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

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Report of the Secretary-General

Summary

The Programme of Action for the Least Developed Countries for the Decade 2001-2010 embodies a global commitment to address widespread poverty in the least developed countries. Mobilizing greater domestic and international resources for development in least developed countries is fundamental to this commitment. These countries face a number of structural challenges, domestically, and constraints to their participation in the global economy. Improving their domestic and global environment is crucial to enabling their development. Global, regional and national partnerships, including with civil society and the private sector, should be explored to this end.

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I. Introduction

1. The question of resource mobilization remains central to the efforts to fight generalized poverty in the world's 50 least developed countries. Yet, this question has so far proven very difficult to address.

2. The Brussels Programme of Action[1] recognizes that, in order to achieve "substantial progress towards halving the proportion of people living in extreme poverty and suffering from hunger by 2015", least developed countries will have to attain gross domestic product (GDP) growth rates of at least 7 per cent per annum and increase the ratio of investment to GDP to 25 per cent per annum. In reality, during 2000-2002, of 45 least developed countries for which data are available, only seven countries registered a real growth rate of 7 per cent or slightly more. Overall, the growth rate in 22 of 45 least developed countries was less than half the target rate and was declining in 13 of those 45 countries. In 2001, the ratio of investment to GDP was on average nearly 22 per cent. The share of least developed countries in world trade has remained very low, and they continue to rely on a limited range of export goods, in particular commodities with inherently volatile prices.

3. Economic growth requires, inter alia, investment in physical as well as human capital. Least developed countries face major challenges in both areas. There is a lack of skilled human resources, inadequate infrastructure, high levels of mortality, incidence of disease such as HIV/AIDS, tuberculosis and malaria and geographical disadvantages (over half of least developed countries are landlocked or small island States). These result in poor development of institutions, leading to inefficiencies of administration and preventing stable legal, economic and governance frameworks. In the more extreme cases, political disintegration has occurred, leading to instability and armed conflict. These conditions cause a drain on resources and constitute a serious disincentive for investment. Despite these difficulties, least developed countries have made some progress in addressing these problems.

4. However, investment levels have not increased sufficiently. Investment can be financed either domestically or from external sources. For least developed countries, the scope for domestic financing is quite narrow owing to low per-capita incomes, underdeveloped financial and tax systems and institutional weaknesses mentioned above. Moreover, external private capital flows to least developed countries are generally low and are not aimed at developing human capital. Official development assistance (ODA) therefore assumes a leading role in providing investment, particularly for strengthening institutions, infrastructure and human capital. Paragraph 79 of the Brussels Programme of Action, clearly states that "there is very limited scope, in the foreseeable future, to meet the multiple development finance requirements of least developed countries with domestic resources because of sluggish growth or economic stagnation, widespread poverty and weak domestic corporate sector. The large investment requirements of least developed countries imply a need for new and additional resources and efforts to increase ODA to least developed countries supportive of national programmes of action, including poverty eradication strategies".

5. There has been some improvement in terms of ODA flows to least developed countries. Since 2000, the donor community has increasingly concentrated aid flows on least developed country economies. A number of initiatives to enhance markets access for least developed country exports were launched. Despite these initiatives,

the persistently negligible share of least developed countries in world trade and foreign direct investment flows, over reliance on commodities, high vulnerability to external price shocks, insufficient ODA flows and limited external debt relief provided within the framework of the Enhanced Heavily Indebted Poor Countries Initiative have posed challenges to sustainable economic growth.

6. Given the current trends, most least developed countries are unlikely to achieve the objectives of the Brussels Programme of Action and other internationally agreed development goals, including those contained in the Millennium Declaration. It is thus essential to speed up the required domestic changes and the accompanying international cooperation.

7. In the Brussels Programme of Action, least developed countries and their development partners have made seven critical commitments to (a) foster a people-centred policy framework; (b) promote good governance at national and international levels; (c) build human and institutional capacities; (d) build productive capacities to make globalization work for least developed countries; (e) enhance the role of trade in development; (f) reduce vulnerability and protect the environment; and (g) mobilize financial resources. While the implementation of all seven commitments of the Brussels Programme of Action is essential for mobilizing resources to achieve the internationally agreed development targets, this report focuses on three critical areas.[2] Firstly, fostering a people-centred policy framework. Secondly, creating enabling conditions domestically and more so internationally. Thirdly, the role of partnerships, including public-private partnerships at all levels, in exploiting the growing potential of the private sector and civil society in achieving the objectives of the Brussels Programme of Action and the Millennium Development Goals.

II. Resources mobilization of the least developed countries — challenges and prospects

A. Mobilization of domestic resources

8. The Brussels Programme of Action recognizes that the most important financing for development comes from domestic resources. Sustainable poverty reduction can only be achieved when domestic revenues are sufficient, as a result of high and sustained growth rates, to support domestic public spending. In fact, average domestic resources available to finance investment and public services (for example, the difference between GDP and private consumption) in least developed countries stand at only 24 per cent of GDP, well below the average of 35 per cent for other developing countries. Similarly, the savings rate is just 12 per cent of GDP, almost half the average for other developing countries.

1. Tax collection and tax reforms

9. Taxation is a primary means of mobilizing the resources needed to finance essential public expenditures for economic and social development. Expanding the tax base entails creating the conditions for companies — especially small and medium enterprises — and workers to shift from the informal to the formal sector. It also requires steps to reverse capital flight and repatriation of the capital already abroad.

10. Tax collection rates are extremely low in least developed countries. Tax revenue as a share of GDP presently amounts to a mere 14 per cent in low-income countries, compared with 27 per cent in high-income countries. Furthermore, this average conceals large variations within least developed countries, especially evident with regard to taxes on incomes and profits in the mineral-exporting least developed countries. For example, tax on income and profit accounted for just 3.4 per cent of total government revenue in Guinea-Bissau, but as much as 39.0 per cent in Malawi in the same year.[3]

11. Most least developed countries realize by far the greatest proportion of their fiscal revenues from indirect taxes, in the form of import duties, export duties and excise on goods and to a lesser extent on services. On average, for non-mineral-exporting least developed countries, indirect taxation yields 70 to 80 per cent of total tax revenues. Ease of collection is a clear incentive for least developed countries to rely heavily on these taxes. The disadvantage, however, is that there are limits to increasing indirect taxes beyond which tax evasion and corruption can undermine the effectiveness of the system. Moreover, potential declines in revenues from international trade resulting from trade liberalization need to be buffered by strengthening domestic tax collection.

12. The remaining 20 to 30 per cent of public revenue is derived from direct taxation, which is not expected to increase significantly over the short or medium term, and which is hampered by a number of systemic inefficiencies. Only very limited revenues are collected from firms and even less from property levies. Tax exemptions and incentives are offered in many countries in order to promote investment, but have in fact eroded the tax base without necessarily achieving their original objective. Once introduced, such incentives are hard to remove. It is estimated that additional revenues equivalent to 1 to 2 per cent of GDP could be raised by eliminating tax incentives and exemptions and improving tax administration.

13. While addressing the challenges posed by the presence of a large informal sector for raising direct tax revenue significantly, excise duties on luxury items might provide additional revenue and make indirect taxation less regressive. At the same time, administrative inefficiencies in the collection system need to be addressed through international assistance and cooperation in capacity-building.

2. Financial intermediation, microfinance and financial markets

14. In many least developed countries, access to formal savings and loan instruments is still limited, despite high demand for such facilities. Fundamental problems are the high risk and transaction costs common in these countries. Evidence indicates that people with access to the formal sector save significantly more than those in the semi and informal sectors. The provision of secure and accessible savings systems encourages savings habits. Coupled with efficient financial intermediation policies, it can contribute substantially to reducing the domestic savings-investment gap and to promoting economic growth.

15. Even if the poverty impact is not immediately apparent, evidence indicates that access to credit contributes to development. For example, a study in the United Republic of Tanzania showed that household access to credit acted as a substitute for child labour.[4] Moreover, credit provided to people at the bottom income levels, especially women, farmers and entrepreneurs, improves the productive capacities of

local communities and facilitates inclusion of the poorest. This, in turn, supports the growth of local markets and increases economic opportunities through new jobs, investment and infrastructure.

16. Microfinance, including microcredit, is increasingly contributing to improved access of poor households, women, small and microenterprises to financial services. Yet, few least developed countries have reached a credit penetration rate over 1 per cent, indicating an enormous growth potential for microcredit. Bangladesh, a leader in this area, where roughly 7 per cent of the population has access to credit, is an exception.

17. Even though the actual amounts are modest, with an average loan size for United Nations Capital Development Fund (UNCDF)-United Nations Development Programme (UNDP) supported programmes of just 44 United States dollars, microcredits represent in aggregate a significant portion of domestic finance in least developed countries. This means that Governments of least developed countries can support domestic capital accumulation by promoting efficient financial intermediation, as well as security, integrity and accessibility of savings, the three most important characteristics of saving products to poor and low-income people. However, expanding the reach of microfinance faces several constraints, including lack of property rights and hence of tangible collateral or information on creditworthiness and limited local capacity to implement programmes. Reform of land and business registries and registration procedures, with a view to substantially reducing the costs of registering asset ownership, can have significant impact in this regard, though its implementation has proven challenging.

18. There are specific institutions that could cater to low-income families, such as small-scale credit unions, postal savings or village banks. In addition, there is potential for commercial banks to redirect part of their portfolios to the poor. Nevertheless, poor households — the majority in least developed countries — have little access to funds and savings facilities, particularly in rural areas. Indeed, many countries lack adequate rural banking systems.

19. The rapid pace of globalization over the last two decades has put pressure on least developed countries to develop their financial institutions in order to mobilize their own domestic savings, reduce capital flight, attract a share of the rapidly increasing flow of international capital and intermediate capital inflows efficiently. Yet, least developed countries often have the most to catch up with the least technical and financial resources to do so.

20. The cost of borrowing can be reduced by measures such as credit rating, closer supervision of financial institutions and enforcement of existing reporting standards and disclosure requirements. For example, Benin underwent a sovereign credit rating exercise, with UNDP assistance, improving its credit worthiness. Burkina Faso, Madagascar, Mali and Mozambique are planning to do so this year. Several initiatives are being taken to assist least developed countries enhance their financial intermediation capacity and financial market development, aimed at attracting more private financial resources to complement public funds.

21. Local bond markets have expanded in some countries in recent years. They can provide an important source of credit for public and corporate borrowers. However, bond markets can normally develop only after basic deposit-taking and lending infrastructure is in place. Moreover, the small size of most least developed countries

favours a regional approach to financial-sector institution-building, whenever feasible. There is great scope for South-South and triangular cooperation among development partners in building capacity and financial institutions.

B. Mobilization of external resources

22. The large investment required for least developed countries to meet the goals of the Brussels Programme of Action and the Millennium Development Goals and the limited basis for raising additional domestic resources reinforces the dire need for external resources. Against this backdrop, recent trends in resource flows to least developed countries show a mixed picture. In 2002, total net resource flows amounted to some $17 billion, a record level and a 35 per cent increase over the year 2000. Despite shifts in the composition of aggregate net resource flows in 2001 and 2002, the structure of long-term capital inflows to these countries has remained relatively stable. Official capital flows account for two thirds of aggregate net resource flows, with the remaining one third represented by private capital flows. Notably, least developed countries increased their share of long-term capital flows to all developing countries from 4.7 per cent in 1997/99 to 7.4 per cent in 2000/02. At the same time, short-term capital flows to least developed countries have generally been characterized as unstable and unpredictable.

1. Official development assistance flows

23. Most least developed countries rely heavily on ODA as a major component of external financing for their development. This has rendered them vulnerable to declining trends in ODA flows in the 1990s. Since 2000, the donor community has increasingly concentrated aid inflows on least developed country economies. In 2002 these countries received 26 per cent of total ODA disbursements ($17.3 billion), up from about 21 per cent in 1999. On a per capita basis, nominal net ODA flows have risen by more than one third since 1999. In real terms, however, net aid flows per capita were still about 16 per cent lower in 2002 than in the early 1990s. According to the United Nations Conference on Trade and Development (UNCTAD) actual ODA disbursements are more than a third short of the agreed target for least developed countries.[5]

24. Grants account for about four fifths of total aid flows to least developed countries. However, the non-grant component of ODA has sharply increased in recent years, outpacing the growth rate of the grant portion of ODA and raising concerns for a gradual build-up of official debt burden in the least developed countries.

25. As regards the sectoral distribution of aid flows, both bilateral and multilateral donors continue to prefer channelling ODA commitments into social infrastructure and services. This preference is at the expense of aid flows to economic infrastructure. As much as least developed countries need aid for social infrastructure and services, this imbalance raises concerns about prospects for developing and modernizing their economic base, in particular with regard to the sustainability of their efforts to strengthen local supply capacities. This point was strongly emphasized at the 17 February high-level segment preparatory meeting.

26. Despite recent increases in ODA flows, most donors are still below the aid commitments stipulated in the Brussels Programme of Action. Only six

Development Assistance Committee member countries (Denmark, Ireland, Luxembourg, Netherlands, Norway and Sweden), surpassed the target of making net ODA disbursements to least developed countries equivalent to more than 0.20 per cent of their respective gross national income (GNI) in 2002. The United States of America and Japan remain the two single largest donors in absolute terms, accounting for 19.9 per cent and 12 per cent of total Development Assistance Committee aid to least developed countries respectively, but their ratios of ODA to least developed countries over GNI in 2002 were just 0.03 per cent and 0.04 per cent. European Union (EU) members cumulatively provided 59 per cent of total ODA to least developed countries in 2002, and their ODA to least developed countries/GNI ratio was 0.10 per cent in 2002.

27. Improving the quality of aid is as important as improving the quantity of aid. In this regard, a most significant decision in the Brussels Programme of Action is the recommendation to untie, by 1 January 2002, ODA in seven key areas. An assessment of progress achieved in the implementation of this initiative will soon be required, and cooperation among the United Nations, UNCTAD and the Organisation for Economic Cooperation and Development (OECD) could help in this regard. Meanwhile, early reports indicate that almost all Development Assistance Committee members have rapidly untied ODA. Given that about 50 per cent of bilateral aid was tied before the recommendation to untie aid to least developed countries, the decision should have a significant impact on improving the efficiency of aid. In order to maximize the economic benefits, least developed countries will also have to make major efforts to improve their government procurement system.

28. Development assistance is delivered in a number of different forms: direct budget support, financing of sector programmes, project support and technical assistance, depending on the recipient's priorities and requirements, the objectives of the donor intervention, and individual donor requirements, constraints or preferences. While recipient countries have expressed a clear preference for ODA channelled through budget support, only a small number of donor countries have started testing this approach in selected least developed countries. The majority of donors have not used this channel on grounds of internal legal requirements, perceived weaknesses in recipient country budget management systems, or efficiency. These concerns require special attention. Nevertheless, considerable benefits can be expected from improved alignment of support with country priorities and the harmonization of policies, procedures and practices in all forms of aid delivery.

29. A combination of channelling aid through the national budgeting process, a long-term commitment of ODA flows and avoidance of pro-cyclical flows would have positive impacts on aid effectiveness, by reducing uncertainty and unpredictability of flows and better contributing to filling the domestic savings-investment gap with regard to public investment programmes.

2. External debt and the heavily indebted poor countries

30. High levels of external indebtedness continue to hinder economic performance in many least developed countries, as debt service payments drain limited resources that could otherwise be spent on creating the conditions for economic growth and poverty reduction. Least developed countries emerging from conflict situations are

especially vulnerable to their debt burdens, since often they need to rebuild their infrastructure, including resource mobilization systems, almost from scratch. Overall, after a temporary decline, the debt stock of least developed countries resurged to over $145 billion in 2002. This increase is in spite of the fact that several least developed countries have benefited from recent debt relief measures, including from the Enhanced Heavily Indebted Poor Countries Initiative. Currently, 32 of the 50 least developed countries are classified as heavily indebted poor countries, 7 have reached the initiative's "completion point" and 14 have reached "decision point".

31. The Enhanced Heavily Indebted Poor Countries Initiative has made some progress towards meeting its objective of reducing the debt burden of these countries. Total debt stocks of the 27 heavily indebted poor countries that have reached "decision point", including 21 least developed countries, are projected to decline by over two thirds. Debt service as a share of exports of the 21 least developed countries that are also heavily indebted fell by about 30 per cent between 1998/99 and 2000/02, freeing about $1 billion in annual debt-service savings for poverty-reducing expenditures.

32. Despite these positive developments, three problems have become apparent with the Heavily Indebted Poor Countries Initiative. Firstly, the process has been extremely slow, with nine least developed countries having yet to reach even the first step ("decision point"). Delays have been attributed to problems in preparing the poverty reduction strategy papers or meeting fiscal targets. Options concerning the initiative's goals after its expiration at the end of 2004 are being considered.

33. Secondly, concerns have arisen as to whether participating countries can achieve debt sustainability, even after implementation of the full debt relief. According to UNCTAD,[6] debt-service payments due in 2003-2005 will be higher in four least developed countries that had reached decision point by 2002 than those paid in 1998-2000. In six other least developed countries, reduction in debt-service payments in the same period is less than $15 million.

34. At the heart of the problem are unrealistic assumptions of economic growth and commodity prices. These concerns have intensified following a marked long-term decline in world commodities prices, on which many least developed country economies continue to be highly dependent and which are prone to unpredictable climate fluctuations and other external shocks. In 2003, these prices were on average more than one third lower than in 1980 in real terms, despite the recent upturn in some prices. Besides downward trends, price volatility has had damaging effects on development in least developed countries. According to UNCTAD's commodity price instability index, the average monthly price deviation for commodities as a whole was 2.8 per cent during 1999/02, compared with 1.8 per cent in 1989/98. Vegetable oilseeds and oils, coffee and mineral ores and metals are especially vulnerable to price fluctuations. Specific guidelines for low-income countries' debt sustainability are being developed, which take into account commodity price volatility.

35. Finally, debt sustainability hinges on a substantial increase in financing resources available for heavily indebted poor countries in the form of grants. The current inadequacy of these resources is putting at risk this important aspect for the achievement of the Millennium Development Goals.

36. The Enhanced Heavily Indebted Poor Countries Initiative will provide a durable exit from the debt problem only if it can strengthen recipients' economic growth. At present, the persistent debt burden continues to undermine growth policies. heavily indebted poor countries finance ministers have urged the international community to address this by factoring shocks more realistically into debt sustainability macroeconomic projections and by interpreting policy conditionality more flexibly in the event of shocks. They also urged acceleration of interim relief agreements to ensure that faster relief is provided immediately after decision point, and urged all bilateral and multilateral creditors to cancel 100 per cent of all debt service at decision point, and 100 per cent of debt stock at completion point.[7]

3. Trade

37. Another important channel of resources mobilization for least developed countries is international trade, a more stable source of foreign exchange and income for these countries. Total exports of least developed countries roughly doubled between 1990 and 2002. However, since there was limited diversification into more dynamic manufactured exports, the overall share of least developed country exports in world trade remained largely unchanged during that period, at an average of only about 0.4 per cent. In fact, the share of manufactures in total least developed country exports declined slightly in the same period (to about 42 per cent). Moreover, in 2001 three Asian countries accounted for 60 per cent of least developed countries' manufactured exports. The vast majority of least developed countries have not yet been able to strengthen their export earnings by meaningful diversification into manufactured exports. Moreover, in commodity-dependent least developed countries, particularly in Africa, the ability of international trade to act as an engine of growth and poverty reduction is being short-circuited by falling and unstable world commodities prices.

38. Weak supply capacities and high transport costs in least developed countries, combined with trade barriers and high subsidies among their competitors, continue to limit their export growth. Recent market access initiatives, such as the "Everything but Arms" initiative of the European Union and the Africa Growth and Opportunity Act of the United States of America and other bilateral preferential market access offers, can make a positive contribution to investment flows, foreign exchange earnings, job creation and income generation in these countries. Although tariffs are on average much lower in developed countries than in developing countries, many barriers remain, including tariff escalation, tariff peaks, technical standards and rules of origin. Such barriers have negatively affected the use of the special market preferences granted to least developed countries.

39. Agriculture subsidies in developed countries, such as those to high-cost cotton producers in the United States and sugar in the European Union, have hindered growth potential and poverty reduction efforts in low cost least developed countries, preventing them from developing otherwise viable industries. Cotton in Benin, Burkina Faso, Chad and Mali is a case in point.

40. The persistent difficulties associated with commodities dependency in least developed countries underline the need for the international community to explore the problem and suggest solutions. For example, greater assistance targeted at relieving supply-side constraints, broader liberalization of OECD domestic

agricultural markets through gradual elimination of existing massive agricultural subsidies would increase the benefits from trade for least developed countries. Since least developed country diversification into non-farm activities is crucial, urgent measures should be taken to promote small- and medium-sized enterprises, particularly those engaged in agricultural processing and labour-intensive activities.

41. Only 42 per cent of least developed country exports enter industrial country markets, while 49 per cent is directed to other developing countries. Evidence suggests that this share is increasing. This has important policy implications for least developed countries in terms of diversifying their markets and their trading opportunities within their respective subregions. The Brussels Programme of Action also recognized the important role of "South-South and regional and subregional cooperation for least developed countries' development".

42. Enhanced market access and dismantling of subsidies would offer least developed countries the room needed to grow and generate resources for their development, and ultimately for the diversification of their economies. At the Doha Ministerial Conference held in November 2001, the endorsement by World Trade Organization Ministers of the Integrated Framework for Trade-related Activities in least developed countries as a viable model for least developed countries' trade development was an important step.

4. Foreign direct investment flows

43. Foreign direct investment can play an important role in complementing other efforts to foster productive activities and raise least developed country competitiveness. Foreign direct investment flows tend to be more stable than other capital flows and often promote improvements in capacity, technology transfer, labour skills, and market access, which additionally benefits the recipient economy.

44. In today's highly competitive global markets, least developed countries seeking to attract foreign direct investment increasingly need solid infrastructure, skilled and productive labour, and adequate support institutions and services. This is a challenge for many least developed countries, which need to achieve further progress in these areas. While low labour costs in least developed countries are an influential factor, this is often a temporary advantage. The disadvantage of least developed country economies' small size should be addressed, where feasible, through regional integration.

45. Foreign direct investment flows to least developed countries have increased in absolute terms from an annual average of $0.6 billion in 1986-1990 to an average of $5.2 billion in 2002. However, foreign direct investment flows to least developed countries remain highly concentrated in a few countries. Five least developed countries that are either current or prospective oil-exporters — Angola, Chad, Equatorial Guinea, Sudan and Yemen — accounted for almost two thirds of all foreign direct investment flows to least developed countries in 2002.

46. Intense competition for foreign direct investment is leading countries to adopt a more targeted approach to foreign direct investment promotion, particularly as a supply response to preferential treatment of their exports in developed country markets. For example, despite the limitations of the Africa Growth and Opportunity Act of the United States of America trade-preference scheme, a number of countries, including Madagascar and Lesotho, have used that mechanism to attract substantial

export-oriented foreign direct investment. The promotion of export-oriented development, therefore, needs to be well integrated into the country's overall development strategy.

47. Among the top 10 least developed country recipients of foreign direct investment are Bangladesh, Cambodia, Lesotho, Mozambique, Uganda and the United Republic of Tanzania. These countries demonstrate that non-mineral least developed countries can both develop a strong export potential and attract foreign direct investment. Moreover, at the 17 February high-level segment preparatory meeting, participants emphasized that the major non-mineral-exporter least developed countries receiving foreign direct investment are also major recipients of ODA, indicating a possible link between the two. These countries include Mozambique, United Republic of Tanzania, Bangladesh, Uganda and Zambia. Effective and targeted ODA can be used as catalyst for increasing foreign direct investment flows to least developed countries by improving the conditions needed to attract them. This requires enhancing the policy dialogue with all development partners, including the private sector, and could in time lead to higher investments in least developed countries, far beyond ODA flows.

5. Remittances

48. Workers' remittances are a primary source of external finance for several least developed countries. In 2003, among low-income developing countries,[8] official remittances sent through wire services or banks amounted to $26 billion, or 2.9 per cent of total GDP and 380 per cent of foreign direct investment.[9] In some cases, their share of GDP is much higher (27 per cent in Lesotho, 14 per cent in Cape Verde, 9 per cent in Uganda). In Bangladesh, remittances totalled $3.1 billion in 2003.[10] Yet the total value of remittances is even greater, as further large (and unknown) sums are transferred through informal channels and thus go unrecorded.

49. Not only are remittances critical as a source of foreign exchange for many labour-exporting countries, much larger than official development assistance, they are also vital to the consumption and investment behaviour of migrant households and families in the countries of origin. Evidence suggests that remittances help to reduce poverty and improve household welfare through their common use for education and health-care purposes. In addition, remittances are less volatile and less concentrated than private capital flows. They are also larger, as a share of GDP and imports, in low-income countries than in other developing countries. At the same time, remittances can encourage consumption of imported goods and create dependency among migrants' households in the countries of origin.

50. Government policies can promote further growth of remittances and their positive effects on socio-economic development. Transaction costs through official channels are much higher than through informal systems such as "hawala" or "hundi", and often exceed 20 per cent. Moreover, official channels often lack the reach to the rural areas of the countries of origin that informal systems have. Harmonization of remittance systems, increased competition among banks and wire-transfer agencies; participation of alternative financial institutions in the transfer business, such as microfinance institutions and credit-union cooperatives; and technological improvements, such as the use of debit/automated teller machine cards by recipients, are starting to reduce transaction costs and expand access in some markets but need to be more widely promoted.

III. Creating an enabling environment

51. The Brussels Programme of Action recognizes that “an enabling environment with peaceful solution of conflicts and respect for internationally recognized human rights, including the right to development, provides the best context for domestic and international resource mobilization”.

A. The domestic environment

52. There are four important dimensions of an enabling domestic environment that require equal attention: (a) sound macroeconomic policies that facilitate growth and avoid all forms of macroeconomic imbalances (inflation but also strong swings in economic activity, unsustainable balance of payments situations and financial sector vulnerability); (b) economic policies aimed at directly encouraging productive development, including more and improved physical infrastructure, an effective technological transfer, and productive development strategies that facilitate the creation of new productive and export capacities, and a dynamic group of micro and small enterprises, particularly in the rural sector, where most people in least developed countries live; (c) ambitious social policies that invest in and empower people, and design appropriate protection systems, resulting in skilled and healthy human resources, broader participation and social cohesion; and (d) strong institutional and governance capacity, aimed at maintaining the basic rule of law, including a solid legal and regulatory framework for economic activities.

53. In pursuance of the Brussels Programme of Action, several least developed countries are currently in the process of refining their own national development policies, strategies, governance structures and processes. In this regard, many of them have made use of the poverty reduction strategy paper process as a vehicle rooted in long-term national development, and one that is expected to deliver economic growth. In addition, creation of inclusive systems and governance processes and empowerment of people, particularly women, have proved to be the best way of giving them a stake in their society, enabling them to earn a decent living and working their way out of poverty. The policies to create a domestic enabling environment should therefore be developed through a participatory approach.

54. While there has been some progress made in the formulation of productive development policies, including financial policy and technology policy, sufficient resources have not been allocated to productive sectors. There is certainly a need for further promoting the adoption of mesoeconomic and microeconomic policies and targeted efforts to provide resources, particularly external funding to finance projects for developing physical infrastructure and the creation of new productive and export capacities. Improvement in productivity and supply capacity will certainly attract both domestic and foreign investment.

55. It is being increasingly recognized, at least within least developed countries, that an enabling domestic environment leading to an attractive investment climate depends not only on sound macroeconomic framework and good governance but

also on productive development policies. This should also be acknowledged by the international financial institutions and the donor community.

B. The international environment

56. The Brussels Programme of Action recognizes the importance of good governance at the international level and transparency in the financial, monetary and trading systems. It further emphasizes the shared responsibility of the international community in creating a global enabling environment conducive to least developed country growth and development. However, the shortcomings in ODA, debt relief, trade and investment identified in this report, combined with lack of coherence in global polices and an asymmetry in international economic relations have reduced the effectiveness of least developed countries' own development efforts.

57. The Monterrey Consensus recognizes the urgent need to enhance coherence and consistency of the international monetary, financial and trading systems. It also underlines the importance of improving global economic governance. In this regard, the participation of developing countries, particularly least developed countries, needs to be enhanced in the global governance framework, including through economic dialogue and decision-making. An appropriate global macroeconomic policy setting is required that serves global objectives and does not frustrate the efforts of least developed countries to restructure and diversify their economies.[11] Enhanced market access, dependent on WTO negotiations following post-Cancun setbacks, is critical for the success of any scheme to integrate least developed countries more fully into the global economy. Transfer of knowledge and technology to least developed countries needs to be facilitated through innovative mechanisms and targeted policies.

58. At Monterrey, donors acknowledged the need to improve the effectiveness of aid and promote ownership by aligning their support to recipient countries development strategies, improving donor coordination and harmonizing aid modalities and processes across donors. The Rome Declaration on Harmonization, adopted in February 2003 by the leaders of multilateral and bilateral development institutions, is a milestone with regard to aid delivery mechanisms.

59. While some progress has been made in creating an enabling international environment for the development of least developed countries, there are still major gaps and a lack of coherence in policies, particularly in the areas of finance, investment, technology, trade and aid policies, and in development frameworks. Regional economic integration, when moving beyond free trade areas to include the harmonization of macroeconomic policies, can also facilitate the creating of an enabling environment.

60. To ensure that requisite steps are undertaken at the domestic, regional and international levels, a mechanism for mutual accountability may be established. This would hold developed and least developed country partners accountable to each other. The Economic Commission for Africa has already developed such a mechanism within the framework of the New Partnership for Africa's Development (NEPAD), as reflected in the section on partnerships.

C. The special problems of least developed countries emerging from conflict

61. Eighty per cent of the world's 20 poorest countries have suffered a major civil war in the past 15 years. Such instability is a major obstacle to making the business climate attractive to both domestic and foreign investors, and hampers development. At the same time, the very lack of access to resources can undermine the basic mechanisms of governance and contribute to political disintegration and open social conflicts. Breaking this cycle and establishing or re-establishing an environment conducive to economic growth and development requires specific efforts in these countries.

62. Past experience demonstrates the importance of sequencing targeted intervention. Establishing, first, political agreement and security and then open governance institutions, including the rule of law, can win the confidence of returning populations, as well as the international community, which invests in rebuilding these countries.

63. Re-establishing an environment for business and employment opportunities, without which there is little incentive for refugees to return or rebels to disarm, is challenging in such an environment. In Angola, Rwanda, Burundi, Mozambique and Sierra Leone, UNDP has supported projects aimed at rebuilding capacity, supporting the demobilization of ex-combatants, retraining police and judges and rebuilding legal institutions. Sierra Leone's successful disarmament, demobilization and reintegration (DDR) programmes involving the United Nations Secretariat's Department of Peacekeeping Operations and UNDP have disarmed rebels in exchange for vocational training and cash incentives, promoting employment.

64. At the 17 March high-level segment preparatory meeting, it was stressed that dependence on natural resource exports can also increase the risk of conflict. The profitability and immobility of resource extraction make natural resources vulnerable to plundering. Conflicts in many least developed countries are very often financed by the revenues generated from the illicit sales of these resources. There have been some efforts to address this factor through the adoption of mandatory and voluntary measures, but more needs to be done.

65. Aid, targeted at the poorest countries, could make assistance more effective and could contribute towards conflict prevention. Economic policy and stronger institutions can play an important role in preventing potential socio-economic tensions from turning violent. Military agreements and aid commitments to countries emerging from conflict should last long enough for development to take hold, in order to avoid the resumption of hostilities. Tackling resource dependency as a fuel for conflict, insurance mechanisms should be explored to reduce exposure to commodities shocks, and transparency should be increased to track flows of resource revenues to prevent illicit financing of rebel groups. The international community should adopt an international policy framework to curb the flow of financial resources to combatants. Furthermore, efforts to mobilize resources should be closely integrated with efforts to achieve peace and security. In this regard, the Economic and Social Council's engagement in post-conflict situations should be geared towards greater integration of issues relating to peace and development. One cannot exist without the other.

IV. Role of partnerships in resource mobilization and enabling environment for the implementation of the Brussels Programme of Action

66. The concept of partnerships is a defining feature of the Brussels Programme of Action. It provides "A Framework for Partnership" that is based on mutual commitments by least developed countries and their development partners to undertake concrete steps for the implementation of the Programme of Action. This partnership is expected to infuse a new spirit of international cooperation, based on the principle of getting common benefits, but also on the common but differentiated responsibilities of developing and developed countries.

67. The Programme also recognizes the role of strong public-private partnerships in the implementation process. It attaches importance to building such partnerships at the global, regional, and national levels, including with the participation of civil society and the private sector. In a globalizing world, the role of the private sector is becoming increasingly significant to the efforts to mobilize resources.

68. The New Partnership for Africa's Development (NEPAD) is a long-term vision of an Africa-owned and Africa-led development programme. The review of its implementation is based on the principle of mutual accountability. The Economic Commission for Africa mechanism reviews the commitments that least developed countries on the one side and donors on the other side should take in order to promote the growth of the poor. This represents a commitment by Africa to engage in systematic peer learning and self-monitoring, and an examination of the policies and actions of Africa's partners as to development outcomes. Such a mechanism could also be explored for the Brussels Programme of Action partnership.

69. Over the last few years, a number of major initiatives have been launched by multilateral organizations, Governments, non-governmental organizations (NGOs), civil society and the private sector. These have helped on many fronts to draw the private sector into productive partnerships. The United Nations Global Compact, along with UNDP, initiated the Growing Sustainable Business for Poverty Reduction Initiative (GSB), which encourages multi-stakeholder engagement of the private sector with Government, civil society, the United Nations and other development organizations, to demonstrate how commercial business activities can contribute to poverty reduction and promote sustainable development. Pilot projects are focused on least developed countries, including Ethiopia, United Republic of Tanzania, Madagascar, Bangladesh and Angola. There is huge scope for public-private partnerships that match real investment opportunities with the real needs of the poor. The United Nations Fund for International Partnerships (UNFIP) is at the forefront of developing innovative partnerships with the private sector, foundations and NGOs. Its partnership with the United Nations Foundation has generated over $564 million in support of economic and social programmes, largely concentrated in least developed countries.

70. Following the adoption of the Ministerial Declaration at the 2003 substantive session of the Economic and Social Council, the United Nations Public-Private Alliance for Rural Development was launched. It aims to encourage replication of successful business policies that are profitable, while also contributing to the economic advancement of poor people in rural areas. Madagascar is the first country of focus for the Alliance.

71. Another example of global partnership between different institutions is the United Nations Information and Communication Technologies Task Force, which brings together chief executive officers, government officials, non-governmental organizations, technical experts and other information industry leaders to assist low income countries integrate into the new world of information globalization.

72. An Agricultural Trade Task Force was created in 2001 and it brings together for the first time a diverse range of stakeholders in agricultural trade for constructive dialogue. Participants come from leading global and regional food and beverage companies, NGOs focused on development and poverty alleviation, international organizations and research institutes. The Task Force aims to drive forward equitable reform of global agricultural trade in order to make a substantial contribution to the alleviation of poverty in the developing world.

73. The number of public-private partnerships established to deal with the challenges of development is growing. The challenge, however, is to make the best possible use of these and promote partnerships that are mainly focused on resource mobilization for meeting the goals of poverty eradication in least developed countries. For this purpose, the private sector needs to be engaged. Moreover, NGOs have a significant role to play in empowering the poor and fostering a people-centred policy framework. This concept was emphasized at the NGO Forum held on 18 March in preparation for the high-level segment of the Economic and Social Council. Least developed countries need to promote such partnerships. Their development partners should support their efforts. The potential partners need to know that these countries are least developed but their potential to develop is not least. This potential should not be underestimated and can be best exploited through partnerships that are flexible and dynamic in their approach.

V. Conclusions and recommendations

74. **Least developed countries face numerous challenges in mobilizing resources for poverty eradication and for the overall implementation of the Brussels Programme of Action. Five major aspects require particularly urgent attention. First, create an enabling environment, including through infrastructure investment and productive development strategies, to unleash the domestic potential for investment and sustained growth. Second, direct assistance in the form of ODA is required as a necessary first step to help build the conditions from which increased economic activity can take off. Official development assistance should be provided in the form of grants so that in the long term it does not increase the debt burden of least developed countries. Third, the international community should reinforce its commitment to create a global policy framework that helps in generating resources. All policies and decisions should be made within a coherent framework of mutually supportive objectives, such that ODA does not become a dependency, debt-service agreements are sustainable, commodity's prices are more stable and exports are not hindered by trade barriers and high subsidies, particularly in developed countries, preventing development of otherwise viable trade opportunities and capacity in least developed countries. Fourth, promote partnerships, including public-private partnerships, at all levels in order to support least developed country efforts to generate resources. Fifth, special**

funding provisions should be made for those least developed countries that are in conflict situations or are emerging from one.

75. **The following set of recommendations is presented to meet these challenges and to expedite implementation of the Brussels Programme of Action.**

76. **Least developed countries should:**

(a) **Mainstream the objectives and priorities of internationally agreed targets, such as those contained in the Brussels Programme of Action and the Millennium Declaration, into national development strategies and policies;**

(b) **Ensure that macroeconomic framework of the poverty reduction strategy papers is consistent with, and contributes to, the goals of poverty reduction. Enhance the dialogue between national Governments and other development partners, leading to the formulation and implementation of the poverty reduction strategy papers;**

(c) **Improve the efficiency and transparency of domestic administration and public spending, increase transparency and accountability, promote effective governance and the rule of law, and invest in education and health sectors. To this end, make optimal use of the opportunities available domestically to increase levels of spending for investment in human-resource development, in institution building, in developing physical infrastructure, and in fostering dynamic productive restructuring and the creation of new export capacity. Create solid frameworks and environments for increasing savings and attracting investment;**

(d) **Promote guaranteed property rights through the creation of formal property systems for the poor and the landless and facilitate capital generation through these assets;**

(e) **Explore avenues for expanding the share of domestic revenue derived from direct taxation of income and profit, including through expansion of the tax base to include high-incomes where these are not already covered. Improve the effectiveness, efficiency and equity of the tax collection system, with a view to minimizing tax evasion and cutting costs. Harmonize, simplify and modernize tax collection systems, with donor assistance, through relevant capacity and institution building programmes;**

(f) **Expand and deepen financial intermediation systems, especially microfinance institutions, with assistance from development partners. Make every effort to integrate large numbers of small capital flows, including worker remittances, in order to benefit from their leverage potential. Explore, where possible, channelling remittances to household investments and the development of small- and medium-sized enterprises, and the development of export industries targeted at migrant communities. Make special efforts to align the informal sector with the formal sector, with a view to taking full advantage of the potential contribution of large informal-sector activities to their economies;**

(g) **Explore, where possible, the setting up of domestic bond markets or joining existing regional and subregional exchange markets to increase the**

mobilization of financial capital. Development partners are encouraged to support such activities, especially in the context of South-South cooperation.

77. **The international community should:**

(a) **Urge donor countries to fulfil their commitments, including those contained in the Brussels Programme of Action, to increase ODA flows to least developed countries to the level of 0.20 per cent of GNP. Donors whose ODA levels are still below 0.15 per cent of GNP should especially undertake to reach that level by 2006. Emphasize that ODA to all least developed countries should be given in the form of grants;**

(b) **Call on donors to harmonize ODA flows and mechanisms with national development strategies and priorities and with minimal conditionalities in order to ensure that development strategies are truly nationally owned and managed and that ODA resources can be used most effectively. Encourage the channelling of ODA, wherever possible, through national budget processes, and make efforts to reduce parallel accountability and reporting procedures;**

(c) **Urge donor countries to provide adequate, timely grant funds to support long-term post-conflict recovery and reconstruction efforts in least developed countries emerging from conflict;**

(d) **Accelerate implementation of the Heavily Indebted Poor Countries Initiative for eligible least developed countries, including interim debt relief. Reduce substantially, and wherever possible, cancel all multilateral and bilateral debt completely, in order to free up essential resources for development and poverty reduction. Undertake special measures for least developed countries emerging from conflict situations to promote quick reconstruction and recovery. Ensure that the debt burden addressed within the heavily indebted poor countries framework for such countries is fully cancelled by the time they reach completion point;**

(e) **Ensure that economic shocks and commodities-related uncertainties are more realistically factored into heavily indebted poor countries projections, in order to minimize problems pertaining to unsustainability of debt relief following heavily indebted poor countries initiatives, resulting in perpetual macroeconomic restructuring. Consider extending the Commodity Hedge Instrument, currently available to all non-concessional or International Bank for Reconstruction and Development (IBRD) borrowers of the World Bank, to other borrowers;**

(f) **Provide support to least developed countries through targeted foreign direct investment promotional programmes, including through such measures as investment guarantee schemes, and using ODA to build the capacity and conditions to make foreign direct investment flows feasible;**

(g) **Promote innovative mechanisms in order to accord least developed countries special treatment in facilitating acquisition, transfer and development of technology;**

(h) **Build capacity of the productive sectors and economic infrastructure, including in particular the promotion of small- and medium-sized enterprises in least developed countries through targeted ODA and assist least developed country efforts to diversify away from dependence on commodities;**

(i) **Call on all countries to provide free market access to the exports of least developed countries by removing tariffs, non-tariff and technical barriers. Improve the implementation of market access preferential schemes like Everything but Arms initiative and Africa Growth and Opportunity Act, including through capacity-building programmes that address the supply capacity constraints of least developed countries. Eliminate subsidies and other protectionist measures in developed countries;**

(j) **Promote trade development of least developed countries, through the implementation in the current multilateral trade negotiations of a broad-based and development-oriented set of special and differential treatment (SDT) measures that are more contractual, operational and predictable;**

(k) **Explore the potential for South-South cooperation in expanding trade opportunities, capacity-building and debt relief. Urge regional organizations to explore the possibilities of increasing least developed country access to regional markets through enhanced regional trade agreements and regional technology transfer and technical advice;**

(l) **Emphasize that the International Monetary Fund Compensatory Financing Facility should be made more accessible and relevant to the current circumstances and promote establishment of commodity-linked multilateral lending or alternative counter-cyclical devices. Encourage donors to ensure that the volume of aid and financial flows is made counter-cyclical;**

(m) **Develop, at all levels, more and better partnerships between Governments, multilateral institutions, the private sector and civil society, with special focus on resource mobilization and technology transfer. Recognize and promote the special role played by NGOs in fostering a people-centred policy framework in open and transparent governance systems, building human and institutional capacities and supporting productive sectors and local financial institutions;**

(n) **Consider establishing mutual accountability mechanism between least developed countries and their development partners, in order to ensure the timely implementation of the commitments made in the Brussels Programme of Action.**

Notes

[1] The Programme of Action for the Least Developed Countries for the Decade 2001-2010 was adopted at the Third United Nations Conference on the Least Developed Countries, held in Brussels in May 2001.

[2] The present report is specifically focused on the issue of resource mobilization, which is the theme of the High-Level segment of the 2004 substantive session of the Economic and Social Council. An addendum to this report covering other commitments will be submitted for comprehensive discussions under agenda item 6 (b) “Review and coordination of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010” during the general segment.

[3] See World Bank, "African Development Indicators", 2002.

[4] Beegle, Dehejia and Gatti, "Child Labor, Income Shocks and Access to Credit", World Bank, 2003.

[5] This assumes that all donors fulfil their aid commitment to least developed countries contained in the Brussels Programme of Action of 0.20 per cent of ODA/GNP.

[6] The Least Developed Countries Report 2002: Escaping the Poverty Trap (UNCTAD 2002), 209.

[7] Ibid., 213.

[8] World Bank definition based on gross national income (GNI) per capita less than $735.

[9] World Bank, "Global Development Finance 2003".

[10] World Bank "Informal Fund Transfers in the APEC Region: Initial Findings and a Framework for Future Analysis" (2003), p. 21.

[11] Trade Performance and Commodity Dependence (UNCTAD 2003), 62.