook policy reforms under the Structural Adjustment Facilities (SAFs) and Enhanced Structural Adjustment Facilities (ESAFs) financed by the International Monetary Fund (IMF), and 27 of these countries were engaged in implementing the agreed policies for three or more years (UNCTAD, 2000). After 1999, the ESAF was replaced by the Poverty Reduction and Growth Facility (PRGF), and borrowers from that facility had to prepare Poverty Reduction Strategy Papers (PRSPs). As a result, the economic reform process was deepened and reforms also sought to achieve poverty reduction objectives, particularly through the allocation of aid and government funding to priority social sectors. During the 2000s, 38 LDCs prepared PRSPs (three of which were interim PRSPs) and 16 have finalized two documents, while 29 LDCs have undertaken economic reforms under the PRGF (table 18).

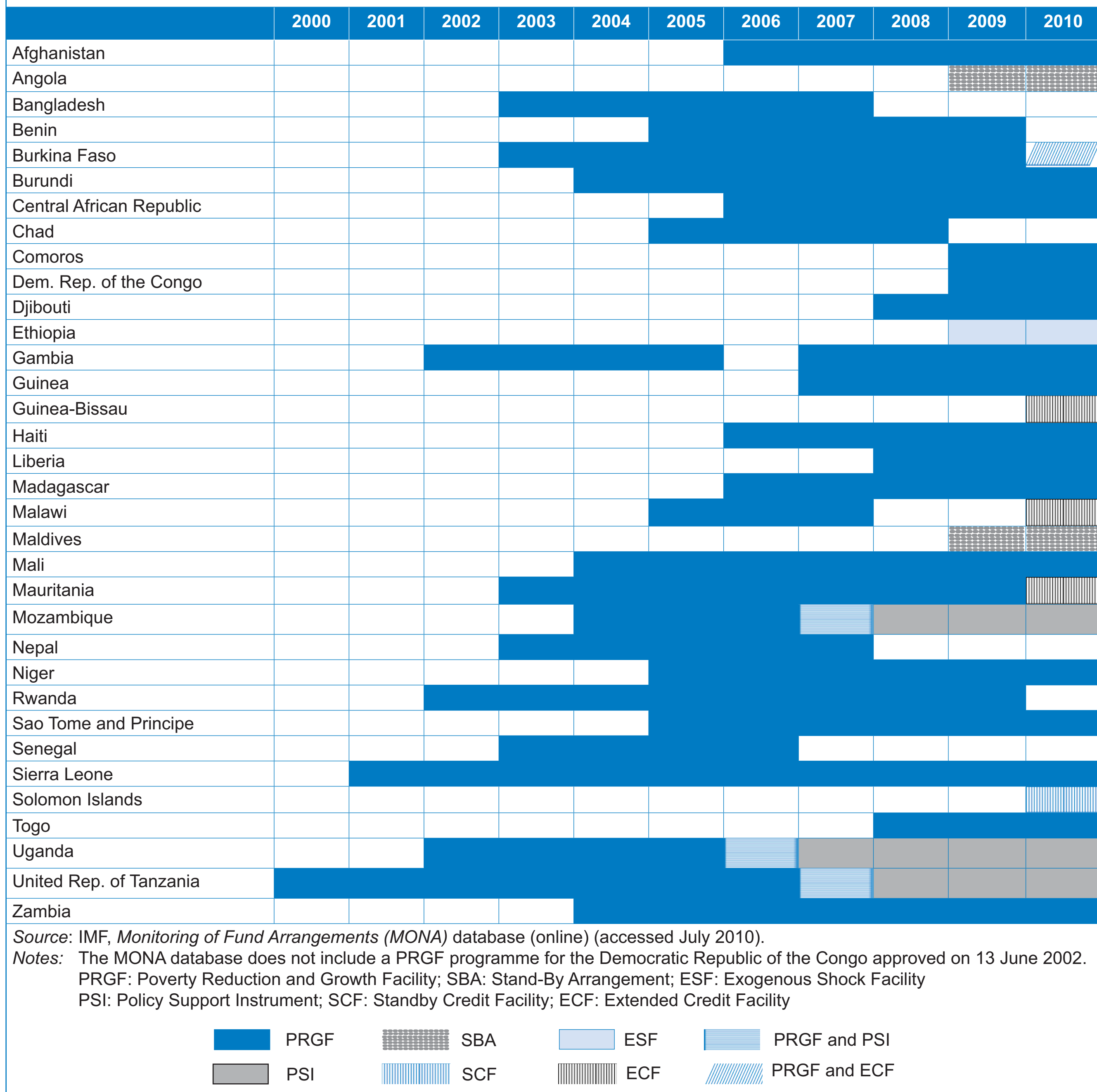
*Access to official aid has been conditional on stabilization, liberalization and privatization, or on the implementation of poverty reduction strategies.*

The inadequacy of the one-size-fits-all approach to development has been increasingly recognized, resulting in the advocacy of a more context-specific approach to development based on country ownership. Theoretically, this should allow greater recognition of the specific structural weaknesses and vulnerabilities of the LDCs. However, although there have been major changes in the practice of policy conditionality, with an increasing tendency to encourage recipient-country Governments to draw up their own policies, macroeconomic stabilization, privatization and liberalization were still important types of policy conditionalities in LDCs even in the late 2000s. One aim of the PRSP process was to give countries greater leadership in the design and implementation of their programmes. But the evidence shows that the way in which PRSPs are designed and implemented is still strongly influenced by donors' policy conditionality, monitoring benchmarks and financing choices (UNCTAD, 2008: 93–134). It is also proving very difficult to realize the potential of national leadership in the design and implementation of national development strategies in most LDCs because of weak technical capabilities and a reluctance on the part of the LDC Governments themselves to experiment. They fear that the adoption of policies deemed inappropriate by donors could adversely affect their access to external finance. Thus, the potential for learning and experimentation in policymaking and greater domestic ownership of policies is being realized only very slowly.

*The way in which PRSPs are designed and implemented is still strongly influenced by donors' policy conditionality, monitoring benchmarks and financing choices.*

***Table 18***

**IMF programmes in LDCs, 2000–2010**



| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Afghanistan | | | | | | | PRGF | PRGF | PRGF | PRGF | PRGF |
| Angola | | | | | | | | | | SBA | SBA |
| Bangladesh | | | | PRGF | PRGF | PRGF | PRGF | PRGF | | | |
| Benin | | | | | | PRGF | PRGF | PRGF | PRGF | PRGF | |
| Burkina Faso | | | | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF and ECF |
| Burundi | | | | | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF |
| Central African Republic | | | | | | | PRGF | PRGF | PRGF | PRGF | PRGF |
| Chad | | | | | | PRGF | PRGF | PRGF | PRGF | | |
| Comoros | | | | | | | | | | PRGF | PRGF |
| Dem. Rep. of the Congo | | | | | | | | | | PRGF | PRGF |
| Djibouti | | | | | | | | | PRGF | PRGF | PRGF |
| Ethiopia | | | | | | | | | | ESF | ESF |
| Gambia | | | PRGF | PRGF | PRGF | PRGF | | PRGF | PRGF | PRGF | PRGF |
| Guinea | | | | | | | | PRGF | PRGF | PRGF | PRGF |
| Guinea-Bissau | | | | | | | | | | | ECF |
| Haiti | | | | | | | PRGF | PRGF | PRGF | PRGF | PRGF |
| Liberia | | | | | | | | | PRGF | PRGF | PRGF |
| Madagascar | | | | | | | PRGF | PRGF | PRGF | PRGF | PRGF |
| Malawi | | | | | | PRGF | PRGF | PRGF | | | ECF |
| Maldives | | | | | | | | | | SBA | SBA |
| Mali | | | | | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF |
| Mauritania | | | | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | ECF |
| Mozambique | | | | | PRGF | PRGF | PRGF | PRGF and PSI | PSI | PSI | PSI |
| Nepal | | | | PRGF | PRGF | PRGF | PRGF | PRGF | | | |
| Niger | | | | | | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF |
| Rwanda | | | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | |
| Sao Tome and Principe | | | | | | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF |
| Senegal | | | | PRGF | PRGF | PRGF | PRGF | | | | |
| Sierra Leone | | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF |
| Solomon Islands | | | | | | | | | | | SCF |
| Togo | | | | | | | | | PRGF | PRGF | PRGF |
| Uganda | | | PRGF | PRGF | PRGF | PRGF | PRGF and PSI | PSI | PSI | PSI | PSI |
| United Rep. of Tanzania | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF and PSI | PSI | PSI | PSI |
| Zambia | | | | | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF | PRGF |

*Source*: IMF, *Monitoring of Fund Arrangements (MONA)* database (online) (accessed July 2010).

*Notes:* The MONA database does not include a PRGF programme for the Democratic Republic of the Congo approved on 13 June 2002.
PRGF: Poverty Reduction and Growth Facility; SBA: Stand-By Arrangement; ESF: Exogenous Shock Facility
PSI: Policy Support Instrument; SCF: Standby Credit Facility; ECF: Extended Credit Facility



## 4. Lack of policy coherence

*There is a major lack of coherence between the global economic regimes and the international support mechanisms specifically designed for LDCs.*

The final weakness of the global economic regimes from an LDC perspective is policy incoherence. As noted by Sakbani (2005), the prevailing global economic regimes are an amalgam of facts, rules and modalities created at different times and by different institutions, rather than a holistic system with a cohesive design. For that reason, their effects are contradictory and the systems are incoherent. As a result, the effects of one set of policies can be annulled by other policies, or they create instability in the real economy. In addition, there is a major lack of coherence between the global economic regimes and the international support mechanisms which have been specifically designed for LDCs. The stated objectives of the special measures include the development of the technological base of LDCs and greater market access. Yet the global economic regimes are undermining the achievement of technological development, while trade liberalization has often adversely

affected local industries and, consequently, the necessary supply capacities to take advantage of market access simply do not exist. The right hand has therefore been taking away the possibility to realize what the left hand was meant to be giving.

## C. A new international development architecture for LDCs: Pillars, principles and processes

*The right hand has therefore been taking away the possibility to realize what the left hand was meant to be giving.*

### 1. The overall architecture

A NIDA for LDCs would be constituted through reforms of the global economic regimes in areas which are directly relevant for development and poverty reduction in LDCs, as well as the design of a new generation of special international support mechanisms (ISMs) for the LDCs which address their specific structural constraints and vulnerabilities. In addition, with the increasing importance of South-South flows of trade, FDI, official finance, and knowledge, South-South development cooperation, both within regions and between LDCs and large, fast-growing developing countries, should play an important role in a NIDA for LDCs. And such cooperation should also include some ISMs for LDCs.

**Chart 23**

**The New International Development Architecture for LDCs and the global economic regimes**

*Source:* UNCTAD secretariat.

Chart 23 illustrates the relationships between these different elements of a NIDA for LDCs. It shows that the NIDA would not involve reform of all global economic regimes but only those that directly affects development and poverty reduction in LDCs. Similarly, the NIDA would involve some aspects of South-South development cooperation – not its totality. The chart also shows that the special ISMs for the LDCs are not stand-alone policies and institutions; they are embedded within the global economic regimes or within South-South development cooperation frameworks. Thus the ISMs would be a concrete application of the principle of special and differential treatment or the principle of common and differentiated responsibility within these broader cooperation frameworks to the development problems of LDCs.

*A NIDA for LDCs would be constituted through reforms of the global economic regimes in areas which are directly relevant for development and poverty reduction in LDCs, as well as the design of a new generation of special international support mechanisms (ISMs) for the LDCs.*

Reforms to the global economic regimes that are relevant for the LDCs and the ISMs for the LDCs are important not just for the LDCs themselves; they can also contribute to the provision of global public goods, such as commodity price stability, and the prevention of global public bads, such as pervasive extreme poverty, complex humanitarian emergencies, political insecurity and reservoirs of communicable diseases.

South-South development cooperation is understood here to refer to the processes, institutions and arrangements that are designed to increase trade, investment, financial flows and technology transfer, as well as the exchange of knowledge and skills between developing countries — including LDCs — in order to achieve common development goals. Geographically, it covers bilateral, intraregional and interregional cooperation, as well as collaboration among developing countries on multilateral issues, designed to enhance their participation and integration into the world economy. South-South development cooperation offers new sources of ideas, models and practices for LDCs and thus provides major additional opportunities because of the alternative approaches it embodies. In addition, South-South economic relations provide new markets, new sources of technology and new sources of external capital to LDCs.

*South-South development cooperation offers new sources of ideas, models and practices for LDCs and provides major additional opportunities because of the alternative approaches it embodies.*

In chart 23, South-South development cooperation is seen to overlap with the global economic regimes but is not embedded within them. Moreover, some ISMs are specific to the global economic regimes, whereas others are specific to South-South development cooperation, and yet others (for example, duty-free and quota-free market access) are common to both cooperation frameworks. There is a need to increase policy coherence between the global economic regime and South-South cooperation. However, the NIDA for LDCs does not envisage immediate total alignment, as this could significantly reduce the creative potential of South-South development cooperation. There may be aspects of South-South development cooperation, such as modalities of infrastructure financing, which could provide powerful new ways to finance development in LDCs. Thus, a more realistic approach to achieving policy coherence would be through LDCs' national policies, which could mainstream both North-South and South-South official financial flows into national development strategies through strengthened country ownership.

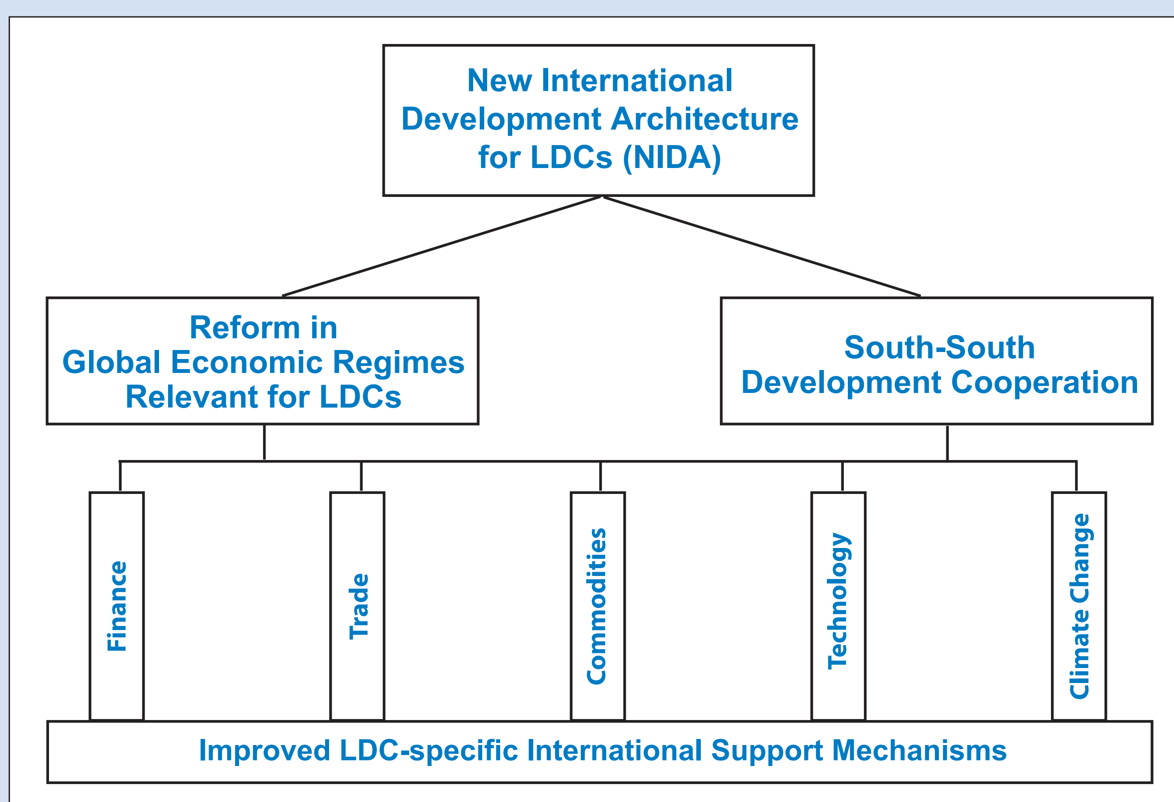
*Some ISMs are specific to the global economic regimes, others are specific to South-South development cooperation, and yet others are common to both cooperation frameworks.*

## 2. The pillars of a NIDA

The proposed NIDA for LDCs would have five major pillars, which relate to both the global economic regimes and South-South development cooperation, as well as some new policies and regimes. The pillars are: finance, trade,

**Chart 24**

**The New International Development Architecture for LDCs**




*Source:* UNCTAD secretariat.

technology, commodities and climate change. Chart 24 provides a view of the architecture of NIDA. The main features of the pillars of the NIDA are:

(i) Reform of the international financial architecture, including the aid and debt relief regime, as well as measures related to fostering domestic financial resource mobilization and private capital flows;

(ii) Reform of the multilateral trade regime;

(iii) An international commodity policy;

(iv) An international knowledge architecture that enables access to knowledge, its use and generation, including technology transfer and acquisition; and

(v) A regime for climate change adaptation and mitigation.

*The proposed NIDA for LDCs would have five major pillars, which relate to both the global economic regimes and South-South development cooperation: finance, trade, commodities, technology and climate change.*

A new generation of special ISMs for the LDCs would need to be elaborated within each of the pillars.

*A new generation of special ISMs for the LDCs would need to be elaborated within each of the pillars.*

A regime for international migration could also be considered as an additional pillar of the NIDA. However, this Report does not consider migration as a separate pillar, but instead treats migration issues to the extent that they are aspects of the finance, trade and technology pillars, focusing, for example, on the possibility of mobilizing the skills of the LDC diaspora for technological development in their countries of origin, or on the provision of special treatment in rules governing trade in services. IOM (2010) provides a recent overview of international migration issues for LDCs.

### 3. Principles of the NIDA for LDCs

*The design of the NIDA for LDCs should: (i) Enable new, more inclusive development paths in LDCs; (ii) Foster and support country ownership of national development strategies; ....*

The overall design of the NIDA for LDCs should:

(i) Enable new, more inclusive development paths in LDCs based on the development of productive capacities, the associated expansion of productive employment and improvement in the well-being of all their people;

(ii) Foster and support country ownership of national development strategies and enhance policy space for development policies;

(iii) Facilitate strategic integration into the global economy in line with the development needs and capacities of the LDCs, including through a better balance between external and domestic sources of demand;

(iv) Redress the balance between markets and the State so that the State plays a more significant role in guiding, coordinating and stimulating the private sector towards the achievement of national development objectives;

*... (iii) Facilitate strategic integration into the global economy; (iv) Redress the balance between markets and the State...*

(v) Promote greater domestic resource mobilization in LDCs with a view to reducing their dependence on aid;

(vi) Promote greater policy coherence between the different domains of trade, finance, technology, commodities, and climate change mitigation and adaptation, and also between the global economic regimes and the ISMs;

(vii) Support South-South development cooperation as a strong complement to North-South development cooperation; and

(viii) Foster more democratic and universal participation in the global system of governance with a view to giving LDCs a greater voice and representation.

*... (v) Promote greater domestic resource mobilization; (vi) Promote greater policy coherence between trade, finance, technology, commodities, and climate change mitigation...*

The contents of the NIDA should follow from these eight fundamental principles.

### 4. Processes for the design of the NIDA

*... (vii) Support South-South development cooperation; (viii) Foster more democratic participation in the global system of governance.*

The system of global governance needs to be reformed in order to advance LDC interests in the design of global economic regimes and also for the creation of more effective special ISMs for LDCs. While LDCs as a category have a high profile within the United Nations system, they do not have the same recognition and voice in other international institutions. In international financial institutions, they are disadvantaged by voting systems that are weighted according to a country's economic strength. This is most evident in the IMF, where LDCs together have just 2.9 per cent of the votes — the same as Canada and less than Italy (with 3.2 per cent) — despite constituting 25 per cent of the membership and 10 per cent of the total population. Addressing the democratic deficit in global governance should therefore be an important part of the process of creating a NIDA for the LDCs. However, this issue does not fall within the scope of this Report and therefore it is not further discussed.

## D. A paradigm shift towards new development paths

The core of the design of a NIDA is that it should enable a shift to new, more inclusive development paths in LDCs, based on the development of productive capacities, the associated expansion of productive employment and an improvement in the well-being of all their people. This will be best achieved by giving the State a stronger developmental role, which entails a rebalancing of the respective roles of the State and markets in national policy frameworks for economic development. This section explains what this entails, as the content of the NIDA would be strongly influenced by such a paradigm shift.

*The development of productive capacities refers to the expansion of the productive resources, acquisition of technological capabilities and creation of production linkages which permit a country to produce a growing array of goods and services.*

### 1. Development of productive capacities

The term "development of productive capacities" is understood by different people in different ways. From the perspective of this Report, it does not refer to the expansion of export supply capacities or to technical assistance that is oriented to improving entrepreneurial capabilities, though both these elements are usually part of the process. Rather, here the development of productive capacities refers to the expansion of the productive resources, acquisition of technological capabilities and creation of production linkages which permit a country to produce a growing array of goods and services and enable the country's beneficial integration into the global economy on the basis of an internal momentum of development (UNCTAD, 2006).

*The development of productive capacities occurs through capital accumulation, technological progress and structural change.*

From this perspective, the development of productive capacities occurs through three interrelated processes: capital accumulation, technological progress and structural change. This is based on an understanding of how economic growth occurs, following the broad analytical lines of classical development economics, and thus places capital accumulation (i.e. investment in new plant and equipment, land, infrastructure and human capital) at the centre of the process. However, unlike the neoclassical approach, the accumulation process is understood as a dynamic one of social relations and economic linkages, and interactions built around the creation and reinvestment of profits. In a market-based economy, the process involves increasing productive capacity as a source of future profits. Moreover, technological progress — the process of introducing new goods and services, and new and improved methods of production and forms of organizing production — is considered integral to the capital accumulation process. Technological progress occurs through innovation, which, in an LDC context, can be defined as the commercial application — by firms and farms — of knowledge that is new to them or to the country. Innovation usually occurs in conjunction with investment, and therefore the two are difficult to disentangle in reality. Investment in new equipment and machinery embodies technical change, while technological learning, which is the key to technological progress in latecomer countries, occurs through investment in physical and human capital.

*Capital accumulation — investment in new plant and equipment, land, infrastructure and human capital — is at the centre of the process.*

*Technological progress occurs through innovation, which, in an LDC context, is the commercial application — by firms and farms — of knowledge that is new to them or to the country.*

Capital accumulation and technological progress do not only lead to the expansion of existing productive capacity; taken together they are also associated with qualitative changes in the economy through a process of creative destruction whereby new products and processes are introduced while

others decline and disappear. Capital accumulation and technological progress thus drive the process of structural change, in which there is a change in the intersectoral and intrasectoral composition of production and in the pattern of linkages between sectors and segments of the economy. Structural change, in turn, increases the potential of an economy to accelerate capital accumulation and technological progress. This is because there are dynamic products or leading sectors which can induce greater investment and innovation thanks to their productivity growth potential, market demand potential or potential to engender dynamic production linkage effects with other activities and sectors, owing to production complementarities. Historically, the expansion of the scale of manufacturing activities within a national economy has been empirically associated with increased productivity both within the sector itself and in the wider economy. However, in general terms the most important basic feature which distinguishes more dynamic activities is that they are subject to increasing returns to scale rather than decreasing returns to scale.

*Capital accumulation and technological progress thus drive the process of structural change.*

From the UNCTAD perspective, demand also matters. The sustained development of productive capacities occurs when there is a virtuous circle of cumulative causation in which the development of productive capacities and the growth of demand mutually reinforce each other. Demand growth stems from three sources: domestic consumption, domestic investment and net exports. Exports are particularly important, as both consumer demand and investment demand depend on national income, whereas exports are autonomously determined. Moreover, both investment and consumer demand have an import component, which, without export earnings, would be constrained by the need to ensure balance-of-payments equilibrium. But the importance of exports does not mean that domestic sources of demand should be neglected. A classic study identifying recurrent patterns of economic development found that even in small economies at early stages of development, domestic demand growth was typically the source of over 75 per cent of economic growth (Chenery, Robinson and Syrquin, 1986).

*When the development of productive capacities and the growth of demand mutually reinforce each other, there is a virtuous circle of cumulative causation.*

In virtuous cases, a long-term process of economic growth based on the development of productive capacities occurs as a series of cumulative steps whereby a given expansion of output creates the conditions for the further expansion of output. Furthermore, technical progress and growth of new innovations will lead to increases in productivity and creation of new economic activities, which in turn will influence economic growth through increases in incomes of the population and through growth of productivity and employment. As incomes rise, patterns of consumption also change, with a lower demand for food (as a proportion of income) and a higher demand for investment goods. This in turn will stimulate the development of new types of consumer goods, raw materials and machinery. In the course of successive stages of economic transformation of the economy, a change in one direction will make possible complementary developments in another. The application of new techniques of production will in turn lead to a widening market and growing external economies, thereby further fuelling the process of economic transformation. Hence economic transformation is induced by the long-term growth of the economy through a chain of cause and effect movements in the economy.

*Technical progress and growth of new innovations will lead to increases in productivity and creation of new economic activities.*

Such a long-term process of economic growth is the foundation for substantial poverty reduction. This is because, first, the development of the productive base of the economy increases employment opportunities, though the relationship is quite complex owing to the simultaneous creation and destruction of economic activities as well as the trade-off between labour

*The development of the productive base of the economy increases employment opportunities.*

productivity growth and employment expansion. Second, the development of productive capacities helps to widen the fiscal base of the State, enabling the provision of public services that underpin human development and also better governance. Human development is an integral part of this process: as public services improve, falling levels of poverty enable more household expenditure on education and health and all kinds of human capacities are improved through the workplace.

*Developing productive capacities helps to widen the fiscal base of the State, enabling the provision of public services that underpin human development and better governance.*

## 2. The importance of a developmental State

Some low-income developing countries have managed to achieve the type of virtuous circle associated with the development of productive capacities described above. They provide important examples of what is possible and how to achieve it. But the development of productive capacities, with the associated expansion of productive employment opportunities and reduction in poverty, is not automatic. Indeed, just as economic transformation is induced through a chain of cause and effect movements in the economy, so also an opposite vicious circle of economic stagnation and mass poverty can occur. They key policy challenge for the LDCs is to find their way out of this vicious circle and the problem of being locked in to commodity dependence and low-skill manufactures, and to promote a virtuous circle of the development of productive capacities.

*The sustained development of productive capacities requires a developmental State and an international environment which bolsters the developmental role of the State.*

This Report, as with earlier *LDC Reports*, adopts the view that meeting this policy challenge requires a reassessment of the current policy framework adopted by the LDCs. There is a need for a strengthened role for the State, involving a rebalancing of the respective roles of the market and the State in the process of economic development. In short, the sustained development of productive capacities through a process of cumulative causation requires a developmental State and an international environment which bolsters the developmental role of the State.

*A developmental State may be defined as one which gives top priority to economic development in Government policy and seeks to design policies and institutions that promote this goal.*

A developmental State may be broadly defined as one which gives top priority to economic development in Government policy and seeks to design policies and institutions that promote this goal with a view to improving the living standards and well-being of the population. In order to develop productive capacities with a view to transforming the economy, accelerated interventions in key areas are necessary. These interventions should be implemented within the broader framework of national development strategies aimed at long-term, equitable and sustainable growth and structural change (UNCTAD, 2009). The immediate priority would be to ensure the sustainability of economic recovery, rising rural productivity and the creation of decent work during a period in which economic growth is likely to be slower than it was before the current crisis.

*Promoting the fiscal space for delivery of key public services and long-term public investments in infrastructure, agriculture and human skills is required.*

National Governments, with the full involvement of civil society organizations, and supported by the international community, need to take urgent measures to implement national development strategies that enable accelerated reduction of poverty, inequality and marginalization. This means promoting the fiscal space for delivery of key public services and long-term public investments in infrastructure, agriculture and human skills. It also means re-examining existing macroeconomic frameworks. Macroeconomic policies should not just focus narrowly on stabilizing the economy and curbing inflation; they should also ultimately be supportive of growth of real output and employment. This requires a relaxation of unnecessarily stringent fiscal

*A proactive fiscal policy is a major instrument for the development of productive capacities, for accelerated poverty reduction and for the achievement of the MDGs.*

*The industrial policy should include selective investment financing guided by the State, while a strategic trade policy should complement the industrial policy.*

*Successful developmental States have pursued a development-led approach to trade rather than a trade-led approach to development.*

*An important element of the approach of successful developmental States is that they have combined some social policies with structural transformation.*

and monetary restrictions, and use of countercyclical fiscal and monetary policies to boost employment and incomes in order to reduce poverty and minimizing the impact of external and other shocks. A proactive fiscal policy is a major instrument for the development of productive capacities, for accelerated poverty reduction and for the achievement of the Millennium Development Goals (MDGs). The key fiscal measures that foster growth include maintaining the economy near its potential in the short term and using public sector investment to foster growth by "crowding in" private sector investment. This would require countries to strengthen domestic resource mobilization and adopt mechanisms for countercyclical policy responses.

The development of productive capacities cannot take place in a vacuum; it requires an enabling environment that can create the necessary conditions for the process of structural transformation. In any market-oriented system this requires a process of financial deepening involving the development of an appropriate or suitable financial environment, including a financial infrastructure that enables investments in plants and equipment, new imported technologies, human capital accumulation and the development of productive capacities. In addition, an important objective of public financing for productive development should be to channel resources to productive sectors without compromising financial and macroeconomic stability.

In creating a dynamic business environment, micro-macro interactions have been widely recognized to be the most complex and important of all economic interactions in the areas of investment, production and distribution. While macro influences on microeconomic decision-making are critical, the inverse is just as important. For example, under conditions of persistent macroeconomic instability, there is an aversion to invest in fixed capital. While this underscores the need to ensure that aggregate demand grows steadily over a period of time, it does not guarantee investment or the development of productive capacities. For the latter to occur, the Government should undertake a proactive agricultural policy to boost agricultural productivity and also a proactive industrial policy to channel resources towards industrial development, as part of the larger imperative to create jobs and reduce poverty. The industrial policy should include selective investment financing guided by the State, while a strategic trade policy should complement the industrial policy (UNCTAD 2009: 141–179). A proactive stance by the Government is needed to channel the effects of macro over micro factors in order to strengthen the economy's productive base. Given that most LDCs have small open economic regimes, this can be a daunting task.

Successful developmental States have also pursued policies of strategic integration with the global economy. That is to say, the timing, speed and sequencing of opening up to the rest of the world have been decided on the basis of how they support national interests in terms of promoting development and poverty reduction. This implies a development-led approach to trade rather than a trade-led approach to development, as well as a gradual approach to trade liberalization and capital-account liberalization. At present, applying the principle of strategic integration in a context where LDCs have already undertaken deep trade liberalization is a complex policy task.

Finally, an important element of the approach of successful developmental States is that they have combined some social policies with structural transformation. In this regard, some developing countries have tried a number of important policy innovations, such as conditional cash transfers, which have proved quite effective in alleviating real misery. Such innovations could also be part of LDCs' new development strategies for LDCs.

All of this does not imply a return to old-style development planning. A basic feature of development governance in successful developmental States has been the adoption of the mixed-economy model which sought to develop policies and institutions that could harness the pursuit of private profit to the achievement of national development objectives. Competent bureaucracies were constructed in a few key strategic agencies, such as planning ministries, and developmental capabilities were built up through a continuous process of learning about which policies worked and which did not. Also, Governments did not devise policies in a top-down fashion, but in close cooperation with the business sector. The whole process was driven by a development-oriented leadership comprising both politicians and bureaucrats, committed to achieving a development vision for society. The power and political legitimacy of this visionary group was rooted in a social contract, in the sense that the aims of the development project were broadly shared within society, thus ensuring social mobilization behind the goals of the project. The risks, costs and benefits of structural transformation were shared amongst the different groups of society, and the pay-off was the opportunity of much higher living standards for future generations.

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## E. The role of special international support mechanisms for LDCs

### 1. The original role

The role of special international support measures for the least developed amongst the developing countries was originally set out by Raúl Prebisch in the Report of the Secretary-General to UNCTAD I, entitled Towards a New Trade Policy for Development (United Nations, 1964). That report identified a set of international trade and development policies to support the achievement of the international development goal of the first United Nations Development Decade: that the developing countries should attain a minimum annual growth rate of 5 per cent. It also highlighted the importance of recognizing "the different situations of developing countries, depending on their degree of development, and to adapt and coordinate the measures adopted so that the advantages derived therefrom accrue in particular to the less advanced amongst the developing countries in order to give strong impetus to their growth" (United Nations, 1964: 62). The idea that special measures be adopted to encourage the exports of the "least developed amongst the developing countries" was discussed in particular as an issue within the design of a general system of preferences for developing countries, which was advocated to help those countries promote exports of manufactures and overcome the limitations of inward-oriented industrialization.

*The original case for special international support measures for the LDCs involved two steps. There was a case, first, for a concerted implementation of a set of international policies to encourage development in developing countries, and, second, for special treatment in the design of those policies.*

The original case for special international support measures for the LDCs thus involved two steps. There was a case, first, for a concerted implementation of a set of international policies to encourage development in developing countries, and, second, for special treatment in the design of those policies. Such a design could encompass, for example, the allocation of financial assistance, the content of technical assistance, and the coverage and time period of preferences so that the "least developed amongst the developing countries" could derive practical benefits from them. These special measures were thus basically justified on the grounds of fairness and inclusiveness to ensure that all developing countries could benefit from opportunities created

*The role of the special measures for LDCs was to address the specific problems which these countries faced, which were related to their very early stages of economic and social development.*

by international policies adopted to support them in their development efforts. It was also stated that "it should not be the objective of any special measures taken in favour of the least advanced developing countries to create discrimination among the developing countries but to ensure due benefits for the least developed among them so that all developing countries can gain equitable benefits" (Resolution 24 II).

Therefore the role of the special measures for LDCs was to address the specific problems which these countries faced. As the report of the first expert group charged to examine special measures for the least developed amongst the developing countries stated, "to be meaningful any special measures to be recommended should be related to one or more of the specific problems confronted by these countries" (UNCTAD, 1969: 5). In general terms, these problems were initially identified as being related to the very early stages of economic and social development of these countries. They suggested a number of structural weaknesses, along with low per capita income and low domestic savings, namely:

- Low labour productivity, especially in agriculture;
- Scarcity of skilled manpower and technical and managerial cadres to carry out the essential tasks in promoting development;
- Lack of knowledge of national natural resource potentials;
- Low level of economic infrastructure;
- Dependence on a narrow range of primary commodities;
- Lack of industrialization; and
- Weak financial systems.

*The basic role of special international support mechanisms in favour of the LDCs at present is the same as originally advocated...*

The expert group recommended that "[T]he special measures to be recommended in favour of the least developed countries should be designed to eliminate or at least to attenuate these basic characteristics or weaknesses" (UNCTAD, 1969: 6).

### 2. Reaffirming the role of international support mechanisms

The basic role of special international support mechanisms in favour of the LDCs at present is the same as originally advocated. LDCs continue to have structural weaknesses which cause slower development and poverty reduction than in other developing countries, including other low-income developing countries. Thus the role of the special mechanisms would be to address these structural weaknesses. However, the nature and importance of particular structural weaknesses has been changing with globalization, and there are also new structural vulnerabilities associated with emerging international issues such as climate change. Also, there are now new agreed international development goals, in particular focusing on poverty reduction and the achievement of human development in the context of the MDGs. The role of ISMs has been shifting in line with these new goals.

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#### *(a) Structural weaknesses and vulnerabilities of LDCs*

The problem of the marginalization of LDCs in the global economy remains acute, though its sources are shifting. As shown in chapter 1 of this Report, the average GDP per capita of LDCs as a group declined from 1970 until 1994, but it stabilized in the second half of the 1990s and has been increasing

since 2000. The overall result of these trends is that there has been no income convergence of LDCs with other developing countries or with advanced economies over the whole period between 1970 and 2008. Moreover, despite the positive trend since 2000, other developing countries also grew more rapidly during this period, and thus LDCs still continued to diverge from other developing countries. The productivity gap widened during the boom years.

*The weak long-term economic performance of the LDCs and their overall lack of convergence with the more advanced developing countries can be attributed to some form of underdevelopment trap.*

The weak long-term economic performance of the LDCs and overall lack of convergence of these countries with the more advanced developing countries can be attributed to some form of underdevelopment trap. The nature of this trap has been specified in different ways by different analysts (for example, UNCTAD, 2002; Collier, 2007; and Guillaumont, 2010), but both UNCTAD (2002) and Guillaumont (2010) emphasize the significance of structural constraints. According to UNCTAD, these are related to the form of integration into the global economy, particularly associated with the interaction between commodity dependence and mass poverty, but also with the lack of structural transformation. Weak governance is associated with the very low per capita incomes of LDCs but has been accentuated by past policies. Guillaumont (2010) sees the divergence of LDCs as being related to their low human resource assets and also to their structural vulnerability and weak resilience to shocks.

*Structural constraints are related to the form of integration into the global economy, particularly associated with the interaction between commodity dependence, mass poverty, and lack of structural transformation.*

The originally identified structural weaknesses of LDCs and the related role of ISMs were defined before the surge in the globalization of production and finance since the 1980s. While these weaknesses are still related to internal conditions (such as the lack of infrastructure and low levels of human capital), they have been reinforced by the closer integration of LDCs into the global economy. Low-productivity agriculture still remains the main source of livelihood for most people in LDCs, just as it was 30 years ago. Still, there is an accelerating process of urbanization, with more and more people seeking work in sectors other than agriculture. Rapid rates of population growth and a very youthful population structure means that the LDCs will be confronted with a massive employment challenge in the coming years, which will need to be addressed in the context of LDCs' generally open economies and greater competition with other countries. Costs of production may be low, but labour productivity is also pitifully low, as most workers earn their living in informal economic activities using their raw labour, with rudimentary tools and equipment, little education and training and poor infrastructure. Meeting the employment challenge should therefore be seen as a major priority for the coming decade.

*The LDCs' rapid insertion into the global economy since the 1980s has become a major source of instability for these economies, especially in the areas of finance and trade.*

The LDCs' rapid insertion into the global economy since the 1980s has become a major source of instability for these economies, especially in the areas of finance and trade. This has locked them into a vicious cycle or a low-equilibrium poverty trap characterized by low productive capacities, low domestic resource mobilization and low technological capacity to respond. The incentive structure in these countries is oriented towards short-term profits, closely associated with the boom-bust nature of their growth experiences. Additionally, their increasing dependence on aid for growth continues to pose major challenges to their ability to autonomously devised policy responses to the latest economic and financial crisis and for their long-term development. The combination of internal and external impediments prevents most LDCs from responding appropriately to various development challenges, and thus they remain vulnerable to major external shocks.

*(b) New international development goals*

*The case for special international support for the LDCs must be seen within the context of achieving recently agreed international development goals, in particular the MDGs.*

Special ISMs for the LDCs should not be seen as acts of charity. Rather, accelerating development and poverty reduction in the LDCs should be seen as being in the mutual interests of the LDCs, other developing countries and developed countries. This mutual interest partly arises from the economic interdependence of countries, but it is also related to the common purpose of achieving new international development goals, in particular the MDGs.

*Accelerating development and poverty reduction in the LDCs should be seen as being in the mutual interests of the LDCs, other developing countries and developed countries.*

The three main ways in which development in the LDCs can benefit other developing countries and developed countries are the availability of untapped natural resources, domestic markets which could grow significantly and the creative potential of LDCs' youthful populations. The abundant natural resources in the LDCs are already being exploited, but one feature of their LDC status is the lack of knowledge of their available natural assets. With regard to their markets, accelerated development and exports of the LDCs increases their import capacity and thus enables other countries to boost their own exports in a global expansion of international trade. Finally, a key resource of the LDCs is the creativity of their populations. At present, 60 per cent of their population is under 25 years old. Productive employment of this segment of their populations would provide a massive demographic dividend. Conversely, their lack of employment presents a huge burden, not to mention the waste of the creative potential of these people if they are forced to live from hand to mouth to survive. The rapidly growing population of the LDCs, which is expected to exceed one billion people in 2017, means that together they will have an increasing impact on international economic interdependence in spite of their very low per capita incomes.

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The economic development of the LDCs can be understood as a global public good because it contributes to the elimination of certain global public bads. If improvements to public health continue to progress only very slowly, the LDCs could become reservoirs for internationally communicable diseases owing to their continued economic underdevelopment. During the past decade, LDCs have had to cope with various complex humanitarian emergencies, associated with social conflicts and natural disasters. These emergencies are both a product and a cause of persistent underdevelopment, and they will recur in the coming decade unless these countries can accelerate their development. The governance challenge which LDCs face is also an important issue. This is intimately linked to the problem of preserving peace and security in the world. Governance failures are usually seen as an internal issue related to the wrong choice of policies, weak institutions and poor leadership. But in practice, as argued in the *LDC Report 2009*, the GDP per capita of LDCs is so low that it is difficult for them to mobilize sufficient government revenues in absolute terms to provide the necessary basic services of a modern State. The national governance problem in LDCs is thus real, but it is very difficult to resolve without economic development and without increasing the fiscal resource base of their Governments.

*The national governance problem in LDCs is real, but is very difficult to resolve without economic development and without increasing the fiscal resource base of their Governments.*

Finally, the case for special international support for the LDCs must be seen within the context of achieving recently agreed international development goals, in particular the MDGs. As indicated in chapter 1 of this Report, despite some progress, most LDCs are off-track to achieve many MDGs by 2015, and can only hope to achieve these goals through major concerted international support efforts. If the relatively slow rates of poverty reduction are allowed to continue, and other developing countries continue to do well, the LDCs will at some point in the future become the major locus of extreme poverty in the world.

### 3. Avoiding the substitution of ISMs for global economic reforms

A key feature of the new architecture being proposed for LDCs is an integrated policy approach which embeds ISMs targeted at LDCs within both global economic regimes and South-South cooperation. Some might argue that with the increasing differentiation of the world economy, the development dimension of global economic regimes should be focused exclusively on the poorest countries, particularly the LDCs. Collier (2007), for example, argues that the core development challenge of the new millennium is the failure of the growth process in the poorest countries in the world, and that if nothing is done to rectify this, these countries "will gradually diverge from the rest of the world economy over the next couple of decades, forming a ghetto of misery and discontent" (Collier, 2007: xi). He believes the solution to this problem is that the geographical scope of international development assistance, more broadly conceived than ODA, should be focused on the poorest countries. But this approach seems analytically flawed (Gore, 2010) and is rejected here, as there are major dangers in treating international support mechanisms for LDCs as a substitute for systemic reforms.

*There are major dangers in treating international support mechanisms for LDCs as a substitute for systemic reforms.*

Treating ISMs as substitutes would have unintended effects. First, it is clear from the experience of the past 30 years that the problem is not simply the weak growth performance of the poorest countries, but also the fact that some developing countries that are a little more advanced than the LDCs have experienced growth failures and collapses which have pushed them down into the LDC group. Second, it is necessary to see the global development process in dynamic terms. If the more advanced developing countries find it difficult to deepen their industrialization and move up the technological ladder, shifting away from the production of the simple products that are also being exported by the poorer countries, it will be difficult for the poorest countries to develop. As noted in the *LDC Report 2002*: "To the extent that the more advanced developing countries meet a glass ceiling which blocks their development, there will be increasing competition between the LDCs and other developing countries" (p.162). In this situation, special ISMs for the LDCs could accelerate the graduation of some of these countries out of the LDC category. But at the same time, one might expect some of the other developing countries that are just above the LDC threshold to experience weak economic performance or growth and possibly enter the LDC category or reach structural economic conditions similar to those of LDCs. Thus some countries would get richer and others poorer. This means that, although the special measures could provide benefits for some LDCs, globally the exercise would be fruitless.

*If the more advanced developing countries find it difficult to deepen their industrialization and move up the technological ladder, it will be difficult for the poorest countries to develop.*

What is needed is a mix of more developmental and coherent global economic regimes for all developing countries, including LDCs, along with special measures targeted to address the specific handicaps and vulnerabilities of the LDCs. As more advanced developing countries move up the development ladder, LDCs could move into producing products which formerly were, but which can no longer be, competitively produced by these more advanced developing countries. Moreover, the whole process should be facilitated by South-South development cooperation, which reinforces the mutually supportive economic relationships between the more advanced and the least developed developing countries. A good example is China's plan to build special processing zones in Zambia and Ethiopia and move labour-intensive manufacturing activities into these countries. This could potentially generate productive employment, transfer skills and technology and also generate broader technological learning and export opportunities.

*What is needed is a mix of more developmental and coherent global economic regimes for all developing countries, including LDCs, along with special measures targeted to address the specific handicaps and vulnerabilities of the LDCs.*

## F. Conclusions

*Accelerating development and poverty reduction in the LDCs will require not simply better LDC-specific ISMs, but rather a new international development architecture (NIDA).*

The basic message of this chapter is that accelerating development and poverty reduction in the LDCs will require not simply better LDC-specific ISMs, but rather a new international development architecture (NIDA) for the LDCs. Existing LDC-specific support measures work within a more general framework of rules, norms, understandings and practices which guides the international economic relations of all developing countries, including LDCs and sub-categories of countries that largely overlap with the LDCs, such as low-income countries. Given the weaknesses in the design and implementation of current LDC-specific international support measures, these general regimes actually have a greater impact on development and poverty reduction in the LDCs than the special measures. A NIDA for the LDCs should be constituted through reforms of those aspects of the global economic regimes that are directly relevant for the LDCs, as well as through the design of a new generation of special ISMs for the LDCs that would aim at developing their productive capacities. With the increasing importance of South-South flows of trade, FDI, official finance and knowledge, South-South development cooperation — both within regions and between LDCs and large, fast-growing developing countries — should play an important role in a NIDA for LDCs. Such cooperation should also include some LDC-specific support mechanisms.

*A NIDA for the LDCs should be constituted through reforms of those aspects of the global economic regimes that are directly relevant for the LDCs and through the design of a new generation of special ISMs for the LDCs.*

The term "mechanism" is used here, rather than "measure", to convey the idea that effective LDC-specific affirmative action is not only a matter of designing policy measures; it also implies the deployment of resources, institutions and organizational entities to ensure maximum effectiveness in the implementation of those measures. The chapter rejects the idea that LDC-specific ISMs can be considered a substitute for systemic reforms in areas relevant to LDCs. It also rejects the idea that all development cooperation should be focused on the LDCs or the poorest countries in the global economy. Such an approach would be counterproductive, because while some LDCs are likely to graduate from the LDC category, other developing countries, in the absence of development assistance, could fall into that category. In addition, the potential dynamic complementarities between LDCs and the more advanced developing countries would not be exploited. Thus, a new generation of ISMs for the LDCs will be effective only if they are embedded within a more general set of systemic reforms.

*A new generation of ISMs for the LDCs will be effective only if they are embedded within a more general set of systemic reforms.*

The current approach to international support for LDCs focuses mainly on international trade, whereas this chapter identifies five major pillars for the proposed NIDA: finance (including domestic resource mobilization, private capital flows, aid and debt relief), trade, technology, commodities and climate change adaptation and mitigation. Systemic reforms, LDC-specific ISMs and South-South development cooperation are necessary in each of these pillars.

The chapter sets out eight principles which should inform the design of the NIDA: (i) promoting new development paths, (ii) fostering country ownership, (iii) facilitating strategic integration into the global economy, (iv) increasing the developmental role of the State, (v) reducing aid dependence, (vi) promoting policy coherence between the different pillars of the NIDA, and between systemic reforms and LDC-specific ISMs, (vii) supporting South-South cooperation as a complement to North-South cooperation, and (viii) giving greater voice and representation to LDCs in the global system of governance.

Most fundamentally, the content of the NIDA should enable a shift to new, more inclusive development paths in LDCs, based on the development of their productive capacities, an associated expansion of productive employment and an improvement in the well-being of all their people. This will be best achieved by giving the State a stronger developmental role, which entails a rebalancing of the respective roles of the State and markets in national policy frameworks for economic development. The NIDA should facilitate this paradigm shift. Finally, the NIDA for LDCs should be part of a broader set of systemic reforms, away from business as usual, which need to be taken in response to the financial crisis and global recession, and which would be beneficial for all countries, both developed and developing.

*The NIDA for LDCs should be part of a broader set of systemic reforms, which need to be taken in response to the financial crisis and global recession, and which would be beneficial for all countries, both developed and developing.*

## Notes

1 The Paris process was launched with the adoption of the Paris Declaration on Aid Effectiveness in March 2005 and brings together aid donor and recipient countries.
2 See, for example, Shafaeddin, 2005; Ocampo and Vos, 2008; Sundaram and von Arnim, 2008.
3 Prior to the inception of the TRIPS Agreement, in 1994, a large number of developing and least developed countries did not provide the same standards of IPR protection as required by the Agreement. The patent protection terms were much shorter than the 20 years mandated by the Agreement. National patent laws also contained several provisions that were subsequently disallowed under the TRIPS Agreement, such as the "working" requirement, which mandated that inventions be produced domestically in order to qualify for the granting of a patent.
4 The lack of technical assistance to help for countries implement pro-development IPR strategies has been discussed at length in the literature. See, for example, Kostecki, 2006; and Roffe et al., 2007.

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