ECOSOC 2006 General Segment
Item 6 (b) Panel Discussion

Issues Paper
"Mobilizing resources and creating an enabling environment for poverty eradication in the Least Developed Countries: implementation of the 2004 Ministerial Declaration"

20 July 2006
3:00 p.m. – 6:00 p.m.

I. Objectives and expected outcome

Objectives

The panel discussion proposes to follow-up on the Ministerial Declaration adopted at the high-level segment of the substantive session of 2004 of ECOSOC, which was on "*Resources mobilization and enabling environment for poverty eradication in the context of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010*." Discussants will evaluate steps taken since the adoption of the Ministerial Declaration of the high-level segment and its roundtable discussions.

Discussions will particularly assess progress made in the mobilization of resources for the implementation of the Programme of Action for the Least Developed Countries (LDCs) for the Decade 2001-2010 (Brussels Programme of Action – BPoA) and identify new challenges and emerging issues that could hamper the successful achievement of this objective as envisaged in Commitment 7 of the BPoA. It will also be important to identify innovative approaches in this regard.

The panel discussion thus aims to (1) share the experiences of specific measures undertaken following the Ministerial Declaration; (2) identify areas of slow progress as well as deal with emerging issues; (3) propose ways to address challenges and emerging issues so as to ensure an enhanced mobilization of resources to meet the goals and targets of the BPoA.

Expected outcome

In September 2006, the General Assembly will undertake the mid-term comprehensive global review of the Brussels Programme of Action for the Least Developed Countries for the Decade 2001-2010. It will evaluate the achievements made in the implementation of the Programme during the last five years, the challenges these countries faced and explore the way forward for the next five years.

The outcome of the panel discussion will make recommendations for improving domestic and external resource mobilization in the LDCs during the remaining years of the BPoA.

The summary will be transmitted by the President of the ECOSOC to the President of the General Assembly and constitute an input of ECOSOC to the Mid-term Review.

II. Highlights of the 2004 ECOSOC High-Level Segment on mobilization of resources for LDCs

The 2004 high-level segment of the Economic and Social Council gathered ministers and other high-level representatives from Member States and heads of UN agencies, funds and programmes around the theme “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”. Moreover, various roundtable discussions reflected upon both foreign and domestic investment, the role of microfinance and microcredit in private sector development, trade preferences in promoting investments, partnerships in mobilizing resources, and investment in the urban services sector.

The report of the Secretary-General, “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” (E/2004/54), noted that despite a global commitment to address widespread poverty in the Least Developed Countries, most of them are unlikely to achieve the goals and targets of the BPoA. Regarding commitment 7 of the BPoA, “Mobilizing financial resources”, the report concluded that while the LDCs face a number of challenges, five aspects are of particular importance: (i) the need for the creating an enabling environment, (ii) the need for official development assistance flows in the form of grants, (iii) the creation of a global policy framework at the international level to generate resources, (iv) the promotion of partnerships, including private-public ones, at all levels, and (v) the establishment of special funding provisions for the LDCs in conflict or emerging from conflict.

The report mentions the sharing of responsibility for an effective mobilization of resources between the LDCs and the international community. Among the recommendations made to the LDCs themselves are:

- improving governance and creating solid frameworks and environments for increasing domestic savings and attracting investment;
- improving the mobilization of domestic resources through direct taxation of income and profit, and;
- expanding financial intermediation systems that includes integrating small capital flows such as remittances.

Among the recommendations made to the international community are:

- to fulfill its commitment to increase ODA flows to LDCs to the level of 0.15-0.20% of its Gross National Income (GNI);
- to respect LDCs’ national development strategies when providing aid and priorities;
- to reduce the conditionality on aid flows, and to give appropriate attention to these LDCs in conflict or emerging from conflict;
- to speed up the implementation of the HIPC Initiative for eligible LDCs, and;
- to further develop partnerships at all levels, between governments, multilateral institutions, the private sector and the civil society.

The ECOSOC Ministerial Declaration on resources mobilization and enabling environment for poverty eradication and sustainable development for the LDCs (A/59/3, Chapter III, Paragraph 49) called for a renewed commitment for the implementation of the goals and targets of the Programme of Action for the Least Developed Countries for the decade 2001-2010. LDCs Ministers recognized the need for creating an enabling environment for poverty reduction and the promotion of development in LDCs as well as for the development of the private sector. They also reaffirmed the necessity for good governance at both national and international levels for generating resources and enhance domestic resource mobilization. They underlined the role that an inclusive financial sector and the access to financial services can play for reducing the domestic savings-investment gap. The declaration included the reaffirmation of the critical role of

ODA in the implementation of the BPoA, the necessity to effectively address the debt overhang of LDCs and the role of trade in generating resources, complementing ODA and private capital flows.

III. Brussels Programme of Action - Commitment 7: Mobilization of resources

The Brussels Programme of Action recognized the “immediate need to mobilize the financial resources that are required to implement the objectives and priorities as well as the targets” of the Programme. Four main sources of financing have been recognized.

Official Development Assistance

The ODA flows of OECD/DAC countries to LDCs reached USD 23.5 billion in 2004, a 6 % increase if compared to 2003. But the volume of ODA receipts varies tremendously among LDCs, some rely heavily on ODA for external financing, especially when in a conflict or post-conflict situation. While ODA represented on average 12 % of the GNI of LDCs in 2003, in the Democratic Republic of Congo, total ODA/GNI ratio amounted to 98.6 %, in Sao Tome and Principe it reached 66.6 % and was 63.6 % in Guinea-Bissau. In Bangladesh and Yemen, ODA inflows only accounted for 2.5 % and 2.3 % of their respective GNI.

The share of ODA in the GNI of OECD/DAC Member States did not change between 2003 and 2004, remaining at 0.08%. This is far below 0.15-0.20% they had committed to. Moreover, the share of ODA to the LDCs from OECD/DAC members has reduced in 2004 compared to 2003 (32% in 2003 against 30% in 2004).

In 2001, the OECD/DAC recommended to their Member States to untie aid to LDCs to the greatest extent possible so as to contribute to increase aid effectiveness as well as to soften conditionality attached to aid and reduce the complexity of procedures. In 2005, the European Union countries agreed to further extend the scope of this recommendation also calling for fully untying food aid and food aid transport.

Moreover, the European Union renewed the decision taken in 2002 of providing 0.39 % of their GNI as ODA to developing countries by 2006, with a minimal individual country target of 0.33 % (EU-15). This target was further expanded to 0.56 % of their collective GNI by 2010 with an individual country target of 0.51 % (EU-15). They additionally committed to innovative sources of financing. As regards to LDCs, seven of the Member States have already reached the 0.20 % ODA/GNI ratio.

The 2005 World Summit called on the development partners to respect their ODA commitments contained in the Brussels Programme to provide 0.15 to 0.20% of GNI to LDCs as ODA by no later than 2010. And, during the Gleneagles Summit, the G8 also decided to boost aid to developing countries.

Foreign Direct Investment

Although LDCs have made efforts to create an enabling environment and attract foreign direct investment, inward FDI flows only amounted to USD 10,702 million in 2004, representing a 3 % increase over 2003 and 69 % over 2002. Developing countries as a whole, China excluded, received USD 172,597 million in 2004, which is a 53 % increase from 2003 and a 68% increase from 2002.

Oil and mineral rich countries received the bulk of FDI flows to LDCs in 2004. Angola and Equatorial Guinea received USD 2,048 million and USD 1,664 million respectively, which accounted for 25 % of total FDI inflows to LDCs.

Only in Mauritania, (19.6 %), the Gambia (14.5 %) and Chad (11.3 %) did the share of foreign direct investment inflows represented more than 10 % of the GDP in 2004. At the other end of the scale, this ratio neared zero in Democratic Republic of Congo, Niger and Nepal, and it stood below 1 %, in Malawi and Senegal (0.9 %), Burkina Faso and Lao P.D.R. (0.7 %), Burundi (0.5 %), Rwanda (0.4 %) and Haiti (0.2 %). Many of the latter countries experienced conflicts.

External Debt

As of April 2006, 31 LDCs take part in the HIPC initiative:, 13 of them reached the completion point, 9 reached the decision point and the rest is at the pre-decision point. These countries at the pre-decision point will have to implement economic policies and follow reforms to qualify for debt relief at the end of three years.

The G8 leaders has pledged, at the Gleneagles Summit in July 2005, to cancel 100% of the claims due to the International Development Association (IDA), the African Development Fund (ADF), and the International Monetary Fund (IMF) upon countries reaching the completion point under the enhanced HIPC initiative. As part of a debt relief deal, the World Bank and the IMF agreed to write off the debt of 19 countries that include 13 LDCs under an agreement. Nine LDCs currently at the decision point will be eligible once they reach the completion point.

In 2003, the LDCs had a total long term public and publicly guaranteed debt of about USD 133 billion and the debt service amounted to USD 3,964 million. Private non-guaranteed debt reached USD 2,404 million with a debt service of about USD 102 million in 2003.

Domestic resources and other private flows

LDCs do not generate sufficient domestic resources to finance investment requirements due to their low per capita income, low savings, structural bottlenecks and weak financial sectors. LDCs are also constrained by weak financial sectors and lack of access to financial services.

Workers' remittances emerged as a potential additional source of external financing in LDCs. They reached USD 10.4 billion in Least Developed Countries in 2004, representing the second largest source of external financing after the ODA flows that year.

IV. Discussion Points

- Mobilization of domestic resources for development - savings, private and public investment – what are the challenges?
- Mobilization and utilization of external resources: ODA, debt, foreign direct investment – what are the challenges?
- The challenges of resources mobilization in conflict and post-conflict situations
- The challenges of resource mobilization to re-build after natural disasters and disaster relief to development continuum
- How macroeconomic policies facilitate mobilization of resources: fiscal policies, budgetary policies, monetary policies for mobilization of external resources and trade and exchange rate policies for the mobilization of external resources?
- New opportunities such as migrants remittances flows, airline taxes etc.?
- LDCs efforts to create an enabling environment, enhance governance and take anti-

corruption measures.

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