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The Fourth UNLDC Conference (UNLDC-IV) in Istanbul: Exploring Ideas for Augmenting Foreign Aid Flows

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Abstract

Since 1981, the United Nations (UN) has been holding special conferences on the least developed countries (LDCs). The Fourth UN Conference on LDCs (UNLDC-IV) is scheduled to take place in Istanbul from 30 May to 3 June, 2011. The overarching objective of this paper is to raise awareness in view of the upcoming UNLDC-IV by suggesting ideas for augmenting foreign aid flows to the least developed regions in the world. It emphasises on preparing aid management policies (AMP) in order to improve aid flows both in quantitative and qualitative terms. The paper argues that increase of foreign aid is necessary if LDCs are to remain competitive and continue using international trade as a tool for promoting economic growth and socioeconomic development.

Keywords: Macroeconomy, Overseas Development Assistance (ODA), Aid for Trade (AfT), Least Developed Countries (LDCs), UNLDC-IV, Aid Management Policy (AMP)

1. Introduction

In 1971, the United Nations (UN) defined the category of least developed countries (LDCs) by classifying 24 nations as the world's poorest countries in terms of their economic performance and socioeconomic status (Annex 1 present a list of acronyms used in this paper). Today (2011), there are 49 LDCs and these account for less than 2 per cent of world's gross domestic product (GDP) and contribute about 1 per cent of global trade in goods and 0.5 per cent in services [1]. In nearly four decades since the UN's definition of LDCs, only two countries have graduated from the least developed status, Botswana in 1994 and Cape Verde in 2007. This slow progress is clearly an indication of both home-grown factors such as unrestrained population growth, rampant government corruption and economic policy mismanagement, and also external factors, in particular the international development community's performance in providing overseas development assistance (ODA) to prevent deterioration of socioeconomic conditions in these countries.

Recognising the special development needs of the LDCs, the UN has been holding special conferences on LDCs since 1981. Three such conferences had been held (the first two in Paris in 1981 and 1991, and the last one in Brussels in 2001) where Programmes of Actions were adopted to undertake various measures by the global community to help LDCs devise strategies to cope with the challenges that they face. The Brussels Declaration and the Programme of Action (BPoA) for the LDCs in view of the decade 2001-2010, put forward the framework for developmental partnership, identified goals and targets to be achieved. One of the alarming findings of the BPoA's annual review was that total net disbursed ODA flows to LDCs remained well below the committed levels during the course of the last decade [2]. In view of the upcoming Fourth UN Conference on LDCs (hereafter UNLDC-IV), set to take place in Istanbul, Turkey in May 2011, the issue of developing a comprehensive international support mechanism has gained renewed attention in the backdrop of the global economic recession of 2009 which was brought about by the global financial crisis in 2008. It is to be noted here that as part of its activism to advocate and advance the interests and concerns of LDCs, the Centre for Policy Dialogue (CPD), a civil society think tank in Dhaka, Bangladesh, in association with the Organisation for Economic Cooperation and Development (OECD) Development Centre, Paris, organised a two-day International Dialogue titled "Exploring a New Global Partnership for the LDCs in the Context of UNLDC-IV" in Dhaka, Bangladesh, on 24-26 November, 2010.

This article focuses on international assistance because the UNLDC-IV presents a key opportunity to arrest the declining trend of foreign aid flows. Relevant literature, dealing with trade and developmental related needs, and where ODA could be targeted was also studied from the LDCs' perspectives. Statistical publications of concerned organisations and trade-related databases served as major sources of both data and information for the overall paper.

The overarching objective of this paper is to help improve mutual accountability between development partners and recipient countries, and target aid for addressing real developmental needs which is restraining growth in the LDCs. However, a country cannot be developed simply by international action because the destiny of each LDC rests primarily in the hands of its own government. Global programmes of actions are, therefore, at best, supporting and complementary. It is to be recalled here that the Paris Declaration, adopted by the international development community and the members of the UN in 2005, incorporated the notion of country (recipient) ownership in terms of the foreign assistance agenda.

Layout of the Paper: The paper is divided into four sections. The following section provides a brief literature review relevant to the topic, given the already large volume of work that has been done on the foreign aid discipline. Section 2 sets the tone of the paper and argues that ODA remains a key ingredient for promoting economic growth in the LDCs. Section 3 reports on the prevailing macroeconomic and external scenario of Bangladesh. Section 4 suggests some ideas for augmenting foreign aid flows which could be considered by the representatives of LDCs and also development partners at the upcoming UNLDC-IV in Istanbul this year. Section 5 concludes.

2. Exploring the Aid-Growth Nexus

The last few years have witnessed publication of a large number of studies on aid effectiveness and the methods employed to study the subject has ranged from detailed case studies at the project level, to regression analyses of the growth impact of aid, in samples of almost hundred countries. Hansen and Tarp (2000) compared growth studies where the relationship between aid and growth was modelled as non-linear [3]. On the other hand, Burnside and Dollar (2000) found evidence of some effects by the introduction of an aid policy in the growth regressions [4]. In their model, aid contributes positively to growth, but only in healthy policy environments. Logren *et al.* (2009) also estimated that with an increase in grant aid in Rwanda, there was significant positive impact on the attainment of the MDGs, which increased both the overall living standards and the longterm prospects of economic growth [5]. According to their simulation result, higher aid flows can lead to rise in economic growth by up to 0.6 percentage points, and a fall of 3 percentage points in poverty rate by 2020 (Ibid, p.16).

Boone (1996) illustrated that aid had no impact on investment or growth in standard neo-classical growth models [6]. However, this has been questioned by many scholars. Obstfeld (1999) demonstrated that an increase in aid raises consumption and investment and also the growth rate, provided the economy is initially below the steady state [7]. Burnside *et al.* (1997) noted that in a neoclassical growth model, the impact of aid on growth will be greater when there are fewer policy distortions affecting the incentives of agents [8]. Markandya *et al.* (2010), nevertheless, suggests that on average aid is not positively correlated with real economic growth in the long run [9]. Paul (2010) examined aid allocation by donor over time by dividing allocations into four competing factors of the 4P (Poverty, Population, Policy and Proximity) framework and observed that in case of aid allocation under this approach, there was not any notable change in poverty or policy sensitivity; but it resulted in substantial and entrenched donor heterogeneity [10]. Results found that Sweden, the Netherlands and the UK are considerably more poverty sensitive than other donors (Ibid, p.25).

Gachassin *et al.* (2010) affirms that investment in tarred roads in Africa did not have a high impact on poverty [11]. However, in Bangladesh, Khandker, Bakht, and Koolwal (2006) estimated that certain road improvement projects led to a 27 percent increase in agricultural wages and an 11 percent increase in per capita consumption [12]. To sum up, though there is debate surrounding the impact of aid in promoting growth, foreign assistance remains vital as a source of external financial stimulus to address real developmental needs, such as financing the building of physical infrastructure in the LDCs.

3. Analysing Bangladesh Macroeconomy Performance

The economy of Bangladesh, in spite of the barriers to movement of factors of production, has been integrating rapidly with the global economy as a result of increased trade liberalisation. **Table 1** below provides some indicators which captures this trend. Trade integration of the Bangladesh economy with the global market has resulted due to various economic and trade policy reforms executed in the mid-1980s and in the 1990s. The trade integration of Bangladesh's economy with the global market registered a remarkable rise from 13.5 per cent in 1981 to

Table 1. Bangladesh Macroeconomy Scenario 1981-2010 (in Million USD).

Indicators of Trade Integration	FY 1981	FY1991	FY 2001	FY2010
1. Export (X)	725.0	1718.0	6467.0	16204.7
2. Import (M)	1954.0	3472.0	9335.0	23738.4
3. Remittance (R)	379.0	764.0	1882.0	10987.4
4. ODA Disbursed	1146.0	1733.0	1369.0	2080.0
5. FDI (net)	0.0	24.0	550.0	636.0
Total (1-5)	**4204.0**	**7710.5**	**19603.4**	**53646.5**
GDP (Current Price)	19811.6	30974.8	47306.0	99434.3

Source: CPD Trade Database (compiled from the Bangladesh Bank and Export Promotion Bureau).

40.2 per cent in 2010. The share of ODA in relation to the GDP, during the nearly three-decade period, declined from 5.8 per cent to 2.1 per cent. It is encouraging that today the value of foreign aid received by the country accounts for 12.8 per cent of the total exports earnings by Bangladesh.

Similarly, the ratio of ODA to total export and remittance increased from 1:1.4 in 1991 to 1:13 in 2010. In other words, for every US$ 1 received in the form of ODA, there can be an additional generation of external earnings worth US$ 13. Total export stood at US$ 16.2 billion and imports US$ 23.2 billion in 2010, compared to US$ 1.7 billion and US$ 3.5 billion respectively in 1991. It is of little surprise that ODA flows were 3 times more than remittance in the 1980s and 1990s, but today, this trend has reversed and remittance flow is about 5 times more than incoming ODA. The external sector, including export of human resources, has played an important role toward the improvement of the macroeconomy performance by Bangladesh. ODA, nevertheless, finances about 12 per cent of social programmes in Bangladesh [13]. Aid finances about one-third of the fiscal deficit of Bangladesh and also about half of the annual development programme (ADP), the key of the country's progress.

In 2008 and 2009, there was a sharp and very heterogeneous slowdown in growth in the LDCs. Today, in the post-crisis scenario, these low-income countries are at a critical juncture in which they face a double jeopardy: they must 1) provide employment opportunities to the millions of young people who are entering the labour force each year within an open-economy context; and, 2) *ab intio* promote, and subsequently, sustain production level in the aftermath of the global economic recession within their available infrastructural setting. It is to be recalled here that the Aid for Trade (AfT) initiative was launched following the fifth WTO Ministerial Meeting in Hong Kong in 2005 to assist LDCs in their endeavour of building productive capacities to promote and sustain economic growth. But it is yet to deliver the desired outcomes.

Table 2 presents the declining share of LDCs in ODA disbursement vis-à-vis developing countries. It is to be noted here that between 2001-2005, donors provided US$ 11.2 billion to build economic infrastructure, US$ 8.9 billion for productive capacities (including US$ 2.0 billion for trade development) and US$ 0.6 billion for increasing the understanding and implementation of trade policy and regulations [14]. Interestingly, the US's AfT strategy to support infrastructure has increased significantly in recent years, almost entirely driven by spending in Iraq and Afghanistan, making it one of the highest contributors of AfT flows. These two war-inflicted countries can be said to have consumed a considerable share of ODA flows in the last decade which would otherwise have been channeled towards other LDCs with longstanding problems.

According to UNCTAD's LDCs Report 2008, LDCs as a group witnessed average GDP growth rates of 7.7 per cent in 2005-2006 which was the highest recorded in the last 30 years [15]. This extraordinary growth was directly attributed to the liberalised trade regimes of these countries and many developed countries' open market policies (most notably the US, Canada and the EU). Some LDCs have experienced strong macroeconomy structural transformation from being dependent on foreign aid, to completely relying on trade in order to support their economic growth. Bangladesh is one such example whose aid dependency (in terms of GDP) declined from 12.0 per cent in the 1990s, to less than 3.0

Table 2. Performance of development partners.

	Commitment (in million USD)		**Disbursement (in Million USD)**	
	2002	**2009**	**2002**	**2009**
Total Aid	66101.65	148437.75	58575.46	120000.11
Developing Countries	46354.88	109443.08	41737.65	95830.33
LDCs	10841.15	30052.59	9598.92	24602.72
Afghanistan and Iraq	1307.61	8138.05	980.62	7488.06
Bangladesh	**699.57**	**1618.81**	**640.98**	**897.28**
Share of LDCs (%)	16.40	20.25	16.39	20.50
Share of Developing Countries (%)	70.13	73.73	71.25	79.86
Share of Bangladesh (%)	**1.06**	**1.09**	**1.09**	**0.75**

Source: Authors' calculation from OECD/DAC database.

per cent by 2010. The Report recommended preparing aid management policies (AMP) in order to ensure its developmental effectiveness (Section 4 elaborates on this topic).

The Global Competitiveness Report (GCR) 2009-2010, published annually by the World Economic Forum (WEF), reported that Bangladesh (and many other LDCs) seriously lacks a competitive business environment, which is a prerequisite for any country that is aspiring to accelerate economic development [16]. The GCR revealed that after nearly a decade of domination as the most hindering factor of doing business in Bangladesh, corruption declined to the second spot making way for infrastructure. A CPD AfT needs assessment survey also ranked *infrastructure* as the most severe barrier constraining smooth operation of business activities in Bangladesh [17].

4. An Agenda for the UN LDC IV Conference

It is evident now that despite high growth rates in LDCs, progress towards inducing structural transformation, *i.e.*, diversifying their economies so that agriculture, manufacturing and services are able to expand alongside a wider range of higher value added tradable products, has remained latent. The absence of key factors (mainly foreign assistance, both quantitative and technical) required to kick-off the structural transformation has inhibited LDCs from embarking on an inclusive and sustainable growth process, which was the overarching objective of the Brussels Programme of Action (BPoA) in 2001. Accordingly, academicians have provided a number of explanations to interpret the stagnant economic status of the LDCs. These include inadequacy of the traditional macro-economic framework, a lack of strategic trade and investment policies, poor efforts in domestic policy and institutional reforms, low effectiveness of international support measures and absence of a LDC voice in the global economic governance.

It can be safely affirmed that the developmental role of aid has been neglected in favor of overemphasising social expenditures in the LDCs. Collier (2011) suggests that there should be shift in donors' priorities from the "romantic rural-social agenda… to a more practical urban-economic agenda" [18]. But before moving on to the more qualitative issues of aid, first and foremost, it needs to be underlined here that all developed countries need to put in a concerted effort toward meeting their commitment of providing 0.20 per cent of their gross national income (GNI) as ODA specifically to the LDCs within a specific timeframe (e.g. 2016). At the same time, it would be rational to assess the increase in ODA inflows to LDCs against the rapid building up of international reserves (from US$ 15 billion in 2000 to US$ 43 billion in 2006), which has reduced the availability of external resources. LDC governments should consider initiating a global investment guarantee scheme, designed on their terms, so as to reduce risk-premium which they currently pay for foreign investment (Collier, 2011).

The second recommendation is to prepare an 'Aid Management Policy' (AMP). It is worth noting here that in Rwanda, the Joint Strategy Cooperation (JSC) document and the Donor Performance Assessment Framework (DPAF) has facilitated the monitoring process of aid flows [19]. The AMP would consist of both the JSC and DPAF mechanism, dictated under the principles of Paris Declaration, in order to increase mutual accountability and country ownership of national development strategies. This would help to promote joint government assessment and induce a strategic shift towards financing short-term and demand-driven programmes of action with mutually agreed conditionalities. Suffice to mention that an AMP would be tailored to meet specific needs of the LDCs in view of their respective diverse market conditions, complementing national development plans (Five Years Plans, PRSPs, etc). The AMP would take an integrated approach to balance national planning by combining different elements of aid in a comprehensive development programme which would assist in addressing impeding concerns deterring economic growth, such the severe dearth in physical infrastructure.

Thirdly, LDCs should explore possible sources of non-traditional development partners to connect with each other and their neighboring countries. The latter should play an incremental role in providing ODA to LDCs (e.g. India's US$ 1 billion to Bangladesh in 2010). The loan is expected to finance implementation of 14 specific development projects. These would provide both a quantum and qualitative leap to road, railway and navigational connectivity between India and Bangladesh with transit for Bangladesh to Nepal and Bhutan and vice-versa. The prospect for improving South-South cooperation should be accelerated to promote financial and technical cooperation in view of the success attainted by the Greater Mekong Subregion (GMS) in recent times. In the 18 years since its inception, the GMS *Economic Cooperation Program* has built an impressive record showcasing the great potential of the AfT agenda. As the region's development bank, the Asian Development Bank (ADB) is the agent for mobilising and channeling AfT funds to the 8 LDCs located in Asia. Upto 2009, 41 GMS projects were implemented at an estimated cost of US$ 11 billion. Of this, ADB has extended loans worth US$ 3.8 billion and provided co-finance worth US$ 4 billion [20].

The GMS north-south corridor, which links China and Thailand through Laos, illustrates what can be achieved by harmonising the AfT agenda with national priorities. In 1997, it took three days for goods to move across the 270 km section of dirt track along the corridor in Laos and today, that same trip takes only 4 hours with a large increase in commercial traffic, thanks to a US$ 90 million project funded by China, Thailand and ADB (Kuroda, 2009). Overall, the GMS initiatives have brought rapid expansion to corridor projects and the transport and trade facilitation programme has already created a domino effect which is being replicated in other subregions around developing Asia, such as the recent Central Asia Regional Economic Cooperation (CAREC) initiative. Country ownership should be conceived as regional partnerships and therefore, since the Paris Declaration does not refer to such partnerships, the parties could opt for emulating the principles of mutual accountability for developing a transparency framework with regard to aid flows in the LDCs.

5. Looking Forward

Coping with trade related and other external adjustment costs, and putting in place the necessary productive capacity building initiatives have emerged as critically important factors in enabling LDCs to address the formidable constraints and take advantage of the opportunities originating from the global integration process. This makes the issue of augmenting foreign aid flows all the more necessary. Especially at a time of low demand, measures to promote and sustain business competitiveness could prove to be critical in terms of improving the required supply-side response. In order to support Bangladesh's and other LDCs' strategies of using international trade as a tool for development and poverty reduction, the major constraints that need to be addressed by foreign assistance as a priority, therefore, are those which also directly hampers their integration process with regaional and global markets (e.g. physical infrastructure).

As UNLDC-IV is set to take place in Istanbul, Turkey in May 2011, the issue of addressing the emerging needs of the LDCs has come to the forefront. Paradoxically, despite the talk of 'solidarity', practical economic cooperation is alarmingly weak among LDC governments than among their counterparts in OECD. To initiate change, LDCs have to assume the responsibility to work together for clear and time-bound objectives and supportive domestic policies may also need to be reprioritised. The international development community must also take on the responsibility of meeting their commitments in terms of ODA disbursement and there is an urgent need to induce a strategic shift from social agenda to the more developmental concerns. It is hoped that the UNLDC-IV will pave the way for strengthening mutual recognition of socio-economic needs and priorities between development partners and recipient countries in order to activate a sustainable aid- growth agenda.

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Annex 1: List of Acronyms

4P	Poverty, Population, Policy and Proximity
ADB	Asian Development Bank
AfT	Aid for Trade
AMP	Aid Management Policy
BPOA	Brussels Programme of Action
CAREC	Central Asia Regional Economic Cooperation
CPD	Centre for Policy Dialogue
DPAF	Donor Performance Assessment Framework
GCR	Global Competitiveness Report
GDP	Gross Domestic Product
GMS	Greater Mekong Subregion
GNI	Gross National Income
JSC	Joint Strategy Cooperation
LDC	Least Developed Country
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
PRSP	Poverty Reduction Strategy Paper
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNLDC-IV	Fourth UN Conference on LDCs
WEF	World Economic Forum

