United Nations

E/2011/SR.5

Economic and Social Council

Provisional
20 May 2011

Original: English

Special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development

Provisional summary record of the 5th meeting
Held at Headquarters, New York, on Thursday, 10 March 2011, at 10 a.m.

President: Mr. Kapambwe . . . . (Zambia)

Contents

11-25935 (E)

The meeting was called to order at 10.10 a.m.

Special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development

Opening of the meeting

Opening statement by Mr. Lazarous Kapambwe (Zambia), President of the Economic and Social Council

1. **The President** said that the annual special high-level meeting with the Bretton Woods institutions, the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD) had become a major forum for enhancing coherence, coordination and cooperation in implementation of the commitments enshrined in the Monterrey Consensus and the Doha Declaration on Financing for Development. The format of the meeting was intended to encourage a dynamic, interactive exchange.

2. The recovery of the world economy from the recent economic and financial crisis appeared to be losing momentum; food and energy prices were rising and climate change and natural disasters remained a challenge. In the absence of effective policy coordination among governments, there was a risk of a new global recession that would further hamper developing countries' efforts to alleviate the impact of the crisis and achieve the Millennium Development Goals (MDGs) by 2015. That objective would require a global partnership for development. All States must meet the commitments contained in the Monterrey Consensus and the Doha Declaration on Financing for Development, including those relating to aid, trade and external debt. More effective policy coordination would help promote global financial stability, shared prosperity and environmental sustainability.

3. The crisis had revealed flaws in global economic governance. The United Nations system had taken important mitigating measures and remained the only true universal and inclusive forum for dialogue. Many believed that the limited membership of the Group of Twenty was necessary in order for the key players to take coordinated, timely decisions. However, the Group also excluded over a third of the world's population and 85 per cent of its countries. It was therefore extremely important to focus on enhancing the engagement of the Group with the United Nations and on reforms intended to strengthen coordination within the United Nations system, such as suggestions for new structures or ways to improve the work of the Economic and Social Council and the General Assembly.

4. In the least developed countries, the recent crises had plunged millions of people into poverty as a result of lower export earnings, higher food prices and reduced investment and remittance flows. Those countries needed to improve their production capacity and diversify their exports and developed countries should support them by meeting their official development assistance (ODA) commitments, providing technical assistance and moving towards a more equitable and universal trading system.

5. It was also important to support the development efforts of middle-income countries, which were home to over 60 per cent of the world's poor but faced such challenges as excessive short-term capital inflows, unsustainable debt, poverty, inequality, financial vulnerability, trade restrictions and insufficient infrastructure. Such support should better reflect the countries' priorities and strategies. It should be complemented by increased South-South and triangular cooperation and should promote development cooperation, financial stability and trade in order to enable the middle-income countries to serve as poles of development.

Statement by Mr. Luis Manuel Piantini Munnigh (Dominican Republic), President of the Trade and Development Board, United Nations Conference on Trade and Development

6. **Mr. Piantini Munnigh** (President, Trade and Development Board, United Nations Conference on Trade and Development) said that recent political and economic events had disproved many old assumptions. The period preceding the global crisis had seen energetic growth for many developing countries. Investment in least developed countries had risen during the period 2002-2007, as had the savings rate. However, the increase in the gross domestic product (GDP) of those countries had been largely driven by unsustainable global expansion and non-inclusive national expansion. Over a third of the increase in investment had reflected changes in inventory rather than the expansion of productive capital. Gross fixed capital formation had risen at a slower pace, and had

even declined in 19 countries. The savings rate in non-oil-exporting States had remained stagnant. On average, three main products had accounted for three quarters of the least developed countries' exports; in eight countries, that proportion was over 95 per cent. Agricultural production and exports had stalled and food imports had increased by 167 per cent from 2002 to 2008. The continuous increase in food prices through 2011 had left those countries vulnerable to a food crisis similar to that of 2008. Moreover, the financial, economic and fuel crisis of the previous three years was not yet over; oil prices were soaring to over US$ 100 a barrel, creating the risk of a second recession.

7. A range of measures could be taken to remedy the situation. South-South trade had grown 50 per cent more rapidly than North-South trade from 1996 to 2009 and accounted for some 20 per cent of global trade. The multilateral trading system must therefore evolve in order to reflect the needs and priorities of developing countries, in particular through the conclusion of the Doha Round. Protectionism should be resisted, the productive capacities and competitiveness of developing countries should be strengthened, access to trade financing should be improved and tariff and non-tariff barriers should be further reduced. Deliberate, comprehensive and integrated growth strategies would be required.

8. At the informal meeting of the World Trade Organization (WTO) Trade Negotiations Committee, held on 8 March 2011, the mood had been pessimistic; there was a real risk that substantial progress in the Doha Round would not be reached by the target of late April 2011. Two main issues were proving contentious; first, developed States wanted greater access to non-agricultural markets in developing States without opening access to their own agricultural markets; and, second, the value of the currencies of certain developing States had risen sharply, increasing their trade deficit and making it difficult for them to further reduce tariff barriers on non-agricultural goods.

9. The role of the State in development policy should be recognized and refined. States should provide a domestic environment conducive to development by building productive capacities and filling infrastructure gaps. Public investment should be embedded in a coherent national development framework that took into account not only profit, but also social progress and public entitlement. Governments should leverage private investment through all available means, including public-private partnerships.

10. Although the importance of the public sector had often been played down, it could not be over-emphasized. Strong institutional governance and a proactive fiscal policy were major instruments for the development of productive capacities and achievement of the MDGs. National development strategies relied on the delivery of key public services and long-term investments.

11. Global foreign direct investment (FDI) flows had remained stable in 2010. However, while FDI flows to developed countries had contracted, those to developing and transition countries had risen by some 10 per cent. South-South FDI had grown by some 20 per cent per year and now accounted for 10 per cent of global FDI with the largest growth taking place in Latin America and in South, East and South-East Asia. FDI had declined in West Asia and Africa and seen a marginal increase in the transition economies of South-East Europe and the Commonwealth of Independent States (CIS). Nevertheless, gross fixed capital flows had stagnated between 1995 and 2005. In the current economic climate, it was essential for investment flows to contribute to the building of productive capacity and promote the transfer of technology.

12. National efforts should be complemented by a new consensus for development at the global level. The "casino economy" of recent years, in which the speculation-driven sector had been divorced from the real economy, should be replaced by a comprehensive global partnership.

13. In discussions at the United Nations Conference on Trade and Development (UNCTAD), there had been consensus on the desirability of a collaborative approach. Since establishment of the least developed-States category in 1971, fewer than five of those States had achieved middle-income status. That disgraceful reality reflected the inefficiency of the policies and programmes applied. In Haiti, a country geographically close to the United States of America, misconceived policies imposed from outside had proved disastrous. Haiti must receive the aid pledged by the international community.

14. It was hoped that the first steps towards a new approach to development could be taken at the fourth United Nations Conference on the Least Developed

Countries, to which the UNCTAD Trade and Development Board had devoted considerable work. The thirteenth session of UNCTAD, to be held in Doha in April 2012, could also act as a platform for anticipation of a post-2015 partnership for development.

15. The new approach should be inclusive. It should spread the benefits of development more widely; focus more on job creation and overall quality of life; aim for a minimum — rather than a tolerable — level of poverty; include better international support mechanisms specifically tailored to developing States, reform of global economic regimes directly affecting their prospects, and promotion of South-South cooperation; and address long-standing concerns, such as finance and trade, neglected ones, such as commodities and technology, and new ones, such as climate change.

16. While there was a wide divergence of views within UNCTAD as to the nature and scope of the role of the United Nations, there was a clear consensus in favour of a holistic approach to development and against a "one size fits all" solution. His own view was that while the United Nations could provide political guidance, negotiations on specific technical issues should be left to the specialized bodies.

Thematic debate of the whole on Theme 1: "Financial support for development efforts of least developed countries: Development finance, including innovative mechanisms, aid for trade and debt relief" (E/2011/74)

(a) Presentation on "The Least Developed Countries Report 2010: Towards a New International Development Architecture for LDCs" by Mr. Charles Gore, Head, Policy Analysis and Research Branch, Division for Africa, Least Developed Countries and Special Programmes, United Nations Conference on Trade and Development

17. **Mr. Gore** (Head, Policy Analysis and Research Branch, Division for Least Developed Countries, Africa and Special Programmes, United Nations Conference on Trade and Development), accompanying his presentation with computerized slides, said that, contrary to the common perception, the least developed countries were an important part of the global economy. At the same time, focusing only on the poorest countries could place middle-income countries in a development trap. The two categories should be part of a broader solution.

18. An output growth chart for recent years might give the impression that the situation of the least developed countries had improved. The boom in GDP growth that had begun around 1994, rather than with the adoption of the United Nations Millennium Declaration in 2000, had had no impact on the weak development of production capacities or the slow progress towards the MDGs; in fact, the gap between the least developed countries and other developing countries had continued to grow. In the same way, the apparent resilience of the least developed countries during the recent crises was largely a result of external factors, such as the recovery of commodity prices and the efforts of international financial institutions to provide rapid financing in 2008 and 2009. There remained a need to create productive employment for the large population of young people that entered the labour force each year. The least developed countries were not on track to achieve the MDGs.

19. The Substantial New Programme of Action for the 1980s for the Least Developed Countries, had been sidelined because its State-led model had appeared obsolete in light of the adoption of structural adjustment programmes. The Programme of Action for the 1990s had seen asymmetric implementation: the least developed countries had taken substantial liberalization measures, but real aid per capita had fallen drastically and the issue of debt relief had been postponed. The Brussels Programme of Action for the Least Developed Countries for the decade 2001-2010 had been more effective: aid to those countries had doubled in real terms and many of them had been granted debt relief. While the United Nations system was placing higher priority on the least developed countries, which had received a growing share of operational expenditure through the 2000s, international support measures aimed specifically at those countries had often been symbolic rather than practical.

20. Under the Brussels Programme of Action, the least developed countries had committed themselves to 156 actions and their development partners to 178. The Least Developed Countries Report 2010 had compared the evaluations of eight key measures and identified common failings, such as exclusions in market access preferences, lack of action on certain issues and inertia in existing practices. In some cases, such as that of the

Enhanced Integrated Framework for Trade-Related Technical Assistance, there had been numerous studies but little financial follow-up; total expenditure accounted for less than 0.1 per cent of aid-for-trade disbursements. A similar pattern could be seen in the Least Developed Countries Fund, established to implement the work programme of the United Nations Framework Convention on Climate Change.

21. A possible solution was to improve existing support measures or create new ones specific to the least developed countries. However, such measures alone were not enough as they were susceptible to the global economic regimes governing such areas as trade and technology. Sustainable solutions required a holistic approach. The new international development architecture for least developed countries proposed by UNCTAD incorporated initiatives in the areas of finance, trade, commodities, technology and climate change mitigation. The current trade and finance structures were incoherent in their categorizations: while the "least developed countries" category was central to the United Nations system, to WTO and, increasingly, to negotiations on climate change policy, it was not used by the Bretton Woods institutions.

22. The proposed new development architecture gave equal priority to South-South development cooperation, support mechanisms specific to the least developed countries and reform of the major global economic regimes. Key finance initiatives included seeking innovative sources of financing and increasing aid in line with existing commitments, a measure that could furnish funds for pressing infrastructure needs. Improving aid effectiveness through support for national ownership of development strategies was another major finance goal that could be achieved by supporting the development of national aid management policy and conducting peer reviews at the country level, thereby de-linking the de facto aid-seeking function of poverty reduction strategy papers from aid management. Building "developmental States" would also free up some of the 20 per cent of development aid currently dedicated to governance issues.

23. UNCTAD was offering an alternative to the traditional management of development assistance as grants for social sector improvements. Under the new model, developing countries could instead use aid as a catalyst to leverage other sources of development finance, promote domestic resource mobilization, find innovative ways of developing the private sector and increase spending on production and infrastructure.

24. Debt relief was an important consideration that remained to be fully integrated into the development agenda. Twenty least developed countries were in, or at high risk of, debt distress even though five of them had reached the completion point in the International Monetary Fund (IMF) Heavily Indebted Poor Countries (HIPC) Initiative.

25. The Least Developed Countries Report 2010 was one of a series of instructive publications offered by UNCTAD on the least developed countries, including a 2009 report on the very relevant and critical issue of national governance. Its cover featured a painting by a Haitian artist of the recent devastating earthquake. The image showcased the creative potential of people in the least developed countries and highlighted the need for a major change in ways of thinking about development. The recent economic and financial crisis was a catastrophe analogous to an earthquake: it had wreaked devastation, but it also offered an opportunity for a new beginning.

(b) Presentation by Mr. Shishir Priyadarshi, Director, Trade and Development Division, World Trade Organization

26. **Mr. Priyadarshi** (Director, Trade and Development Division, World Trade Organization), speaking on behalf of the Director-General of the World Trade Organization (WTO), said that the Economic and Social Council, the Bretton Woods institutions, WTO and UNCTAD should hold more frequent meetings; too much occurred in the space of a year to cover in a single meeting and high-level inter-agency coordination was critical. He welcomed the focus on the least developed countries in light of the need for concrete deliverables for the upcoming Fourth United Nations Conference on the Least Developed Countries, to be held in Istanbul in May 2011.

27. While the 48 least developed countries comprised nearly a third of the membership of WTO and were home to 11 per cent of the global population, they accounted for only 1 per cent of global trade. Any assistance to those countries must therefore include support for a strong trading future. Specifically, that involved the development of trade policy and support for market openness through multilateral trade

negotiations and engagement with WTO, complemented by the building of supply-side capacity.

28. Owing to the challenge of reaching a consensus among 153 WTO members with diverse ambitions, 10 years had passed without conclusion of the Doha Round. However, the current round of negotiations offered more than ever before in terms of reducing tariffs and export subsidies, providing domestic support and bringing fairness in trade rules. The Group of Least Developed Countries understood the potential gains and had been sending a strong message: its countries needed duty-free, quota-free access to global markets, a demand first made at the Sixth WTO Ministerial Conference in 2005; simple and flexible rules of origin to accompany such market access; redress on the issues raised by the four cotton-exporting countries; and trade-related technical assistance and financial assistance. Financial support should enable the least developed countries to generate their own resources, which would result in greater trade and revenue flows and improve their capacity to attract investment.

29. He called on WTO members to conclude the Doha Round quickly and expressed the hope that the ongoing negotiations would mark the final stage in the process. Recent declarations by the Group of Twenty and Asia-Pacific Economic Cooperation (APEC) had implied that in light of the political horizon for 2012, the only window of opportunity for concluding the Round was the current year. Within that timeline, the modalities for the negotiations would need to be completed by July and all the Chairperson's texts by early May. Yet it still appeared that members were not negotiating openly with a view to finalizing the Round. If, at the very least, Member States agreed to bring the policy measures requested by the least developed countries as a deliverable to the Istanbul Conference in May, they would be doing those countries a great service.

30. The Aid for Trade Initiative was another critical component of global support for the least developed countries. The initiative facilitated trade-related financial and technical assistance to developing countries, helping them to build supply-side capacity, strengthen trade-related infrastructure, enhance productive capacity and make their economies more competitive. Aid for trade had been conceived as a means to shine a global spotlight on the need to develop supply-side capacity, which had long lagged behind efforts to liberalize trade, particularly in the least developed countries.

31. Evaluation of the Initiative had shown that aid flows to least developed countries had increased during the past five years. However, it was important to remember that donor budgets were under extreme pressure. The only way to ensure that the level of flows was sustained and increased was to demonstrate that aid for trade was working. WTO had sent out a call for case stories on aid for trade within the framework of the upcoming Third Global Review of Aid for Trade, which would include the participation of heads of State, trade ministers and heads of relevant institutions. The over 280 case stories submitted by international organizations and WTO members, including 40 least developed countries, would show which approaches had worked and, more importantly, which had not.

32. ODA, including aid for trade, was key to building developing countries' trade capacity. Innovative forms of financing and ODA should be used to leverage additional domestic and foreign investment. Increasing the number of private-sector partnerships on trade-related initiatives was also an important step. Stakeholders should ensure that the various sources of financial flows to developing countries remained mutually supportive and should urge policy coherence in development initiatives.

33. It was the responsibility not of WTO, but of all member States, to conclude the Doha Round. The fundamental ambition of the Doha Development Agenda was to ensure certainty, bring about fairness in trade and give the least developed countries an opportunity to enter the global market. A stronger multilateral system would prevent the adoption of protectionist measures and ensure that further trade liberalization would result in new market access opportunities. If the conclusion of the Round were accompanied by sustained and adequate aid for trade flows, developing countries would be helped to turn trade opportunities into development gains.

Interactive dialogue

34. **The President** recalled that in chapter III of his note on coherence, coordination and cooperation on financing for development (E/2011/74), the Secretary-General had raised several issues for discussion, including whether structural vulnerabilities should be the basis for the allocation of grants to least

developed countries and for assessment of their ability to repay debt; how methods for aid allocation should be reviewed in order to ensure aid flows to the neediest countries and finance investments in productive capacity; how the additionality, stability and sustainability of innovative financing and aid-for-trade flows should be ensured; what the possible options for new modalities for providing debt relief to the least developed countries were; and how policy coherence between development finance, aid for trade, and debt relief could be ensured.

35. **Mr. Suárez Salvia** (Argentina), speaking on behalf of the Group of 77 and China, said that he was concerned about the omission of North-South cooperation from the proposed new UNCTAD international development architecture. He requested clarification as to how existing ODA commitments from donor countries would be honoured within that framework, which was based primarily on the reform of global economic regimes and South-South cooperation.

36. **Mr. Gyan** (Observer for the NGO Committee on Financing for Development, accredited through Church World Service) said that the very premise of “least developed countries” needed to be examined. The category had been created 14 years ago in an effort to draw attention to the needs of the most vulnerable countries but had since become a stigmatizing label. He urged those present to view the term as a call to action in life-and-death situations for people living in poverty, particularly in view of the recent urgent efforts by the United States of America and the European Union to mobilize nearly a trillion dollars to bail out banks and corporations.

37. He welcomed the proposal by the representative of UNCTAD to review the support mechanisms in place, which were often contradicted by the actions of financial institutions. However, the notion that an excessive focus on the least developed countries would draw attention away from the middle-income countries could only trigger division.

38. Debt must be viewed not as a problem specific to the least developed countries, but as a symptom of loan structures and policies that had been created without regard for the situation of those countries. A more transparent, participatory system for the provision of assistance was required. He was pleased that the representative of WTO had proposed holding more frequent meetings to evaluate inter-agency cooperation; such meetings had been critical in advancing the development agenda set out in the Monterrey Consensus.

39. **Ms. Samuels** (Observer for the Global Clearinghouse for Development Finance, accredited to the Financing for Development process) said that, having been involved in financing for development for 10 years, she was appalled that the situation remained so urgent; more targeted and effective action was required. Private sector financing for infrastructure, water and energy projects could be unlocked by making funds available for business plans, feasibility studies and other aspects of project development. Risk mitigation tools such as partial risk and credit guarantees, subsidies and more effective first loss facilities should be used to leverage limited ODA. If the World Bank used a partial risk guarantee, for example, it could quadruple the funds provided to a country, while fostering the use of in-country financial resources. Success stories and performance benchmarks should be compiled in order to stimulate action and new technologies and social media should be mobilized.

40. The Global Clearinghouse for Development Finance, backed by the Swiss Government and the private sector, had developed three web-based financing-for-development tools and had recently established a formal partnership with the United Nations Capital Development Fund. It was committed to moving ahead with local development finance and had already begun pilot work in some African countries.

41. **Mr. Acharya** (Observer for Nepal) said that his delegation concurred with the panellists; the progress made over the previous 10 years had been inadequate or unsustainable owing to structural constraints, poverty and vulnerabilities, which affected the least developed countries particularly severely. It was for that reason that international support measures must be comprehensive, coherent, forward-looking and targeted to the needs of those countries. “Business as usual” was clearly not an option when 70 per cent of the people in least developed countries were living on less than US$ 2 per day and 53 per cent on less than US$ 1 per day. A combination of ODA, trade, sustainable debt, investment guarantees, concessional funding, home and host country measures and technology transfers could lead to significant change.

42. In the negotiations being conducted prior to the Istanbul Conference, it was encouraging to note that the representatives of civil society and the private sector were speaking along the same lines as the least developed countries. While the latter were willing to assume a more active role, they called on their development partners and on international institutions to recognize the specific problems they faced and give them due representation in all relevant mechanisms. The current situation represented not only a challenge, but also an opportunity for the international community. Lastly, while the least developed countries were benefiting more from aid for trade than in the past, additional resources were needed since few of those countries ranked among the top 10 recipients of aid-for-trade flows.

43. **Mr. Grishin** (Executive Director for the Russian Federation, World Bank) said that over the past 10 years, the Russian Federation had made substantial efforts aimed at achievement of the MDGs. It had increased its total ODA from US$ 100 million to US$ 785.5 million between 2004 and 2009, based on Organisation for Economic Co-operation and Development-Development Assistance Committee (OECD-DAC) methodology and had adopted the benchmark of 0.7 per cent of gross national product (GNP) as a long-term ODA target. It attached particular importance to strengthening bilateral and multilateral cooperation within the CIS region; other priority areas were Sub-Saharan Africa and poor countries in East Asia and Latin America.

44. The Russian Federation had recently launched, and contributed US$ 7 billion to, the Eurasian Economic Community (EURASEC) Anti-Crisis Fund, an innovative response mechanism that would provide support to low-income countries at conditions compatible to those applied to International Development Association (IDA) funds and bilateral ODA for such countries. It was also making considerable efforts to facilitate dialogue among traditional and emerging donors, including through the organization of two international conferences to be held in Moscow in 2006 and 2010, and it stood ready to play a more active role in creating new forms of ODA cooperation, fostering South-South dialogue and contributing to the transformation of the global aid architecture.

45. While the Russian Federation acknowledged the importance of debt relief initiatives and had made a substantial contribution to the HIPC Initiative, it had some concerns about the effectiveness of debt relief in creating incentives for further sustainable growth. In the long term, the least developed countries would be able to overcome supply-side constraints and generate opportunities based on decent work only by increasing the productive capacity of their economies. Consequently, aid must target those countries' productive sectors, especially food agriculture, infrastructure and human capital, while allocation methods should be outcome-oriented. Reform of the international agricultural and food security architecture was also crucial.

46. The Russian Federation supported measures aimed at resolving the issues of market access, agricultural subsidies and duty-free access for the least developed countries; however, the need for technology transfer, which required cooperation with the private sector, must be emphasized. The role of State governance should be to provide policies and institutions that harnessed private ownership and to establish effective tax and customs systems, all of which were necessary for domestic resource mobilization.

47. **Ms. Ortiz de Urbina** (Observer for the European Union), noting the consensus among development partners on the importance of sustainable, inclusive and employment-generating growth for achievement of the MDGs by 2015 and on the need to conclude the Doha Round, said that while aid for trade was an important tool, the proportion of ODA allocated to trade was lower for least developed countries than for other countries. Trade was a multiplier and should be given more attention in national planning.

48. The effectiveness of development efforts was dependent on a broader context characterized by a rules-based, predictable environment in order to minimize corruption; an empowered, skilled population; and a situation in which the private sector could flourish. All those elements had been agreed upon at the High-level Plenary Meeting of the General Assembly on the Millennium Development Goals, held in September 2010; the international community should build on the outcome of that Meeting.

49. **Ms. Smith** (Norway) said that the upcoming Fourth United Nations Conference on Least Developed Countries represented an important opportunity to renew and revitalize the global partnership for

improving the situation of the least developed countries and achieving the MDGs. Her Government remained committed to financing international development efforts and allocated more than 1 per cent of its gross national income (GNI) to development assistance with a particular focus on the least developed countries. Member States should fulfil their commitments and not allow the financial crisis to become a pretext for cutting ODA spending.

50. Developing countries should mobilize more of their domestic resources by broadening their tax base, fighting corruption and increasing transparency and accountability. Illicit financial flows from developing countries were a drain on vital resources far greater than total annual development assistance. The size of the poverty challenge also called for more innovative financing, for instance through large-scale introduction of a levy on financial transactions, which could provide stable financing for development.

51. **Ms. Ratsifandrihamanana** (Food and Agriculture Organization of the United Nations) said that the Food and Agriculture Organization of the United Nations (FAO), the World Food Programme (WFP) and the International Fund for Agricultural Development (IFAD) were preparing a joint paper on innovative financing in the areas of agriculture and food security. Compensatory financing mechanisms, such as the Food Financing Import Facility (FIFF) proposed by WTO, would provide the least developed countries with access to short-term financing in the event of a sudden rise in food prices and could be funded through an International Finance Facility (IFF)-type mechanism or a tax on food futures market transactions. Remittances, another source of innovative financing, outweighed almost all other types of capital flows to developing countries. At the 2009 L'Aquila Summit, the Group of Eight had agreed to halve the cost of remittance services over five years and had recommended that the development impact of remittances should be increased. A link could therefore be made between remittances and food security, particularly in rural areas, where climate change was expected to exacerbate existing challenges in the agriculture sector.

52. **Mr. Gore** (Head, Policy Analysis and Research Branch, Division for Least Developed Countries, Africa and Special Programmes, United Nations Conference in Trade and Development), replying to the question from the representative of Argentina, speaking on behalf of the Group of 77 and China, about the proposal for a new international development architecture, said that the reports produced by UNCTAD sought to explore issues relating to the Brussels Programme of Action for the Least Developed Countries for the Decade 2001-2010 and to make proposals that policymakers in least developed countries and their development partners might find useful. Over the past 10 years, UNCTAD had argued that international cooperation in the case of the least developed countries should focus on production, as well as on achievement of the MDGs, since the latter would not be sustainable in those countries without an enhanced production base and expanded employment. UNCTAD had also sought to foster a shift in the perception of least developed countries so that not just their need, but also their potential was taken into account.

53. The 2010 Least Developed Countries Report had been produced in the context of the upcoming Istanbul Conference; however, it was intended as a background resource and did not seek to influence the Conference outcome document. The least developed countries and their development partners had taken up some of the ideas contained therein, such as the emphasis on technology and commodities. However, the suggestion that there should be a broader debate on the new international development architecture, made by Sir Richard Jolly, former principal coordinator of the United Nations Development Programme (UNDP) Human Development Report, in the run-up to the Conference, had not been implemented. Recalling that the new architecture contained both action-oriented ideas and aspirations, he welcomed the concrete proposals made by the observer for the Global Clearinghouse for Development Finance and the FAO proposals on innovative sources of finance.

54. Turning to the question raised by the observer for the NGO Committee on Financing for Development, he said that least developed countries could be defined as low income countries with weak human resources and high economic vulnerability; thus, they were likely to be trapped in a state of under-development. The "least developed countries concept" was structural and should be distinguished from the "fragile state" concept, which was a governance category, although there was some overlap between the two.

55. With regard to the comments made by the representative of Nepal, he stressed that the analyses

conducted by UNCTAD and the Committee for Development Policy had shown the inadequacy of international support measures. He concurred with the representative of the European Union regarding the importance of the national context in least developed countries, although more proactive measures were also needed in order to build up the capabilities of domestic enterprises and thus to avoid the emergence of FDI enclaves. Lastly, UNCTAD emphasized the importance of domestic resource mobilization and prevention of illicit financial flows, highlighted by the representative of Norway, and the importance of global tax cooperation in dealing with such flows.

56. **Ms. Crowley** (Observer for the Business Council for the United Nations, accredited to the Financing for Development process) said that, as Member States considered how to finance development, the contribution of global multinational corporations should be taken into account. According to the *2010 Index of Global Philanthropy and Remittances* published by the Hudson Institute Center for Global Prosperity, private philanthropy and remittances from the developed to the developing world were nearly twice the level of government aid and in 2009, despite the recession, many companies had still projected robust giving while others had increased volunteerism and other forms of non-cash giving to offset flat or declining funding. Pharmaceutical and medical donations to the developing world in 2008 had totalled US$ 7 billion, based on United States tax filings. According to a report of the Committee Encouraging Corporate Philanthropy, international giving was a growing priority for United States corporations, which had directed 13 per cent of their donations abroad in 2008, up from 12 per cent in 2007. In 2008, the health-care industry, the largest single corporate giving sector, had directed 27 per cent of its donations abroad.

57. **Mr. Iziraren** (Morocco) said that it was clear from the output growth chart for the period 2005-2010, presented by the UNCTAD panellist, that the least developed countries were particularly vulnerable to external shocks and recovered from them more slowly than other regions. Economic crises had a long-term effect on those countries because they lacked the financial resources to support their economies and offset the social impact of crises. Worse still, the current crisis had reversed some of the progress towards the MDGs. It was therefore important when evaluating economic policies, especially those of the major economic powers, to assess their impact not only on world stability, but also on development. Promotion of investment in employment-generating sectors as a way of helping the least developed countries diversify their economies was a prerequisite if they were to graduate from least developed country status since most of them remained heavily dependent on commodity exports, even at times of strong economic growth. Integrated support for those countries should include ODA, aid for trade, market access and the transfer of technology.

58. **Mr. Khalil** (Egypt), reflecting on the question about structural vulnerabilities raised in chapter III of the note by the Secretary-General on coherence, coordination and cooperation on financing for development (E/2011/74), said that ODA was critically important in order for the least developed countries to meet their development needs. Since the budgetary processes of those countries were directly affected by the delivery and timing of aid flows, donors should set clear time frames for fulfilling their ODA commitments as soon as possible. The increasing focus on performance would result in a lower share of ODA being allocated to the least developed countries as their institutions were weak and the effects of assistance would take longer to materialize. For that reason, the allocation of ODA to individual countries should take their needs and vulnerabilities into account.

59. On the issue of the additionality, stability and sustainability of innovative financing and aid for trade flows, he stressed the importance of increasing the predictability and earmarking of aid. Donors should provide reliable indicative estimates of planned disbursements and commitments, both annually and on a multi-year basis. Innovative sources were also an option for increasing the financial resources provided to least developed countries, as long as they constituted additional funds and did not substitute for ODA. They should be predictable and should be disbursed in a manner that respected the priorities and special needs of the recipient countries. Remittances were one such innovative source; home and host countries should facilitate remittance flows by lowering transaction costs. Aid for trade could help the least developed countries to build trade-related infrastructure and trade competitiveness; a substantial increase was needed in order for those countries to support national reform programmes and initiatives.

60. **Ms. Ferguson** (Observer for the NGO Committee on Social Development, accredited through UNANIMA International) said that levying a financial transaction tax and reducing the loss of domestic tax revenue by combating tax havens and capital flight were two new means of providing stable, predictable development financing and reversing the negative effects of globalization. A .05 per cent tax on derivative and hedge fund transactions, for example, would generate close to €200 billion in the European Union and €650 billion worldwide and could be one way for the financial sector to alleviate the suffering that it had caused. The Tax Justice Network estimated that individuals held about US$ 11.5 trillion in off-shore funds, resulting in an annual loss of domestic tax revenue of about US$ 250 billion, which was five times the amount that the World Bank estimated was needed to meet MDG Goal 1 (eradicate extreme poverty and hunger).

61. **Mr. Rahman** (Bangladesh) asked how the greater involvement of developed countries could be achieved in order to ensure the additionality, stability and sustainability of innovative financing and aid-for-trade flows; determine the possible options for new modalities for providing debt relief to least developed countries; and ensure policy coherence between development finance, aid for trade and debt relief.

62. **Mr. Shin** Boo-nam (Republic of Korea) said that the Seoul Development Consensus for Shared Growth and its Multi-Year Action Plan on Development, adopted at the 2010 Summit of the Group of Twenty, had identified nine key pillars to ensure inclusive and sustainable economic growth and resilience in both developing and low-income countries: infrastructure, private investment and job creation, human resource development, trade, financial inclusion, growth with resilience, food security, domestic resource mobilization, and knowledge-sharing. Successful implementation of the Seoul Consensus would help establish synergies with the plan of action being developed in preparation for the Fourth United Nations Conference on the Least Developed Countries. His country would continue to contribute to the Group's effort to expand development cooperation with least developed countries in order to ensure their sustainable, inclusive and equitable economic growth.

63. **Mr. Almeida** (Observer for Brazil) said that one of the main goals of negotiations on the Istanbul plan of action was to ensure that at least half of the least developed countries graduated to the middle-income category. He wondered whether there were mechanisms to facilitate that transition.

64. **Mr. Fernández-Arias Minuesa** (Spain) said that South-South cooperation and aid effectiveness were cross-cutting issues that would affect the new development architecture for least developed countries. He wondered whether that architecture would also apply to middle-income countries.

65. **Mr. O'Neil** (Observer for the NGO Committee on Financing for Development, accredited through Marianists International) said that increasing job growth in the least developed countries would be key to their long-term development. He supported the UNCTAD proposal of a debt moratorium for low-income countries, as well as the proposal by the non-governmental organization (NGO), Jubilee South, to use US$ 3 billion from IMF gold sales to provide grants to least developed countries.

66. **Mr. Muktamar** (Observer for Indonesia) said that, according to the Least Developed Countries Report 2010, most least developed countries were heavily dependent on aid and there was a discrepancy between their immediate and vital needs, and donors' perception of the sectors to which aid should be channelled. It would be helpful to know how that gap could be bridged. He also sought more information on how the UNCTAD proposal to use aid management policies as an instrument for mutual accountability between donors and recipients could be implemented and how it could help least developed countries establish their national priorities.

67. The preferential market access and special consideration for accession to WTO given to least developed countries had failed to boost their economies or reduce their international economic marginalization. It would be useful to know whether that failure was a result of the internal conditions in those countries or of external factors.

68. **Mr. Sipangule** (Zambia) said that ODA aimed at trade facilitation would be a more effective way to help least developed countries meet their needs. In that connection, UNCTAD and WTO should be commended for recognizing the category of least developed countries based not necessarily on their income level, but on their fragility and vulnerability. It was also encouraging to see that some cooperation partners, in particular the European Union and certain Member

States, had provided special waivers for imports from Africa. Improved infrastructure was crucial to trade between African countries; at present, as it was easier for them to export products to Europe than to their neighbours. He wondered whether WTO and UNCTAD could encourage investors to enter into private partnerships with African countries in order to strengthen trade facilitation.

69. **Ms. Burdloff** (France) said that while resources destined for the least developed countries had increased substantially in the past decade, there were great disparities in the ODA, remittances, trade revenues and external financing received by different countries; a more equitable allocation was of utmost importance. At a time of strong demographic growth and economic uncertainty, the least developed countries should invest in job creation programmes in order to make their economies more resistant to the exogenous shocks that affected the poorest segments of their population.

70. A comprehensive approach to financing for development should include remittances, revenue from tourism and mobilization of domestic resources. Special emphasis should be placed on the criteria for allocating aid and concessional financing, and on the vulnerabilities and structural handicaps of least developed countries; in the past, there had been a tendency to allocate funds on the basis of past performance. Special effort should also be made to provide long-term, stable and predictable financing, including through innovative financing mechanisms. Some of the least developed countries had already established their own innovative mechanisms. Mali, for example, had instituted a solidarity contribution on the price of airline tickets, and Madagascar had set up a debt-for-nature swap programme that helped finance biodiversity preservation initiatives.

71. **Mr. Priyadarshi** (Director, Trade and Development Division, World Trade Organization) said that categorizing the least developed countries as a group did not mean that they were being stigmatized; on the contrary, they enjoyed the preferential treatment and flexibility built into WTO agreements. In fact, many other groups had requested similar classification within WTO and the Bretton Woods institutions.

72. Nonetheless, graduation to middle-income status was more important than mere categorization. Some least developed countries that had clamoured for support to help them exit that category had become more reluctant as they got closer to achieving the standard. Although their per capita income and rank on the Human Development Index had improved, they remained vulnerable and preferred to maintain their classification as least developed countries in order to retain many of the benefits associated with that classification. In order to allay those concerns, under the Enhanced Integrated Framework for least development countries, countries that exited the category would continue to receive support for a few years after graduation in order to facilitate the transition process.

73. While external aid was important for the least developed countries, it was even more crucial to help them increase their share of global trade and their domestic revenues, ensure economic and social development, create jobs and ultimately reduce their vulnerability. With regard to innovative financing, the least developed countries should ensure that their needs were heard and prioritized by responding to the questionnaires sent out every two years by WTO as part of the Global Review of Aid for Trade. Lastly, it should be borne in mind that accession to WTO was not a panacea; while it gave countries achieved market access, they still had to overcome the challenge of improving their supply-side capacities.

74. **Mr. Gore** (Head, Policy Analysis and Research Branch, Division for Least Developed Countries, Africa and Special Programmes, United Nations Conference on Trade and Development) said it was generally agreed that an integrated approach that included finance, trade and technology was needed, that the effectiveness of development financing was more important than aid effectiveness, that trade was vital to the success of the least developed countries, that employment remained a key challenge and that the debt problem required greater attention from the international community. The target of “graduating” 50 per cent of the least developed countries to the middle-income category by 2020 was ambitious owing in part to the General Assembly’s ratification process, which applied different criteria for entering and exiting the category of least developed countries. Since some of the “graduates” had found loss of the benefits of inclusion both sudden and onerous, it was important to have a mechanism that would ensure a smooth transition.

75. Many World Bank studies had shown that innovative financing schemes were being used more frequently in middle-income countries than in low-income countries; greater efforts to apply such schemes to the least developed countries were needed. Aid management policies for some of those countries involved setting up information systems to monitor the types of aid provided and conducting peer reviews. Nonetheless, it was doubtful whether those policies could fully address the mismatch between the least developed countries' demand for more aid in production sectors and infrastructure, and donors' propensity to channel more aid into social sectors.

76. The need to reconcile donors' desire for quick results with the fact that the problems of least developed countries were best addressed through long-term initiatives posed a major challenge. After 60 years of development programmes and 30 years of structural adjustment and poverty reduction strategies, the time had come for a new way of thinking on the issue of financing for development.

The meeting rose at 1 p.m.