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Concept Paper

Aid for Trade: An Industrial Agenda for Least Developed Countries (LDCs)

Ministerial Conference

Siem Reap, Cambodia

19-20 November 2008

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List of Acronyms and Abbreviations

ACP	Africa, Caribbean and Pacific Group of Nations
AfT	Aid for Trade
AITIC	Agency for International Trade Information Cooperation
ASEAN	Association of South East Asian Nations
BPoA	The Brussels Programme of Action for LDCs
CTD	WTO Committee on Trade and Development
DDA	Doha Development Agenda
DF	Duty Free
DFQF	Duty Free and Quota Free
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
ECOWAS	Economic Community for West African States
EIF	Enhanced Integrated Framework
EGM	Expert Group Meeting
EU	European Union
IF	Integrated Framework
IFI	International Finance Institutions
IFSC	Integrated Framework Steering Committee
IFWG	Integrated Framework Working Group
ITC	International Trade Centre
FAO	United Nations Food and Agriculture Organization
GDP	Gross Domestic Product
HACCP	Hazard Analysis Critical Control Point
IMF	International Monetary Fund
LDC	Least Developed Country
MA	Market Access
MPEE	Ministry of Planning, Economy and Empowerment (Government of the United Republic of Tanzania)
MVA	Manufacturing Value Added
NPM	New Public Management
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PDR	People's Democratic Republic
PEM	Public Enterprise Management
PSD	Public Sector Development
PFC	UNIDO's Programme Co-ordination and Field Operations Division
PSD	UNIDO's Private Sector Development Branch
PTC	UNIDO's Programme Development and Technical Co-operation Division
RTA	Regional Trade Arrangement
SoE	State-Owned Enterprise
SSC	South-South Co-operation
SPP	UNIDO's Special Programmes Group
UN	United Nations
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank
WTO	World Trade Organization

Preface

In recent years, many Least Developed Countries (LDCs) have achieved encouragingly high rates of economic growth, partly due to the commodity price boom and the availability of trade preferences. However, their relative achievements are compromised by a number of factors such as overreliance on primary commodity exports, rising costs of fuel, food and manufactured imports, as well as persistent structural impediments on the supply side for effectively engaging in global trade.

Against this backdrop, the LDCs Ministerial Conference, which was organized by UNIDO in collaboration with the G-77 and China, and held in Vienna from 29 to 30 November 2007, explored at length how the opportunities emerging from such new instruments as Aid for Trade (AfT) and the Enhanced Integrated Framework (EIF) could be used to help to the LDCs transform their economies.

As a follow-up to the Vienna LDCs Ministerial Conference of November 2007, and in order to underscore UNIDO's commitment to the AfT and EIF programmes, the next LDCs Ministerial Conference will be held in Siem Reap, Cambodia, from 19 to 20 November 2008. As part of the preparations for Siem Reap, a technical workshop was held in Kigali, Rwanda, from 8 to 9 September 2008.

In keeping with the Vienna Declaration, which had requested UNIDO to assist the LDCs achieve sustainable industrial development as a means for accelerating their integration into the global economy, the Ministerial Conference will address issues associated with AfT and EIF, and will provide LDCs with the opportunity to vet and make contributions to the support programmes proposed by the various development partners.

This Concept Paper, which was intended to contribute to deliberations at the Workshop held in Kigali in September 2008, and at the forthcoming Siem Reap LDCs Ministerial Conference, contextualises the issues related to AfT and EIF, and UNIDO's involvement in the two programmes. It also describes UNIDO's approach for mainstreaming AfT and EIF in its programme of support for LDCs, aimed at building LDCs supply side capacities.

The paper is divided into seven parts:

- **Part I** puts the subject in context. It describes the position of the LDCs in the global economy, shows why they need support from development partners, and introduces the response of the development partners through the evolving tools of AfT and EIF.
- **Part II** describes AfT as a tool for building the competitiveness of LDCs. It presents a concise overview of AfT's targets, as a complement to the development dimensions of the multilateral trade negotiations through the Hong Kong Trade Ministerial Conference Declaration.
- **Part III** illustrates the EIF as a tool for building the competitiveness of LDCs. It portrays the link between EIF and AfT. It also describes the instruments, process, guiding principles, dominant issues, status of implementation, and limitations.
- **Part IV** elaborates UNIDO's involvement and role in AfT and EIF. It covers the essence of UNIDO's approach, its objectives, and guiding principles. It also describes how UNIDO involves the stakeholders and partners in the design of its support programmes for LDCs.
- **Part V** elaborates on the considerations for strengthening UNIDO's development support for LDCs through AfT and EIF programmes, including key considerations, modalities for determining the feasible supply-side interventions, and how the South-South cooperation initiative is integrated into the two programmes.
- **Part VI** elaborates on the technical inputs and expectations from the Siem Reap LDCs Ministerial Conference.
- The way forward is included in **Part VII,** and includes lessons learned and options.
- The **annexes** include a list of LDCs (Annex A), and the Vienna Ministerial Declaration of Least Developed Countries (Annex B).

I. CONTEXT

A. Introduction

1. The United Nations (UN) currently designates 49 countries as LDCs: 33 from Africa, 15 from Asia and the Pacific, and 1 from the Caribbean. These countries are so designated on the basis of low incomes, human assets and economic vulnerability. Annex C shows the continental distribution of these countries.

2. Given the situation of their economies, and in order to support their efforts to eradicate poverty, the LDCs need special assistance to improve their economic performance through the development of viable productive capacities that will lead to sustainable export capabilities. With this objective in view, this group of states has been calling for targeted assistance to address the supply side constraints that they face, alongside the comprehensive Duty-Free and Quota-Free (DFQF) Market Access (MA) for their products to the developed countries, which they already enjoy. Generally, it is agreed that MA alone, in the absence of export capacities, will not enable LDCs to participate meaningfully in international trade.

3. An examination of the indicators of international competitiveness of LDCs in terms of production and trade, suggests that there are underlying structural weaknesses that inhibit their participation in the international trading system. Those structural weaknesses point to the inherent limitations on the use of preferential trade arrangements alone in achieving the desired goal of enhancing the participation of LDCs in international trade. As a result, the tools and programmes intended to expedite the integration of this group of countries into the global economy should address those structural constraints as well as evolve in the light of pertaining circumstances and needs.

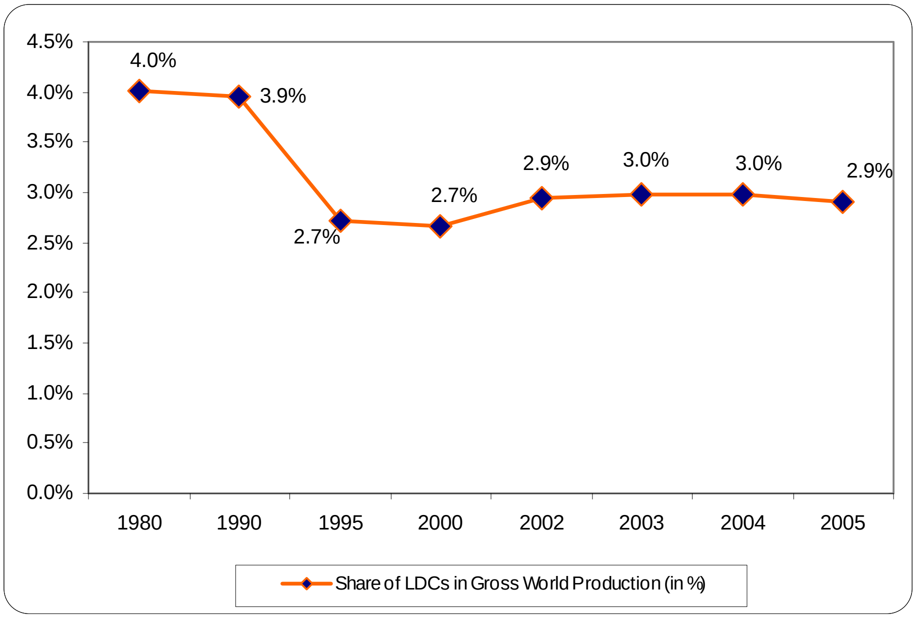
B. Integration of Least Developed Countries into Global Production

4. The status of integration of the LDCs into global production is demonstrated by such indicators as their shares of global production, structures of Gross Domestic Product (GDP), growth of GDP, Manufacturing Value Added (MVA), etc.

<u>Share of Global Production</u>

5. Figure 1 portrays the evolution of the share of LDCs in world production for selected years. One of the salient features of LDCs is that their shares of global population and production are inversely related. For instance, the shares of LDCs in global production were 3.9 per cent, 2.7 per cent and 3.0 per cent in the years 1990, 2000, and 2004 respectively. By comparison, the shares of this group of countries in the global population in the same years were 9.9 per cent, 11.1 per cent and 11.6 per cent respectively (see UN 2007: 434 and 452). Therefore, while their share in global production is declining (e.g. by 7.3 percentage points between 1990 and 2004), their share in global population is increasing (e.g. by 1 percentage point between 1990 and 2004).

Figure 1: __Evolution of the Global Share of Production of LDCs__



Sources: Own calculations based on UN (2007b). *UNCTAD Statistical Year Book 2006-2007*. United Nations Conference on Trade and Development, New York and Geneva.

__Structure of Gross Domestic Product__

6. Table 1 shows the structures of GDP of selected LDCs (Benin, Cambodia, Lao PDR, Lesotho, Mozambique, Senegal, Rwanda, and Yemen), computed using data from the UNCTAD (see UN 2007b). It underscores the strong dependence on agriculture, despite some inter-country differences.

Table 1: __Structure of GDP of Selected LDCs in 2005__

		Structure of GDP				MVA per capita
S/N	Country	Agriculture	Industry		Services	in US$ in 2006
			Manufacturing	Other		
1.	Benin	36.2%	8.9%	6.1%	48.8%	33
2.	Cambodia	35.2%	19.4%	6.9%	38.5%	87
3.	Lao PDR	46%	21.0%	16.9%	26.1%	87
4.	Lesotho	17.1%	18.9%	21.1%	42.9%	101
5.	Mozambique	21.8%	12.7%	12.6%	52.8	60
6.	Senegal	14.7%	12.3%	7.8%	65.2%	70
7.	Rwanda	42.1%	9.3%	10.6%	38.0%	28
8.	Yemen	13.7%	5.5%	37.1%	43.7%	28

Source: Based on **(1)** UN (2007b). *UNCTAD Statistical Year Book 2006-2007*. United Nations Conference on Trade and Development. New York and Geneva, **(2)** UNIDO (2008). *International Yearbook of Industrial Statistics 2008*. United Nations Industrial Development Organization, Vienna.

Notes: GDP … Gross Domestic Product, MVA ... Manufacturing Value Added.

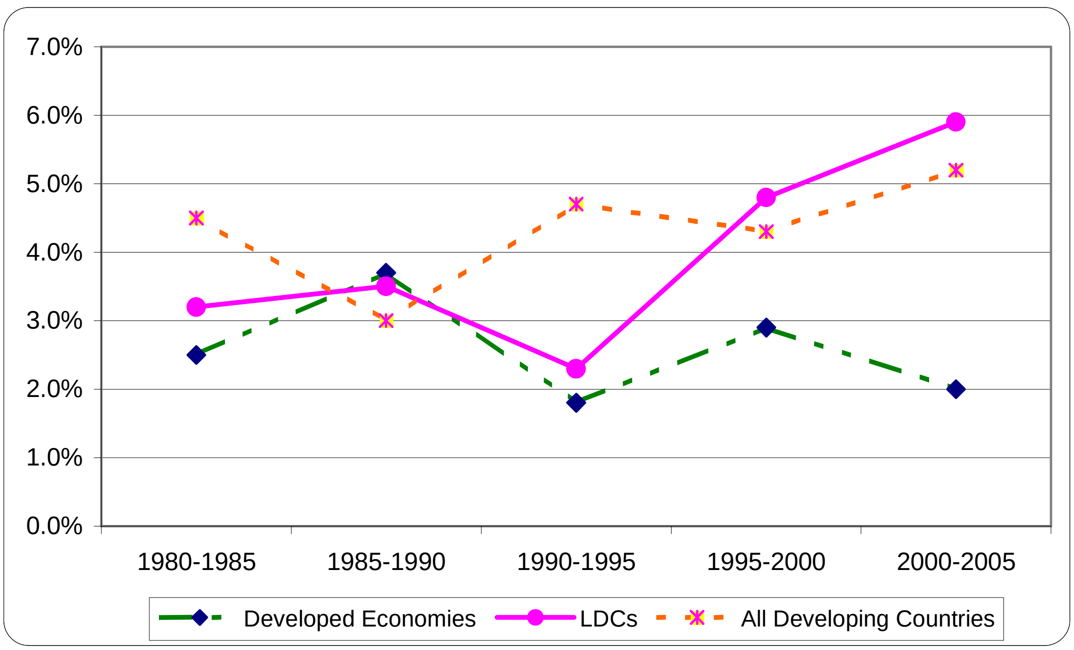
7. The most important observation that can be derived from the information contained in Table 1 is the relatively small share of manufacturing and large share of agriculture contributions to GDP. By comparison, for example, Austria's GDP in 2005 was composed of agriculture (1.6%), manufacturing (19.4%), other industry (12.3%), and services (68.6%). In the case of Denmark in the same year, the shares were agriculture (2.1%), manufacturing (13.3%), other industry (13.6%), and services (74.0%).

8. To elaborate more on the situation, as further demonstrated in Table 1, the sample LDCs have very low MVA per capita in 2006, ranging from US$28 for Rwanda and Yemen, and US$101 for Lesotho. By comparison, the average figures for Austria, Denmark, and industrialized countries in the same year were US$ 4,928, US$ 4,003, and US$ 3,656 respectively (see UNIDO 2008: 36).

<u>Growth of Gross Domestic Product</u>

9. The rate of growth of GDP gives useful hints about the performance of the economy. Because of the need to catch up, LDCs must grow faster than other economies. Figures 2 and 3 present comparative overviews of the rates of growth of total GDPs, as well as of GDP per capita. The long-term growth trend (1980 to 2005) presented in figure 2 indicate encouraging trends, in that this group of countries recorded significant growth rates, which were higher than the growth rates of both the developed countries and the developing countries as a whole.

Figure 2: <u>Comparative Growth Rates of Real Total GDP in Selected Country Groupings</u>



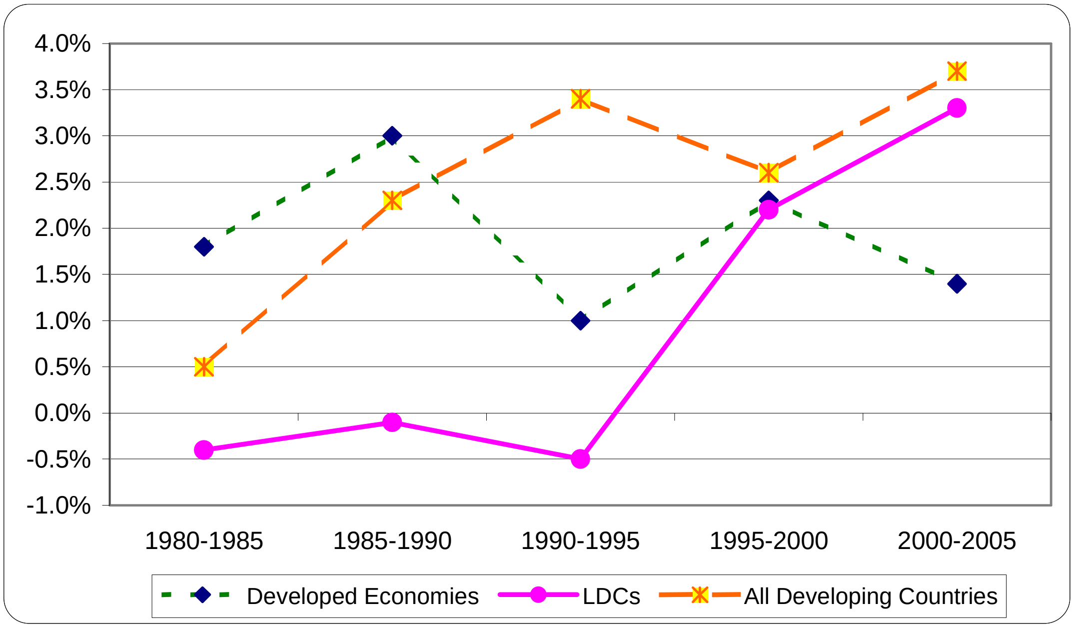
Source: Based on (1) UN (2007b). *UNCTAD Statistical Year Book 2006-2007*. United Nations Conference on Trade and Development, New York and Geneva.

(2) UN (2002). *UNCTAD Handbook of Statistics 2002*. United Nations Conference on Trade and Development, New York and Geneva.

10. Further scrutiny ravels two further important facts:

(a) As demonstrated in Figure 3, although the overall growth rate of GDP of LDCs has been strong, growth rates of GDP per capita remained below the growth rates of the developing countries as a group.

Figure 3: ***<u>Comparative Growth Rates of Real GDP Per Capita in Selected Country Groupings</u>***



Source: Based on (1) UN (2007b). *UNCTAD Statistical Year Book 2006-2007*. United Nations Conference on Trade and Development, New York and Geneva.

(3) UN (2002). *UNCTAD Handbook of Statistics 2002*. United Nations Conference on Trade and Development, New York and Geneva.

(b) Also, as evidenced by the situation in Tanzania, in some LDCs, the GDP growths are still driven by basic commodities produced by the agricultural and mining sectors, and less by value-adding and manufacturing activities. Thus, in Tanzania, despite the high annual growth rates of industry (due to heavy investments in mining), the sector's contribution to GDP growth is subdued and remains even below the service sector for the period 1990 to 2004. The substantial contribution to growth by agriculture underlines the strong linkages amongst agriculture, rural development, and total development, and will have a bearing on the success of any poverty alleviation strategy.

Table 2: __Drivers of the Growth of GDP in Tanzania__

		Average Annual Growth Rate			Average Contribution to Annual Growth		
S/N	Economic Activity	1990-1994	1995-1999	2000-2004	1990-1994	1995-1999	2000-2004
1.	Agriculture	3.1%	3.6%	4.8%	1.5%	1.8%	2.3%
1a.	*Crops*	*3.20%*	*3.90%*	*4.80%*	*1.1%*	*1.4%*	*1.7%*
1b.	*Livestock*	*2.50%*	*2.70%*	*4.10%*	*0.2%*	*0.2%*	*0.3%*
1c.	*Forestry and Hunting*	*2.80%*	*2.40%*	*3.90%*	*0.1%*	*0.1%*	*0.1%*
1d.	*Fisheries*	*3.40%*	*3.70%*	*6.60%*	*0.1%*	*0.1%*	*0.2%*
2.	Industry	2.0%	5.4%	8.7%	0.3%	0.9%	1.5%
3.	Services	1.9%	3.8%	5.9%	0.7%	1.3%	2.0%
4.	Total	2.5%	4.0%	5.8%	2.5%	4.0%	5.8%

Source: MPEE (2005). *Poverty and Human Development Report*. Research and Analysis Working Group, Ministry of Planning, Economy and Empowerment, Dar es Salaam.

Manufacturing Value Added of LDCs

11. Manufactured goods dominate global trade. In 2005, they accounted for approximately 81 per cent of total world exports. As indicated in the "UNIDO International Yearbook of Industrial Statistics 2008" LDCs play an insignificant role in the production of manufactured goods. Their share of global MVA was 0.4 per cent in the same year, and averaged only around 0.3 per cent in recent years. These trends are in stark contrast to those exhibited by non-LDC developing countries during the same period, whose share rose from 21.6 in 1999 to 28.1 in 2005 (see Table 3).

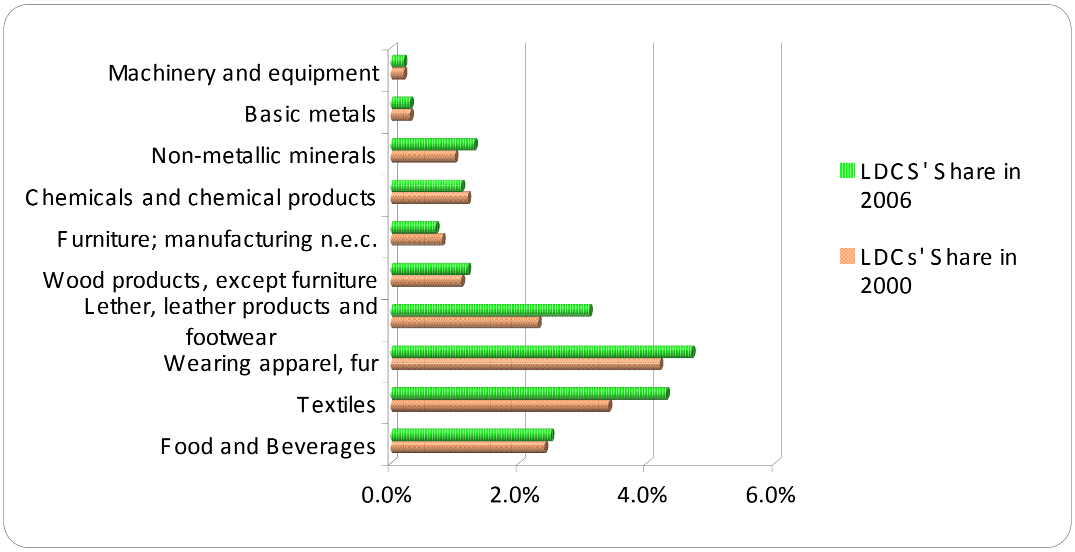
Table 3: __Percentage Distribution of World MVA, 1995 to 2005 (at constant 2000 prices)__

	1999	2000	2001	2002	2003	2004	2005	Average of 1999- 2005
Industrialized Countries share	78.1%	76.2%	75.2%	74.8%	74.6%	73.8%	71.5%	75.5%
Developing countries (non-LDC) share	21.6%	23.5%	24.5%	24.9%	25.1%	25.8%	28.1%	24.2%
LDCs share	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.3%

Source: UNIDO (2008). *International Yearbook of Industrial Statistics 2008.* United Nations Industrial Development Organization, Vienna.

12. LDCs account for a small share of MVA in developing countries as well. Figure 4 shows their shares of MVA in selected product groups in the years 2000 and 2006, computed using data from UNIDO (see UNIDO 2008). Notably, for the sample product groups, in 2006, they attained shares of at least 4 per cent in only textiles (4.3 per cent) and wearing apparel/fur (4.7 per cent). Overall, their shares remain low, and in some cases they have been either stagnating or even decreasing.

*Figure 4: **LDCs' Share of Developing Countries' MVA in %***



Source: Based on UNIDO (2008). *International Yearbook of Industrial Statistics 2008*. United Nations Industrial Development Organization, Vienna.

13. The constellation portrayed in Table 3 and Figure 4 underlines why LDCs' share of trade in manufactures is also insignificant.

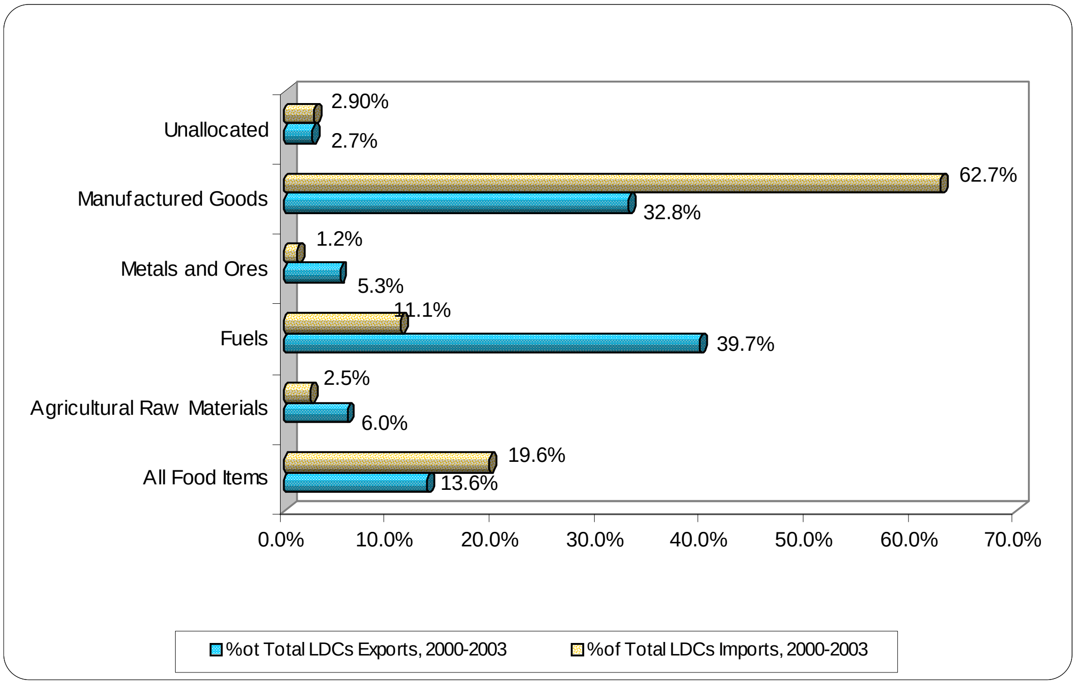
(c) Integration of Least Developed Countries into Global Trade

14. The performance of LDCs in global trade mirrors their performance in global production. This is demonstrated by, among other things, the structural composition of their exports, their export market dependencies, the growth of their trade in absolute terms *vis-à-vis* growth of their global share of trade, vulnerability to import surges, etc.

Structural Composition of the Exports of LDCs

15. According to "UNCTAD Least Developed Countries Report 2006" (see UN 2006), in terms of product portfolio, agricultural and mineral raw materials continue to account for the overwhelming share of the exports of LDCs. As depicted in Figure 5, from 2000 to 2003, primary commodities (i.e. all food items, agricultural raw materials, fuels, and metals and ores), accounted for 32.8 of their exports. During the same period, manufactures accounted for 62.7% per cent of the imports of LDCs.

Figure 5: Merchandise Trade Structure in LDCs, 2000-2003



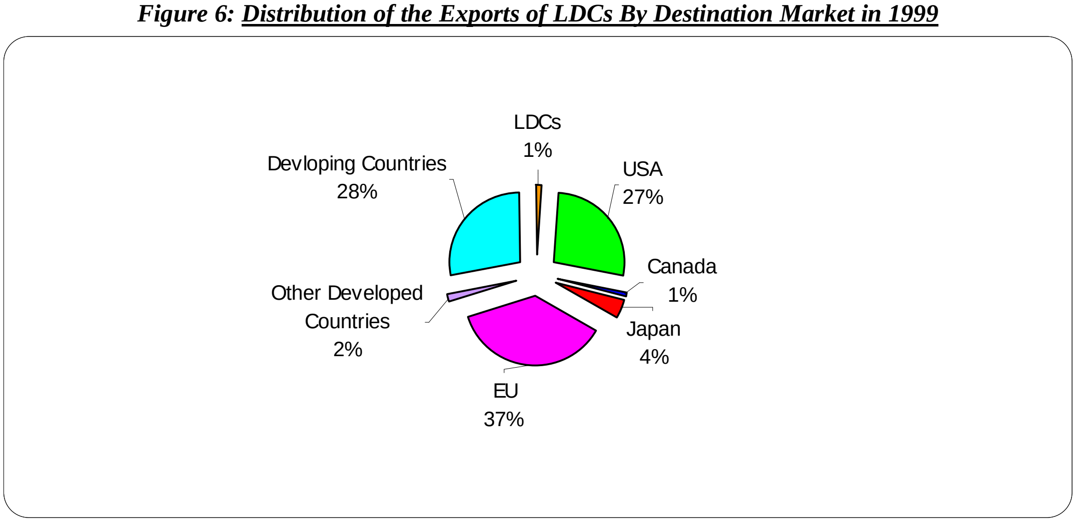
Source: Based on UN (2006). *The Least Developed Countries Report 2006: Developing Productive Capacities*. United Nations Conference on Trade and Development. New York and Geneva.

Export Market Dependence of LDCs

16. Evidences show that, when the developing countries are taken as a group, their share in global trade is increasing at a phenomenal pace: from 20 per cent in 1970, to 25 per cent in 1990, and to 35 per cent in 2003. In part, this is attributed to increased South-South trade. Thus, according to "UNCTAD Statistical Year Book 2006-2007", in 2005, South-South exports accounted for 16.1 per cent of the total global exports (see UN 2007: 72, 85).

17. Unlike the more advanced developing countries, the trade among LDCs is insignificant, and this group of countries heavily depend on developed countries and non-LDC developing countries as their markets (Figure 6). As indicated in figure 6, in 1999, slightly above 98 per cent of their exports went to these two groups of countries (i.e. around 70 per cent and 28 per cent to the former and latter groups of countries, respectively). Intra-LDC trade was very low, at about 1 per cent.

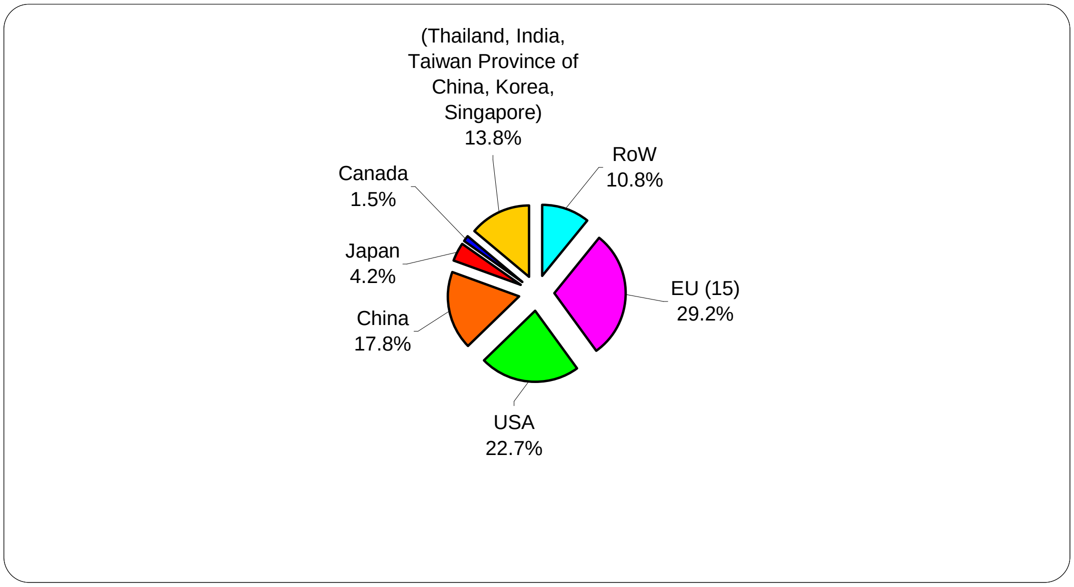
Figure 6: Distribution of the Exports of LDCs By Destination Market in 1999



Source: Generated using data from UNCTAD and the Commonwealth Secretariat.

18. Figure 7 presents the distribution of exports of the LDCs to different markets. On an average between 1995 and 2004, 63.05 per cent of LDC exports went to four major developed countries markets (EU, USA, Japan and Canada). A further 22.14 per cent was destined for 7 major non-LDC developing countries' markets (China, Taiwan Province/China, Thailand, India, Korea and Singapore).

Figure 7: ***Exports of LDCs to their Top 10 Markets vis-à-vis Rest of the World, as Shares of Total Exports of LDCs, Averages of 1995 to 2004***



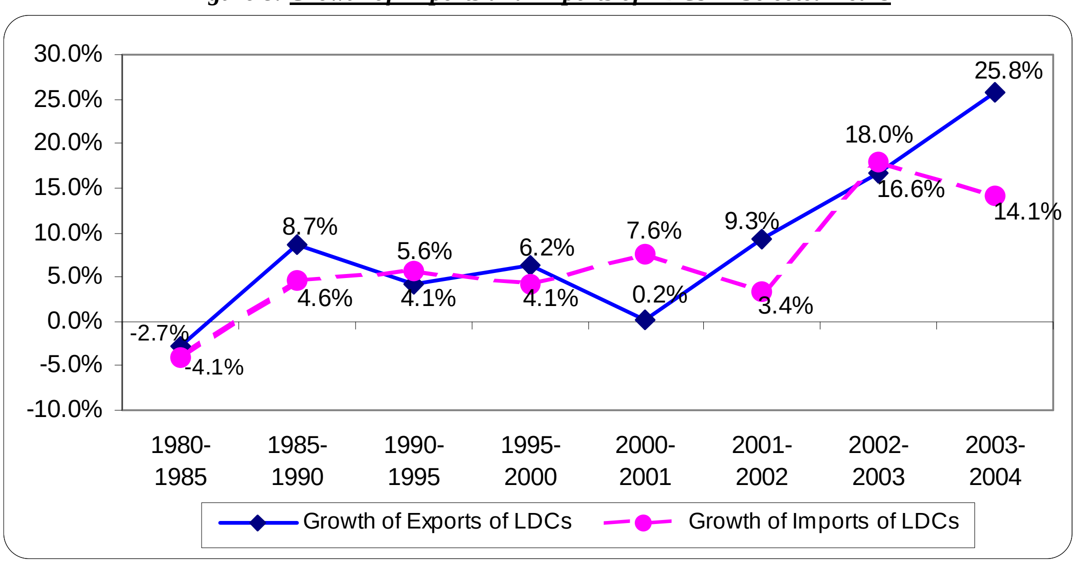
Source: Based on UNIDO (2007). *How Can Aid for Trade Transform LDCs?: Background Paper*. Nations Industrial Development Organization. Vienna, November

Note: RoW (Rest of the World)

Growth of Trade vis-à-vis Growth of the Global Share of Trade

19. Figure 8 presents the export and import growth rates of LDCs in selected years from 1980 to 2003-2004. Despite variations, the general trend was positive. While in the period 1980-1985, exports declined by 2.5 per cent, in 2003-2004 they grew by 25.8 per cent. Likewise, though the imports declined by 4.1 per cent in the period 1980 to 1985, they recorded positive growth rates thereafter, peaking at 18 per cent in 2002-2003.

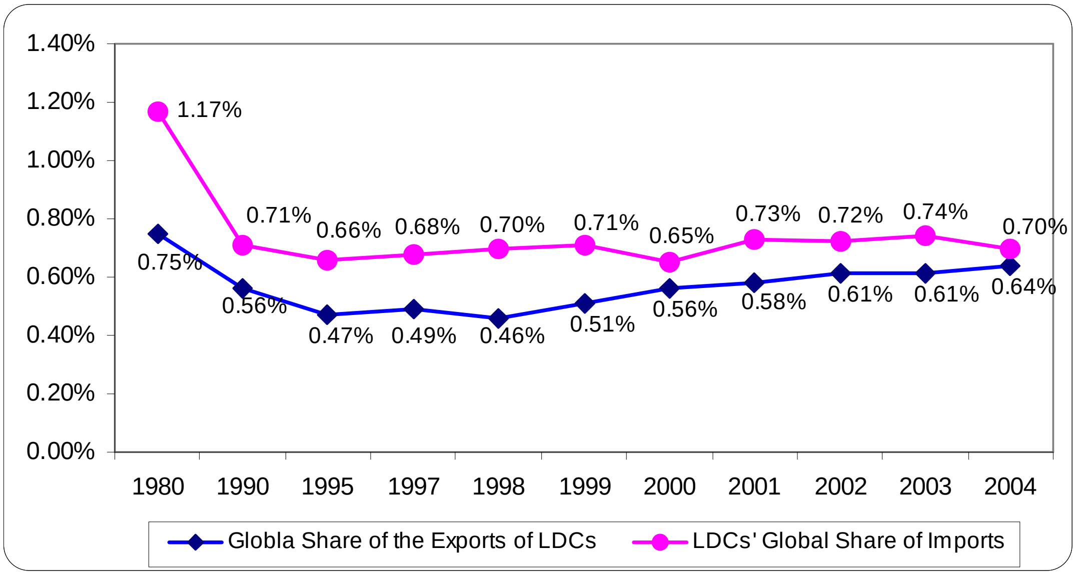
Figure 8: ***Growth of Exports and Imports of LDCs in Selected Years***



Source: Based on UN (2006). The Least Developed Countries Report 2006: Developing Productive *Capacities*. United Nations Conference on Trade and Development. New York and Geneva.

20. However, a closer scrutiny reveals a rather disturbing scenario. The overall growth of exports and imports of LDCs did not result in higher shares of global trade. As shown in Figure 9, the global share of the exports of LDCs grew marginally by 0.18 percentage points from 0.46 per cent to 0.64 per cent, between 1998 and 2004. During the same period, the imports of LDCs as a share of global imports *de facto* stagnated.[1] This underscores the poor integration of LDCs in global trade.

Figure 9: ***Integration of LDCs into Global Trade: Evolution of the Global Share of Trade***



Source: Based on UN (2005). *UNCTAD Statistical Year Book 2005*. New York and Geneva.

21. These results show that though LDCs are being gradually integrated in global trade, the pace is too slow to give real prospects for an early catch-up.

Vulnerability to Import Surges

22. Because of their weak productive capacities, LDCs have been experiencing competition from imports into their domestic markets. As a result, since the mid-1990s, there have been increasing incidences of LDCs as well as non-LDC developing countries experiencing import surges, particularly in agricultural commodities. These surges are largely attributed to substantial liberalization of trade, partly unilaterally and partly through Regional Trade Arrangements (RTAs). Evidence from selected studies, presented in Table 4, demonstrates the impact of trade liberalization. Also, in all cases of the relationship between domestic production and import surges, available empirical studies reveal that surges were not a result of shortfalls in domestic production. (cf. Matambalya 2007, UNCTAD 2006, Sharma et al. 2005).

[1] The situation is partly attributed to the fact that the growth in export revenues of LDCs were mainly caused by price booms, while in terms of volume they grew much less (see Newfarmer 2007).

Table 4: Selected Evidence of Import Surges in LDCs Induced By Trade Liberalization

Coverage	Main Findings		Other Observations/Implications
			1. Matambalya 2007
Tanzania	Surges of food imports Maize and milk	⇒ ⇒	Evidence of surges of imports of maize from 2000 through to 2004 Evidence of surges of imports of milk 1998 through to 2001
			2. UN 2006
All LDCs	Surges of food imports (Rice, Sugar, Maize, Bovine Meat, Wheat, Milk, Poultry Meat, Pig Meat, Tomatoes, Tomato Paste)	⇒	Evidence of import surges involving products produced in LDCs and/or their substitutes
			3. Sharma et al., 2005
Tanzania and Senegal	Surges of food imports (Poultry, Dairy)	⇒ ⇒ ⇒	Existence of domestic market fragmentation De-linking of major urban markets from domestic production Crowding-out of domestic investments

Sources: Based on

(1) Sharma, R. (2005). *FAO Commodity and Trade Policy Research Working Paper No. 11*. United Nations Food and Agriculture Organization, Rome.

(2) UN (2006b). *The Least Developed Countries Report 2006: Developing Productive Capacities*. United Nations Conference on Trade and Development. New York and Geneva.

(3) Matambalya, F. (2007). *Tanzania Study on Special Products and the Special Safeguard Mechanism*. International Centre for Trade and Sustainable Development, Geneva.

Major Issues

23. The export structure of LDCs is highly concentrated in terms of product range and markets. This imposes vulnerability in their trade position, for obvious reasons.

24. Regarding preferences, LDCs can substantially gain from DFQF access into the markets of developed countries in particular, and developing countries which are in a position to offer preferences (as depicted by the trade links in Figures 6 and 7). As a result, LDC exports can benefit from the terms and conditions of market access offered by developed and non-LDC developing countries. The ongoing WTO negotiations, as well as negotiations in other fora (particularly, regional trade arrangements, and bilateral) can be used to find a viable solution to promote the exports of LDCs.

25. Given the limitations on productive capacities and supply capabilities, the evidence presented in the preceding paragraphs suggests that without addressing the supply bottlenecks, LDCs will not be in a position to competitively, meaningfully, and significantly benefit from the global trading system.

(d) Why is the Global Competitiveness of LDCs Limited?

26. There is general consensus that trade can influence economic growth through various channels, including capital movements, transfer of technologies and knowledge, stimulation of entrepreneurial activities, etc. In turn, economic growth can translate into generating resources for sustainable development, which is a necessary condition for the alleviation of poverty.

27. In view of these normative linkages, one of the responses of the international community towards assisting LDCs has been to extend to them special MA treatment in the international trading

system, aimed at enabling them to reap the benefits of trade. However, the results achieved by preferential treatment has been paltry for most LDCs, due to both the inherent limitations of the MA provisions, and the non-existent or weak productive capacities that would have strategically positioned them to benefit from such preferences.

Inherent Limitations to Use Preferences

28. The inherent limitations to use MA preferences are underlined by the limited capacity of LDCs to exploit them. Those limitations of MA provisions can measurably be demonstrated by, among other things, the Utilisation Rate of Preferences (U)[2] and the Utility Rate of Preferences ($\boldsymbol{\Phi}$).[3]

29. Table 5 depicts the Utilisation Rate of Preferences and the Utility Rate of Preferences. The relatively low values of both rates suggest that there is a substantial mismatch between the EU preferences and the export structure of the ACP economies.

Table 5: Utilization and Utility Rates of EU Preferences by ACP economies under the Lomé and Cotonou Agreements, 1998 to 2004

Year	Utilization rate of Preferences (U)	Utility Rate of Preferences ($\boldsymbol{\Phi}$)	$U - \boldsymbol{\Phi}$
1998	68,10%	68,10%	0,00%
1999	81,60%	81,20%	0,40%
2000	71,70%	71,30%	0,40%
2001	76,20%	76,10%	0,10%
2002	81,70%	79,00%	2,70%
2003	74,60%	70,90%	3,70%
2004	70,70%	64,90%	5,80%

Source: Matambalya, F. (2008). *Identifying Products of Defensive and Offensive Interests in Both EPA Trade Regime and WTO Negotiations for Commodity-Dependent ACP Economies: Lessons from an Empirical Review of Tanzania's Agricultural Sector*. In Ngangjoh-Hodu, Y. and Matambalya F. (Eds) (2008). *Development Challenges In The European Union – Africa Trade Beyond The Cotonou Preferences*. The Nordic Africa Institute, Uppsala.

[2] The Utilization Rate of Preferences compares value of imports receiving preferences $\boldsymbol{M}_{PR}$ with the value of imports eligible for preferences ($\boldsymbol{M}_{EPR}$). It is estimated as $\boldsymbol{\Phi} = \frac{\boldsymbol{M}_{PR}}{\boldsymbol{M}_{EPR}}$, where $\boldsymbol{\Phi}$ is utilization Rate of Preferences.

[3] The *Utility Rate* of Preferences (also *Product Coverage Ratio*) is a simple ration that compares the value of imports receiving preferences ($\boldsymbol{M}_{PR}$) and the value of total imports ($\boldsymbol{M}$). It is estimated as $U = \frac{\boldsymbol{M}_{PR}}{\boldsymbol{M}}$, where U is *Utility Rate* of Preferences.

30. Additionally, Table 6 depicts the percentage of total developed country imports from LDCs and non-LDC developing countries accorded DF access (1996-2005). Thus, it gives further clues about ($\boldsymbol{\Phi}$). In this case too, deviations of ($\boldsymbol{\Phi}$) from 100% indicate the magnitude of mismatch between the EU preferences and the export structure of the ACP economies.

Table 6: <u>Percentage of Total Developed Country Imports from LDCs and Non-LDC Developing Countries Admitted Free of Duty (1996-2005)</u>

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
					Excluding Arms					
1. Non LDCs	*53%*	*54%*	*54%*	*62%*	*63%*	*67%*	*66%*	*71%*	*76%*	*76%*
2. LDCs	68%	69%	81%	76%	75%	78%	75%	78%	81%	82%
					Excluding Arms and Oil					
3. Non-LDCs	54%	55%	54%	63%	65%	64%	68%	70%	75%	75%
4. LDCs	78%	77%	78%	72%	70%	71%	70%	73%	79%	79%

Source: Matambalya, F. (2008). *Identifying Products of Defensive and Offensive Interests in Both EPA Trade Regime and WTO Negotiations for Commodity-Dependent ACP Economies: Lessons from an Empirical Review of Tanzania's Agricultural Sector*. In Ngangjoh-Hodu, Y. and Matambalya F. (Eds) (2008). *Development Challenges In The European Union – Africa Trade Beyond The Cotonou Preferences*. The Nordic Africa Institute, Uppsala.

<u>Lacking Productive Capacities</u>

31. LDCs face a plethora of constraints, which stifle the efforts dedicated at enabling them to achieve economic transformation, and therefore be in a better position to benefit from the MA opportunities offered by the international trading system.

32. Therefore, productive capacity has been a subject for debate in development cooperation. That debate has focussed on attempting to arrive at a common comprehension of the meaning and scope of the term, and also in order to defining appropriate responses through development co-operation programmes. Though there is no universally acceptable definition of productive capacities (as the driving force of economic transformation), and the term is still evolving, revisiting some definitions and statements related to the subject reveals common threads:

(a) According to UNIDO " … *the key to raising productivity to competitive levels lies in improving industrial capabilities … The process involves creating new skills …. It requires obtaining technical information, assimilating it and improving it. It entails institutional rather than individual capital, with new managerial and organizational methods, new ways of storing and disseminating information and of managing internal hierarchies. It also needs interaction between enterprises—firms do not learn on their own—and between enterprises and support institutions. Finally it requires the factor markets that provide skills, technology, finance, export marketing and infrastructure to respond to the new needs of enterprises*" (see UNIDO 2004; also cited in paragraph 171 in UNIDO 2007c).

(b) According to UNCTAD, productive capacity refers to " … *the productive resources, entrepreneurial capabilities, and production linkages, which together determine the capacity of a country to produce goods an services and enable it to grow and develop*" (see UN 2006; also cited in paragraph 170 in UNIDO 2007c).

(c) According to the WTO " … *supply-side constraints refer to impediments to the development of capacity to produce goods and services competitively and to the ability to get them to markets at a reasonable cost. …Such a broad definition covers a wide scope of issues impeding the LDCs' participation in international trade. The issues range from physical infrastructure, customs, trade support services and human and institutional capacity … Dependence on a few commodities is a typical feature of LDCs' export profile and is closely associated with their weak supply-side capacities. Overcoming supply-side weakness is a precondition for developing and diversifying a sustainable export portfolio*" (see WTO 2004; also cited in paragraph 172 in UNIDO 2007c).

33. The key terms, which are contained in these definitions and statements underline the multi-dimensional character of "productive capacities" that include, among other things: human capital-related dimensions (skills, entrepreneurial capabilities, managerial and organizational methods), information management dimensions (technical information, market information), institutional dimensions (institutional resource capacities, institutional learning abilities, institutional networking, strategies for institutional positioning in the value chain), physical infrastructure-related dimensions, and business/trade support services.

34. The Brussels Programme of Action (BPoA) for LDCs sees *structural constraints* and *supply constraints*, as major factors limiting their competitiveness (see BPoA 2001).

35. Figure 10 highlights some of the key constraints, which directly or indirectly impact on the investment, production and supply capacities of the LDCs, thereby influencing their trading capacity.

Figure 10: Constraints to LDCs' Rapid Economic Transformation

Source: Own.

Major Issues

36. The situation portrayed in Figure 10 suggests that LDCs cannot effectively participate in the global value chain and this limits their prospects for benefiting from international trade. To be able to meaningfully participate in the global value chain, concerted efforts are needed to build their productive capacities. The elements include *investment promotion, institution building, building of physical infrastructure, promoting structural changes in the economy (from commodity-dependency to more balanced sectoral development), increasing labour productivity (through proper education, training, motivation, etc.), market development* (targeting both domestic and international markets), *business*

sector development (embracing the twin components of private sector development – PSD, and New Public Management – NPM), and *development/transfer of technologies* (*by supporting research and innovative capacities*) that are economically competitive and viable (see also UNIDO 2008c). In some countries, *land reforms* will help to release the extra economic potential that is restricted by the current land ownership and use systems. Moreover, the development process should be embedded in an effective governance system that provides a viable environment for doing business.

37. Ideally, a holistic approach is needed to address all the constraints highlighted in Figure 10. However, a holistic approach, while desirable, is likely to spread the resources thin and reduce the effectiveness of aid. Therefore, it is necessary to carefully analyse, prioritize, and choose the scope and depth of support in tackling the specific constraints.

38. In contrast, by concentrating the resources to prioritized activities, a selective approach will channel critical masses of resources into the supported areas and therefore be more effective, particularly if the prioritised areas of support are those in which the country can comparatively easily build competitive capacities. Besides, a single actor, such as UNIDO, cannot afford to address all the constraints, because of its limited competence and mandate. Hence, it is necessary to carefully analyse, prioritise, and choose the scope and depth of support.

39. Thus, consistent with the current thrust of industrial policy, specific support by UNIDO could, *inter alia*, encompass the following:

i. For the transformation of the production structure: support to comply with standards, creation of infrastructure for industrial/manufacturing clusters, etc.

ii. For the transformation of the trade structure: cluster development, assistance to integrate into the global value chain, building critical export masses through consortia, sector specific technology support, etc. They will depend on the degree of success of the transformation of the production structure.

iii. For addressing the skills gap: assistance to the design and offer of education and training programmes in industrial and trade policies, assistance to integrate programmes on industrial and trade policies in educational curricula. Pertinent measures need to be synchronised with the other prioritized areas of support.

iv. To address the challenge of capital gap: support to improve the business environment through investment incentives (to be addressed by industrial policy), improvement of labour skills, and provision of adequate infrastructure.

v. To address under-utilisation of land: support appropriate policies to improving land use, considering that it is the most basic and accessible resource in LDCs, which can form the bases for agri-business-driven industrial transformation.

vi. For entrepreneurship and enterprise development: support in terms of appropriate entrepreneurship education and training, business development services, and promotion of different types of businesses, etc.

vii. The key issues regarding institutional constraints include: support for the creation of competent institutions, and elimination of the causes for institutional failure are necessary measures for supporting the economic transformation in LDCs.

viii. The infrastructural obstacles (which reflect supply-side rigidity and increase the transaction costs) can be addressed through selective approach, where the necessary infrastructure is provided in designated areas, e.g. in areas designated as Export Processing Zones (EPZs).

ix. In addressing technology issues, consideration should be made of how the R&D approach can be blended with the non-R&D approach to technology development.

40. Table 7 depicts the issues arising from contemporary industrial policy thrust, and possible modalities for narrowing down from a wide spectrum to prioritized support measures.

Table 7: __Generating Supply Capacities Building Measures for LDCs: Examples of Issues Arising from Contemporary Industrial Policy Thrust__

Constraint	Solution	Required Support Measures	Examples of Prioritization and Selection of Support Measures By UNIDO
1. Production structure: Concentrated production portfolio	o Promote sectoral diversification o Develop strategic intersectoral linkages o Identify and prioritize dynamic sectors	Primary sector-specific	Capacity to comply with commodity standards
		Secondary sector-specific	Infrastructure for industrial/manufacturing clusters
		Tertiary sector-specific	Strategic services
		Quaternary sector-specific	Limited competitiveness potentials by LDCs
		Quinary sector-specific	Limited competitiveness potentials by LDCs
2. Trade Structure: concentrated portfolio	o Diversification of export product portfolio o Develop capacity for large order requirements o Promote dynamic tasks o Promote value added products	Enterprise-specific measures	o Cluster development (build value chains) o Support to comply with various standards o Support to integrate into the global value chain o Build export consortia (for diversification, large order requirements, etc.)
		Sector-specific measures	Sector-specific technology support
		Market-specific measures	Export market development / diversification
3. Factor inputs: labour skills gap	o Management skills o General skills o Technical / technological skills	Measures related to industrial policy and trade policy: o Education o Training o Other means of exposure	o Assistance to integrate industrial / trade policy in curricula o Assistance to design/offer general/tailor-made education/training programmes on o Industrial policy o Trade policy o Link to the priority products, tasks, sectors, institutions
4. Factor Inputs: Capital Gap	Development of viable domestic institutional framework for for business / investment financing	Development of financial institutions: o Banks o Commercial Finance Companies o Venture Capital Firms o Government Loan Programmes, etc.	Appropriate measures not in UNIDO's area of competence and mandate
	Access to international capital	Guarantee schemes by: o Domestic institutions o International institutions	Appropriate measures not in UNIDO's area of competence and mandate
	Improvement of business environment (to attract investments)	Design and sustain appropriate policy	Appropriate elements of industrial policy, e.g., investment incentives
		Improve labour skills	As in (3) above
		Provide adequate infrastructure, etc.	Complementary measures by development partners
5. Factor Inputs: Underutilization of Land	Design appropriate policies to improve access to and utilization of land as an entrepreneurial good	o Studies on best land use practices o Promote agribusiness	o Carry out land reforms o Develop linkages between land and agribusiness

Source: Own.

Table 7: Generating Supply Capacities Building Measures for LDCs: Examples of Issues Arising from Contemporary Industrial Policy Thrust – contd.

Constraint	Solution	Required Support Measures	Examples of Prioritization and Selection of Support Measures By UNIDO
6. Entrepreneurship and Enterprise Development	Entrepreneurship education/training (General, as well as in association with techno-entrepreneurship)	Business planning	Undertake these activities with linkage to techno-entrepreneurship
		Promotion technology innovation & creativity culture: o Raise awareness about quality and standards o Promote R&D approach to technology development (relevant for large and small firms) o Promote non-R&D approaches to technology development (particularly for small firms)	o Design quality improvement measures through: o Benchmarks for quality and standards o Quality improvement campaigns (funding, competitions, exposure tours) o Design modalities for provision of fiscal incentives to innovators: o Subsidized credit o Technology tax rebates o Design modalities for promoting venture capital-driven technology acquisitions
		Other SME "extension" services o Entrepreneurship skills development o Business environment o Financing entrepreneurial activities	Undertake these activities with linkage to techno-entrepreneurship
	Business development services (General, as well as in association with techno-entrepreneurship)	o Business registration and licensing o Product market information o Factor market information	Undertake these activities with linkage to techno-entrepreneurship
		Performance analysis tools, etc.	Use of COMFAR to make business projections
	Diversification of the enterprise population (by type of firms)	Promotion different types of businesses[4] (general, as well as in association with techno-entrepreneurship)	o Tailor-made support firms engaged in strategic tasks, products, and sectors o Tailor-made support of technology-oriented firms
7. Institutions: gaps, weak, dysfunctional	o Create competent institutions to support market economy o Eliminate causes for institutional failures	Extend assistance to create and sustain various institutions (i.e., with various functions) that are necessary to sustain a competitive market economy	o Support creation of appropriate institutions: private sector apex organizations (e.g., chambers), standards organizations, technology promotion organizations (e.g., technology centres, Universities, research centres, etc.), industrial promotion organizations (for large scale and small scale firms), metrology institutions, etc. o Devise means to address institutional failures
8. Trade-related physical infrastructure	o Transport infrastructure o Storage infrastructure o Communications infrastructure o Energy infrastructure	Development, modernization, maintenance	o Support strengthening of energy infrastructure o Support strengthening of infrastructure for metrology, standards, testing and quality (MSTQ) o Support infrastructure relevant for strategic tasks, sectors, type of firms, etc.
9. R&D and innovation systems	Sustainable institutionalization of R&D and innovation systems	o Strengthen R&D in public and private sector o Promote: sectoral innovation systems, R&D approach to technology development, Non-R&D approaches to technology development, International collaboration in technology development	o Critical mass of funding of R&D and innovation systems o Support establishment of specialized research institutions / think tanks, including those specializing in specific sectors o Develop research personnel through: education / training and exposure
10. Good governance	Institutionalize good governance	Support to adopt / develop good governance criteria	Appropriate measures not in UNIDO's area of competence and mandate

Source: Own.

[4] Various criteria are used to categorize firms, including: legal form, form ownership (private, state, mixed), remunerative status (firms engaged in economic activities that are directly remunerative, firms engaged in economic activities that are not directly remunerative), sectoral belongingness (primary, secondary, tertiary, quaternary, quinary), size (micro, small, medium, large), status of formalization (formal and informal sector firms), etc.

(e) Essence of Global Support to Build the Competitiveness of LDCs

41. LDCs cannot attain competitiveness without rapid, substantial, and sustainable economic transformation. However, the envisaged economic transformation entails determined efforts to embark on a number of initiatives, including building trade-related infrastructure. Such undertakings are not only costly, but also require long gestation periods.

42. Hence, the tasks involved in building the necessary capacities for sustainable economic transformation pose formidable challenges that can hardly be overcome by LDCs on their own. Invariably, collective efforts by the international community are needed to tackle the pertinent challenges and put the LDCs on sustainable development paths. In the same spirit, the tasks for building competitive trading capacities of LDCs require integrated and coherent approaches, in which the contributions of the various actors complement each other.

(f) Evolving Tools to Expedite the Integration of LDCs into the Global Economy

43. Cognizant of the need for broad-based cooperation in supporting the LDCs' aspirations for integration into the global economy, measures have been taken by the international community, whose main objective is to address the many obstacles that restrain the competitiveness of LDCs:

i. The IF was endorsed at the High Level Meeting on Integrated Initiatives for LDCs Trade Development (HLM) in October 1997. Following practical lessons gathered by the agencies implementing the programme, it was revamped through the creation of Enhanced Integrated Framework (EIF) in July 2000.

ii. A concrete AfT framework was agreed upon in October 2006, and this multilateral, and multi-agency work programme was formally launched in 2007.

44. The current focus of the international community is on AfT and EIF. Both programmes offer realistic prospects to alleviate the supply-side constraints in *various economic sectors* and *various stages of the value chain*. The current thrust is towards the implementation of the programmes through the mobilization of resources, and designing of operationalization of specific support measures. The movement to the next stage has been recommended through various fora, including the cited Vienna UNIDO LDC Ministerial Conference (2007), CTD Meeting on the AfT Road Map (2008), etc.

II. AID FOR TRADE AS A TOOL FOR BUILDING THE COMPETITIVENESS OF LDCs

A. Origin

45. AfT has been an important element of overall Official Development Assistance (ODA) flows and policies for many years. A new work programme on AfT was launched by WTO Trade Ministers at their Hong Kong Conference in 2005. It recognizes the fact that more intensive and extensive support is needed to help developing countries, especially the LDCs, to build up their trade capacity in order to benefit from the improvements to market access for their exports that the Doha Round of multilateral trade negotiations was mandated to secure. The work programme aimed also to tackle other areas of trade-related support that developing countries might need, such as coping with the effects of preference erosion (see Page and Velde 2007).

46. In its evolution, AfT was debated in several fora, and before its inclusion in the Hong Kong Trade Ministers Conference Declaration, it was already mentioned in such key documents, as the July Framework (Agreement of 2004).

47. A Task Force selected from among WTO Member governments produced its recommendations on the WTO's AfT work programme in a report to the WTO's General Council in July 2006. This report recommended that the role of the WTO and its secretariat was to be limited to monitoring AfT and to catalyzing the activities of multilateral and regional development banks and development agencies who have the necessary mandates, experience and expertise to address the challenges limiting meaningful and beneficial participation of LDCs and non-LDC developing countries in global trade. AfT aims to help solve the supply-side constraints of developing countries, mitigate the adverse effects of liberalization, and build the developing countries' capacity to negotiate and implement the agreed trade rules. In this regard, the AfT offers realistic prospects to alleviate supply-side constraints in various economic sectors and stages of the value chain.

48. In its current status, the AfT initiative builds on three key considerations: addressing supply-side constraints, mitigating adverse effects of liberalization by providing a mechanism for addressing the adjustment costs associated with it, and building the capacity to negotiate and implement the agreed trade rules. In this context, using the AfT initiative, UNIDO can design support measures in several areas to address a number of supply-side rigidities outlined in Figure 10.

B. Generic Targets of Aid for Trade

49. In line with the recommendations of the WTO's AfT Task Force, the AfT initiative identifies six key areas of possible support to the targeted countries. These are *trade policy regulations*, *trade development, building productive capacity* (including trade development), *trade related infrastructure*, *trade-related adjustm*ent, and *other trade-related needs*.

50. The OECD (2006) sees the operationalizing of the AfT initiative as an expanding agenda (see figure 11), which technically corresponds to the following major areas of support:

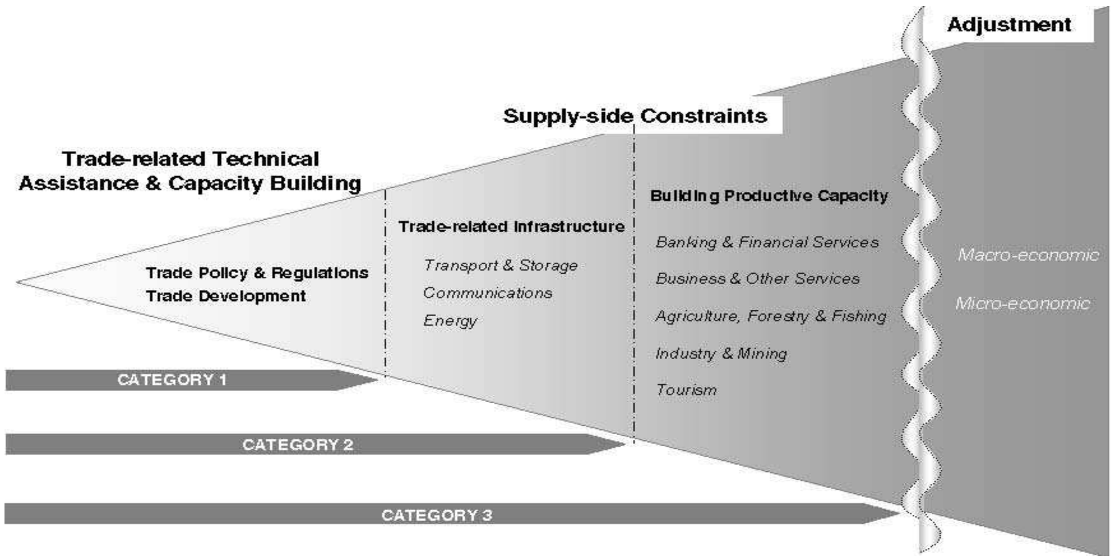
(a) Trade policy and regulations. This embraces training, analysis of proposals and positions and their impact, support for stakeholders to articulate commercial interests and identify trade-offs, dispute issues, support to facilitate implementation of trade agreements and to adapt to, and comply with, rules and regulations.

(b) Trade development. This covers investment promotion, analysis and institutional support for trade in services, business support services and institutions, public-private sector networking, e-commerce, trade finance, trade promotion, market analysis and development.

(c) Trade-related infrastructure. Its elements are transport and storage infrastructure, communication infrastructure, and energy infrastructure.

(d) Building productive capacity, including banking and financial services, business services, agriculture, forestry and fishing, industry and mining, tourism, etc.

Figure 11: <u>Aid for Trade as an Expanding Agenda</u>



Source: OECD (2006). *Aid for Trade: Making It Effective*. Organization for Economic Cooperation and Development, Paris.

51. The essence of contributing to the agenda for *trade policy regulations* arises from the limitations LDCs face in bargaining for better terms of access to global markets. Thus, though improved MA is a necessary condition for bolstering the trade performance of LDCs, they usually lack the leverage needed to obtain good bargains. Typically, MA offers are eroded through many "exclusions" (e.g. safeguards, rules of origin, etc.). Special and differential treatment (SDT) offers a partial solution, albeit an imperfect one.

52. Redressing the supply side constraints epitomising LDCs and other developing economies, is equally, if not more, important. Their trade potentials tend to be sub-optimally utilised due to lack of hard infrastructure (e.g. transport and storage infrastructure) to facilitate commercially viable production and trade.

53. Empirical estimations reveal that due to the poor state of infrastructure, freight costs account for around 15 per cent and 30 per cent of the export value of all African economies and landlocked African economies, respectively. Thus, a container shipment from Baltimore (USA) to Durban (South Africa) costs US$ 2,500, and an extra US$ 9,500 from Durban to Mbabane in landlocked Swaziland (see Hoekman 2006).

54. The under-utilization of trade potentials is exacerbated by lack of soft infrastructure (e.g. a wide range of skills including those in international marketing and trade, market information systems, trade advocacy and promotion institutions, innovation and technology development systems, etc.)

55. The net result of the poor, or dysfunctional, infrastructure for economic development is that LDCs have a severely limited capacity to supply the required quantities and qualities of marketable goods and services.

C. Mandate s Established Through the Doha and Hong Kong Declarations

56. The Doha Ministerial Declaration established technical assistance and capacity building as a key component of the development dimensions of the multilateral trading system. Subsequently, the Declaration of the 2005 Hong Kong Trade Ministers Conference created the AfT Task Force within the WTO and initiated a work programme for the same.

57. In 2006, the WTO Task Force on AfT came up with a set of recommendations regarding the management of the programme. These recommendations were endorsed in 2006, and the WTO was mandated the role of monitoring their implementation. Monitoring and evaluation consist of an annual global review that is held in the WTO Committee on Trade and Development (CTD), followed by a debate in the WTO General Council.

D. Dominant Issues in the Current AfT Debate

58. From the debate on AfT, which has been taking place in several fora[5] the following issues appear to be important in advancing that agenda on the subject:

(a) Identification of (production-side or supply-side) constraints facing exporters in LDCs and non-LDC developing countries, which could be addressed by the AfT programmes and the resources awarded to it.

(b) Designing national, **sub-regional** and regional programmes to harness AfT resources, in conformity with the niche of the development partners that are expected to provide the relevant support services in question (which should reflect their agenda and mandates).

(c) Launching programmes (through action plans) and monitoring their implementation.

(d) Coordinated, interactive programme management, consisting of:
   - (i) Leadership role of, and ownership by, beneficiary LDCs.
   - (ii) Supportive roles of development partners.

(e) Using measurable indicators to assess achievement in terms of input and output through:
   - (i) AfT flows review, using "**trade-related ODA flows"** as part of the **creditor reporting system** of the Organization for Economic Cooperation and Development (see OECD 2006).
   - (ii) AfT impact assessments, using measurable indicators of the development of trade capacity in LDCs (pilot reviews in Africa, Asia, and Latin America).

59. Critical issues present themselves for UNIDO's action:

a) Several supply-side or production-side constraints limit productivity, efficiency and conformity to standards. They include both, *lack or poor state of hard* infrastructure (e.g. transportation infrastructure, storage facilities, laboratory facilities for quality control, etc.), and *lack, or poor state, of soft infrastructure* (e.g. institutions, knowledge and skills, technological capabilities, etc.)

b) It is important to ensure that assessment of AfT covers both – the efficiency of aid delivery as well as the development impact achieved.

[5] Refer, *inter alia*, to the statement by the DG of WTO at the CTD meeting held in Geneva on 25 February 2008 on AfT.

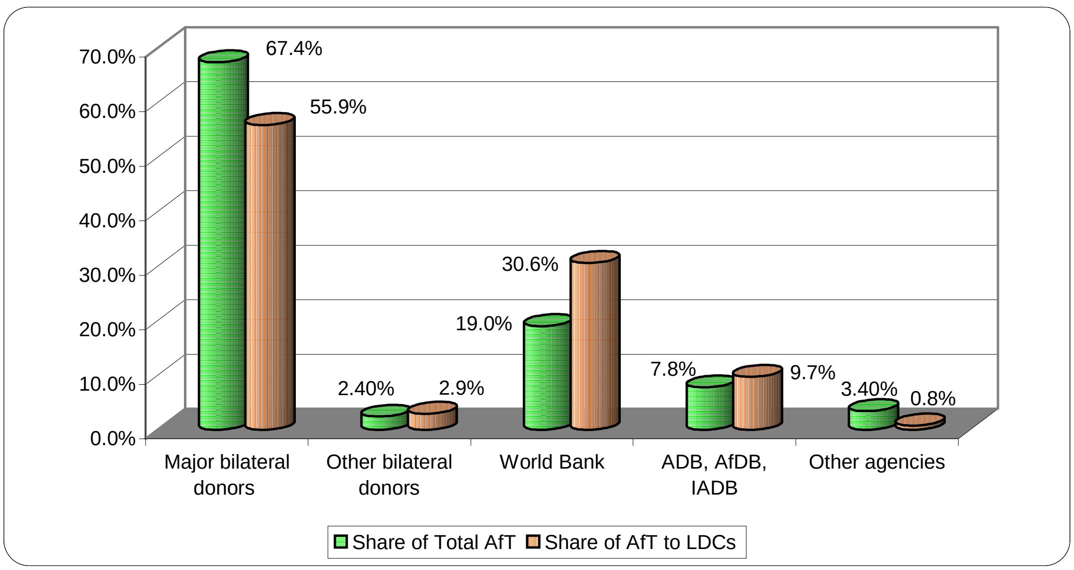
E. Resources Dedicated to AfT

60. For many years, and well before the WTO's work programme was launched, AfT has attracted substantial financial resources. According to "Aid for Trade: Harnessing the Global Economy for Development" (see WB 2007), for the period 2002 to 2005, the amount of resources allocated to AfT (measured in constant 2004 US$) was US$ 24.6 billion, of which US$ 13.8 billion (56.1 per cent of the total resources) was allocated for LDCs.

61. AfT resources were provided mainly by bilateral donors, WB, and regional development banks (see Figure 12). The total contributions made by Japan, USA and EU were respectively US$5 billion, 3.7 billion, and 2.7 billion. The contributions by the same countries that targeted LDCs and other low-income countries were US$ 2.2 billion, 0.6 billion, and 1.9 billion, respectively (see Newfarmer 2007).

62. The three major bilateral donors, i.e. Japan, the EU and USA have pledged to raise their annual contributions for AfT by 2010, in the case of the EU and its member states by € 1 billion and in the case of the USA also by about € 1 billion. However, most of the EU funds will be earmarked for the ACP states (see EU 2007, LG / 9 February 2008).

***Figure 12:** <u>Aid for Trade: Average of 2002 to 2005 at Constant 2004 US $ (in Billion)</u>*



Notes: During the period in question, these were Japan, USA, EU, UK, Germany, France, Canada, and Italy being the main bilateral donors. ADB = Asian Development Bank, AfDB = African Development Bank, and IADB = Inter-American Development Bank.

Source: Based on Newfarmer 2007.

F. Implementing AfT in the UN System

63. The implementation of AfT can benefit from the specialized knowledge available in the UN system agencies. UNIDO seeks greater synergies with other UN organizations, as emphasized in the UN system coherence agenda, for more effective AfT support through UN-wide collaboration and coherence. By acting together, the UN system can make a greater impact in helping developing countries to overcome supply-side constraints. The impact is considerably reduced if constituent organizations act alone and only within the confines of their individual mandates.

64. To help in the process of identification of opportunities for synergies and cooperation among the various UN organizations, as well as building up effective AfT interventions, UNIDO coordinated the preparation of the "Inter-Agency Resource Guide on Trade Related Technical Assistance", mandated by the Chief Executives Board for Coordination (CEB), which offers a clear overview and provides comprehensive information on the available expertise of 21 UN organizations.
Reference:
http://www.unido.org/fileadmin/media/documents/pdf/TCB/TCB_Interagency_Resource_Guide_2008.pdf

65. The CEB endorsed the creation of a "Cluster on trade and productive capacity" as a means of supporting AfT within the pilot programmes undertaken to establish system-wide response under the "One UN" umbrella. This cluster is designed to promote policy coherence and inter-agency cooperation through a set of integrated activities by various agencies of the UN system. UNIDO participated in a joint programming initiative in Viet Nam, along with UNCTAD, ITC, FAO and UNDP. The experiences gained and lessons learned from this will be replicated as a model for other "One UN" countries.

G. Emerging Implications and Lessons for UNIDO

66. UNIDO's mandate and competencies are adequately covered under the AfT's areas of support, particularly (but not limited to) those related to trade-related infrastructure and building productive capacity (see paragraph 56).

67. The AfT presents an important instrument, through which adequate resources can be mobilised to facilitate UNIDO's support programme for LDCs and other developing countries.

III. ENHANCED INTEGRATED FRAMEWORK AS A TOOL FOR BUILDING THE COMPETITIVENESS OF LDCs

A. EIF as One of the Tools for Operationalizing Aid for Trade

68. The partner actors of the EIF (and IF before it), seek to respond to the trade *development needs* of LDCs, so that they can become full and active players in, and beneficiaries from, the international trading system. Technically, in the current context, the EIF can also be seen as one of the concrete processes available to both donors and recipients to operationalize AfT for LDCs. Therefore, it is seen as one of the pillars of the much broader initiative of AfT.

69. Pertinent trade development needs of LDCs are pervasive and include:

(a) Attaining and sustaining macro economic stability;

(b) Developing and integrating trade policy in the country's policy mix;

(c) Developing capacity for trade policy management;

(d) Developing capacity to manage international trade (i.e. import and export) procedures;

(e) Building capacity to meet international standards;

(f) Developing production and trade facilitation physical infrastructure;

(g) Strategically developing products;

(h) Strategically developing sectors;

(i) Developing institutions, etc.

70. These needs are changing as international trade takes on new salient features. This means that interventions that are relevant have to be developed with respect to products, sectors, institutions, and enterprises. From the perspective of production and value-flow management, support measures should comprehensively cover the various stages of the value chain. From the perspective of marketing, support should cover all stages of marketing channels of product distribution.

71. The EIF's twin objectives are to mainstream trade into national development plans, and to facilitate a co-ordinated delivery of trade-related assistance to LDCs.

B. Nexus Between Aid for Trade and Enhanced Integrated Framework

72. The EIF provides one of the mechanisms, through which AfT is channeled. It is a specific instrument, available to LDCs only. Invariably, the EIF is the concrete process available to LDCs and donors alike to operationalize AfT for LDCs. This makes the EIF an important pillar of the AfT initiative.

73. The EIF is a mechanism allowing specifically LDCs to tap into Aid for Trade, including both the EIF Trust Fund and other resources under AfT. Other AfT resources are accessible to non-LDC developing countries. Though distinct, the AfT and EIF programmes are not competing, but complementary. For the LDCs, the EIF is the operational mechanism to translate aid for trade into funded and deliverable projects. The IF structures and process should be used as a building block and means to operationalize the Aid for Trade Initiative into funded trade capacity-building activities and to build the supply-side capacity and trade-related infrastructure that they need to assist them to make trade an engine for growth.

C. Multilateral Anchor of the Enhanced Integrated Framework (EIF)

74. EIF offers a joint mechanism for the operationalization of AfT. EIF is a successor programme of the Integrated Framework (IF). The IF was an inter-institutional programme that aimed at assisting LDCs to competitively integrate in the multilateral trading system (MTS). Therefore, its twin objectives were: mainstreaming trade in the national development strategies of LDCs, and ascertaining a co-ordinated and need-driven delivery of trade-related technical assistance.

75. At its launching in 1997, multilateral institutions that backed the IF included the International Monetary Fund (IMF), International Trade Centre (ITC), United Nations Conference on Trade and Development (UNCTAD), United Nations Development Programme (UNDP), World Bank (WB) and World Trade Organization (WTO). These institutions undertook to use their complementary capacities to assist LDCs to competitively integrate in the Multilateral Trade System (MTS).

76. Building on the initial experiences, the IF was first restructured in 2000. The restructuring involved the establishment of Integrated Framework Steering Committee (IFSC), and expansion of Integrated Framework Working Group (IFWG) (see WTO 2006b, and Integratedframework.org 2008) and created a small IF Trust Fund.

77. Then, in 2005, to respond to an external evaluation of the IF in 2004, the IFSC established a Task Force on an Enhanced Integrated Framework. WTO Ministers in Hong Kong in December, 2005, endorsed the enhancement of the IF and the elements to do so. In July, 2006, the IF Working Group and the IF Steering Committee approved the recommendations of this Task Force to enhance the IF by (i) increasing and ensuring the predictability of financial resources for the IF; (ii) strengthening in-country capacities to manage and implement the IF; and (iii) enhancing the IF governance (WTO document WT/IFSC/W/15 and Corr. 1). The draft Guidelines for the implementation of the Enhanced IF (EIF) - Compendium of draft Working Documents - were approved by the IF interim Board (replacing the IFWG) and the IFSC on 1 May, 2007. Work is being finalized to put all elements in place to operationalize the EIF this summer. The EIF (and IF before it) is conceptualized to enable multilateral institutions to synchronize their efforts with those of the donor community, in order to address more efficiently and effectively the trade development needs of LDCs. As an inter-institutional arrangement, the EIF does not involve the pooling of funds. Rather, it is an instrument for achieving donor coordination, with each donor having the freedom to implement its own funding programme. However, depending on the country, donors may decide to pool their funding to respond to the trade priorities identified by the LDC through the IF process, such as in Laos and Tanzania for example. This is over and above funds available through the IF's own Trust Fund.

D. Enhanced Integrated Framework as a Process

78. The EIF essentially builds on an interactive policy formulation process, in which implementation is preceded by four distinct planning phases. The four phases are (i) raising awareness of all stakeholders on the importance of trade and development; (ii) the preparation of a Diagnostic Trade Integration Study (DTIS), which identifies opportunities and constraints as well as the responses required; (iii) integration of the findings of the DTIS in the national development strategy; and (iv) implementation of the action plan contained in the action matrices.

79. Therefore, the EIF is a process which has feed-back and feed-forward mechanisms in so far as the results of the studies feed information back into the system about gaps and opportunities available.

E. Principles Guiding the Enhanced Integrated Framework

80. The EIF is guided by four sets of principles, which provide the general framework, in which the EIF has been conceived and is being operationalized:

(a) Country-ownership of the process;

(b) Tripartite partnership: LDCs, IF Agencies, donors to the EIF multilateral trust fund;

(c) Demand-driven and tailor-made approach; and

(d) Participatory approach, especially by involving the private sector at all stages.

81. These key principles (outlined in paragraph 80) can also be found in:

(a) The 2005 Paris Declaration on Aid Effectiveness[6],

(b) The 2006 Recommendations of the WTO Aid for Trade Task Force. These underline ownership (under which the beneficiary country exercises full leadership of its development policies and strategies, and co-ordinates development action), hamonizing of interventions, monitoring for results, and mutual accountability.

(c) The UN System-wide Coherence of Goals. These emphasise coherence amongst the actions of the UN agencies.

82. Accordingly, UNIDO's support to LDCs adheres to these principles.

F. Dominant Issues in the Current Enhanced Integrated Framework Debate

83. The EIF continues to occupy the international trade debate, with the following issues occupying the centre stage in the process[7]:

(a) Mainstreaming trade policy in the policy frameworks and development strategies of LDCs:
  (i) Assessment of the resource needs to support trade related capacity building programmes.
  (ii) Determining contents of intervention (support) programmes by the various actors, bearing in mind the feasibility of such programmes in making trade relevant in poverty reduction[8], and the essence of the coherence and complementarities of the interventions of the partner institutions, etc.

(b) Designing and implementing EIF programmes.

84. The identification of UNIDO's niche follows this framework. Thus, the Siem Reap Ministerial Conference will deliberate on eight pilot EIF programmes, designed in view of these considerations.

G. Status of Implementation of the Integrated Framework, pending the operationalization of the Enhanced Integrated Framework

85. An IF Trust Fund (IFTF) was created in 2001, with two windows:

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6 Refer inter alia, (1) internal UNIDO discussions with the UNIDO DG on the Kigali Workshop and Cambodia LDC Ministerial Conference, held on 7 May 2008; and (2) document on EIF Tier 2 Funding.

7 Refer inter alia, (1) internal UNIDO discussions with the UNIDO DG on the Kigali Workshop and Cambodia LDC Ministerial Conference, held on 7 May 2008; and (2) document on EIF Tier 2 Funding.

8 For instance, the strategies for the enhancement of the competitiveness of SMEs in a liberal global economy (including capacity building, development of such soft infrastructure as business development services, development of hard infrastructure).

(a) Window I: provides finances for the preparation of the DTIS.

(b) Window II: provides bridging money for small assistance or capacity-building activities that are part of the DTIS action matrix.

It should be noted that in view of the transfer from the IF to the EIF phase, the IF Trust Fund with its two windows no longer accepts new commitments. Existing commitments will be carried through until their completion. New activities will be funded through the EIF Trust Fund, according to the EIF procedures.

86. By June 2008, 30 LDCs had validated their DTIS, while another 15 countries were at different stages of development of the EIF programmes.[9]

H. Limitations of the (old) Integrated Framework

87. Despite the attractiveness of the IF, including its special focus on LDCs, it has several limitations. The enhancement of the IF is aimed at addressing some of the shortcomings in the (old) IF process.

(a) It involves a long and complex process, involving a number of stakeholders. The enhanced IF addresses this by foreseeing strengthening of the in-country capacities to manage the IF process.

(b) Eligibility for funding out of the (E)IF Trust Fund requires that the proposed project be a priority included in the DTIS Action Matrix. However, other actions identified by the LDC in the DTIS (and its Action Matrix) can be funded using other AfT resources, over and above the (E)IF's own Trust Fund.

(c) Under the old IF, lack of proper mechanism for monitoring the formulation and effective implementation of the programmes. Under the enhanced IF this problem is also being addressed. The EIF is based on an M and E system and a strong accountability framework.

88. This suggests that, while exploiting the opportunities provided through the EIF Trust Fund, UNIDO should also strongly focus on other channels to operationalize the AfT initiative. However, in this context it should be noted that the DTIS under the (E)IF is designed to list the universe of trade priorities of an LDC. Funding and translating these into deliverable projects, can be done through two separate channels: the EIF Trust Fund or through wider and more comprehensive funds , which can also be tapped into by UNIDO to support LDCs.

I. Emerging Implications and Lessons for UNIDO

89. In the past, UNIDO did not actively make inputs into the country IF process and the organization was not directly involved in the establishment of the DTIS that were completed by June 2008. However, UNIDO has been active in implementing some of the trade priorities flowing from the DTIS in a number of countries. In future, UNIDO will institute mechanisms to ascertain its greater involvement in the process, taking into account that the LDC is in the driver seat and that any action should be demand-driven.

90. The AfT presents an important instrument, through which supplementary resources can be mobilised to facilitate UNIDO's support programme for LDCs.

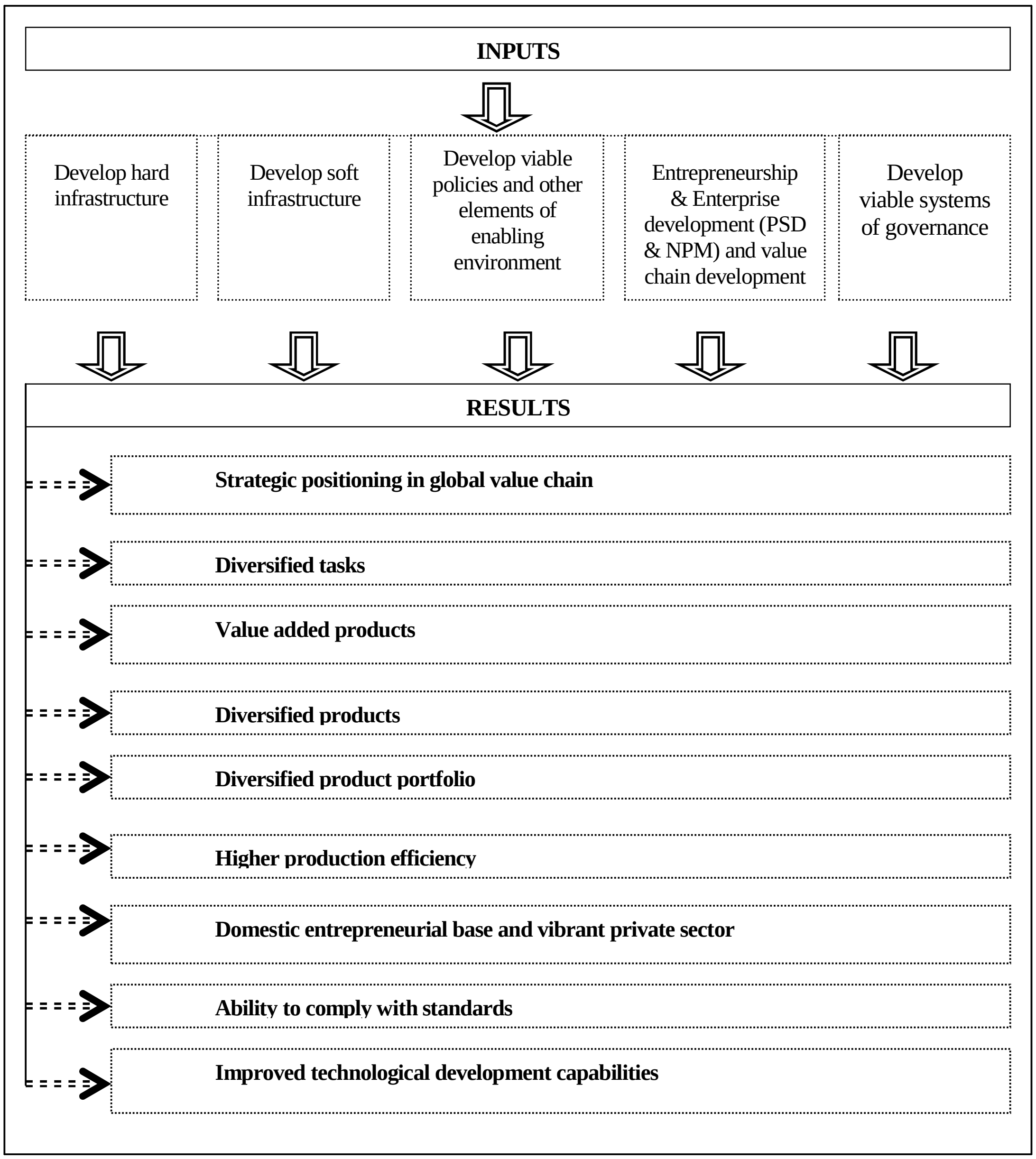
[9] Some of the arising questions are, (a) implications for UNIDO's input into the IF – did the organization make inputs to the DTIS of the 30 or, have LDCs requested UNIDO to implement activities identified in the DTIS ? (b) to which extent is it involved in designing the DTIS of the 15 LDCs, (c) What about the remaining four: **Bangladesh**, **Bhutan**, **Myanmar** and **Somalia** – why have they so far not applied to join the (E)IF?

IV. UNIDO's INVOLVEMENT IN AID FOR TRADE AND IN ENHANCED INTEGRATED FRAMEWORK INITIATIVES

A. Essence of UNIDO's Involvement

91. LDCs need sustained support in order to build their productive capacities, so that they can competitively engage in the international trading system. Apart from clearly defining the desired beacons of a competitive economic system, LDCs and their development partners, must have clear visions of the desired outcomes of the support programmes:

Figure 13: <u>Inputs vis-à-vis Outcomes of the AfT and EIF Programmes</u>



Source: Own.

(a) The necessary elements for the enhancement of the LDCs' productive capacities are generally well known, and constitute the pillars for sustainable development: hardware infrastructure, software infrastructure (human capital, institutions, programmes, etc.), good policies (as well as policy coherence and complementarities), efficient modes of production (in which the private sector is the driving force), and systems of political governance and organization that encourage entrepreneurial activities (see Figure 13).

(b) The ultimate outcome of UNIDO's support should be to make LDCs achieve the status of middle income status.

92. The essence of UNIDO's involvement in the AfT and EIF is underlined by the **centrality of manufactured exports in stimulating growth**. In this context, while global trade has tended to be dominated by manufactured exports, agricultural and mineral raw materials have continued to dominate the exports of LDCs (which in return, import manufactured products). Overall, several features of contemporary manufacturing underscore the necessity for developing a healthy export sector for LDCs. To cite some comparative evidences:

(a) Manufacturing constitutes the bulk of world exports. It accounted for nearly 81 per cent of total world exports in 2005 (despite the commodity price boom of the last five years);

(b) Between 2000 and 2006 LDCs' exports of primary commodities grew at nearly 20 per cent per annum, mainly due to high commodity prices. At the same time, their manufactured exports declined by 3.7 per cent per annum;

(c) Manufacturing is less exposed to external shocks, price fluctuations, climatic conditions and unfair competition policies. In contrast, commodity prices tend to fluctuate more in the long run. Unfair competition policies have distorted prices around the world, closing down market prospects for agricultural exports from poor countries;

(d) Manufacturing is the main vehicle for technology development and innovation, and represents today the hub of technical progress. Industry uses technology in many forms and at different levels to increase returns to investment by shifting from low- to high-productivity activities. Manufacturing also offers great potential for informal innovation activities such as *ad-hoc* incremental improvements in products and processes;

(e) Manufacturing has a 'pull effect' on other sectors of the economy. The development of the manufacturing sector stimulates the demand for more and better services: banking, insurance, communications and transport;

(f) The internationalization of production (through, among other things, the operations of multinational corporations) has benefited manufacturing more than any other sector of the economy. The trend towards vertical disintegration of production activity in industrialized countries means that developing countries have a better chance to participate in the global economy by inserting themselves into global value chains.

93. Another important feature of manufacturing, which must be borne in mind, refers to the "process". Notably, the manufacturing of relevant products is increasingly subjected to the "un-bundling" of the manufacturing tasks (or stages). Hence, the trend is now towards specializing in tasks rather than the entire manufacturing process.

94. UNIDO's involvement in the AfT and EIF programmes constitutes part of the institution's broader initiative to mainstream the two inter-related initiatives in its Programme Assistance for LDCs, and promote South-South cooperation, through, among other things, a network of South-South Centres.

95. In this context, the Siem Reap Ministers Conference will provide an opportunity to revisit and de-mystify the AfT initiative and EIF financing facility, clarify further, and concretize UNIDO's involvement in both, including exploring the possibilities of using the AfT initiative as a platform for UNIDO's supply side response. Accordingly, apart from deliberating on what UNIDO has identified as its niche, the two events will dwell on the corresponding feasible focal points of interventions, which will be complementary to, and have dynamic interplays with, the efforts of other actors engaged in building the trade capacities of LDCs.

B. Objective of UNIDO's Involvement

96. The overall development objective for UNIDO's involvement in the AfT and EIF initiatives is to support the building of supply capacities in LDCs, in view of the opportunities provided by these programmes, and in line with UNIDO's mandate and competencies.

97. Accordingly, the three specific objectives of UNIDO's involvement in the AfT and EIF initiatives are:

(a) To design a comprehensive, integrated and practical supply-side response programme focusing largely but not exclusively, on development of the agro-industries.

(b) To fine-tune UNIDO's trade capacity-building programme, so as to enable LDCs to overcome technical barriers to trade and make use of preferential MA opportunities.

(c) To foster private sector development, particularly the development of techno-entrepreneurship and SMEs, with the aim of making them viable actors in international trade.

98. It is in view of the objectives outlined in the previous paragraph that the presentations by UNIDO on its supply-side approach to trade capacity building, the eight pilot programme proposals responding to the DTIS undertaken in selected countries, and private sector development, will guide the discussions aimed at eliciting contributions from the various actors.

C. Principles Guiding UNIDO's Involvement

99. Overall[10], in accordance with the general UNIDO approach to support LDCs in building their industrial productive capacities, UNIDO's involvement in the AfT and EIF is guided by:

(a) Two commitments of the Brussels Programme of Action for LDCs, i.e. *commitment 4* (on building the productive capacities to make globalization work for LDCs) and *commitment 5* (on enhancing the role of trade in development).

(b) Almaty Programme of Action for the Landlocked Countries.

(c) Barbados Plan of Action for the Sustainable Development of Small Island Developing States.

(d) Indicator No. 41 of the MDGs (on trade capacity building).

100. Moreover, cognizant of its mandate and competencies to develop industrial production capacities, the framework for UNIDO's programme of action is conceived to build on four major areas of interventions: product, sector, institution, and enterprise. This approach will enable UNIDO to develop a comprehensive and exhaustive supply-side response, within its mandate and competence.

D. Evolution of UNIDO's Involvement

101. Though UNIDO was initially not involved in contributing to the EIF programmes, it has long since become a key actor in the AfT initiative. The aim of its involvement was to identify possible areas of support that fall within its mandate and competencies, including the ones it can implement alone, as well as in collaboration with other development partners.

[10] See paragraph 80 for the principles, which guide the EIF.

Earlier Programmes

102. Mindful of the challenges facing developing countries in their efforts to benefit from the international trading system, UNIDO has re-aligned its technical assistance approach. UNIDO's trade capacity-building programme is one of its responses to the special needs of developing countries. This programme is based on the 3Cs:

(a) **C**ompete, i.e. removing the supply-side constraints, and increasing the competitiveness of the industrial sector.

(b) **C**onform, i.e. enabling products to conform to market requirements (standards, technical regulations, and conformity assessment procedures).

(c) **C**onnect, i.e. enabling producers to connect with the market and foster integration into the international trading system.

New Programmes and Preliminary Indications on Potential Areas of Support

103. There are also several ongoing programmes, whose aim is to assess the needs of LDCs and identify potential areas for support that lie within UNIDO's mandate and competence. These include:

(a) Comparative analysis of the DTIS Matrices, in order to identify potential areas of UNIDO activities (which will form part of the agenda for discussion at the Siem Reap Ministerial Conference).

(b) The design of eight pilot EIF programmes (which will form part of the agenda for discussion at the Siem Reap Ministerial Conference).

(c) Architecture of a comprehensive, exhaustive and rationalized supply-side programme, to guide UNIDO's support to LDCs to build their trading capacities. The programmes referred to in (a) and (b) above form part of this broader process.

104. Tables 8 and 9 underpin the ongoing efforts within UNIDO, to analyze the DTIS matrices and identify possible support measures which can be extended to LDCs within the context of its mandate and competencies:

(a) Table 8 presents proposed support measures for Lesotho, based on a comprehensive analysis of the country's needs (done by the Government of Lesotho), and relatively more advanced preliminary analyses done by UNIDO for the remaining 12 countries.

(b) The projects summarized in Table 8 depict work in progress. Accordingly, the available synoptic overviews, which are still in the formative stage, are far less structured. Nevertheless, they give important hints, on where UNIDO's support can be directed.

Table 8: UNIDO DTIS Analysis and Identification of Possible Support for LDCs

	LDC	Products or Sector	Identified Focus Support Measures
1.	Cambodia	Fisheries, Handicrafts	Enhancement of private sector involvement in the fisheries sector, capacity building for handicrafts industry
2.	Lesotho	Industrial sector	Industrial capacity building, skills development, building capacity to comply with standards, development of export markets, promotion of investments, facilitation of transfer of technology, supporting cluster formation, easing access to business finance
3.	Mauritania	Fisheries, Livestock	Improvement performance of fishery sector, strengthen the export performance of the livestock sector
4.	Mozambique	Agriculture, Fisheries	Upgrading and expanding agricultural exports, upgrading the fishery sector to comply with SPS requirements
5.	Nepal	Carpet industry, agriculture, garment industry	Re-invigorate carpet export, upgrading agricultural export capacity, upgrading garment industry
6.	Rwanda	Agro-processing Rural Infrastructure Development	Support the agricultural sector for higher value export development. Support SMEs in technological upgrading and entrepreneurship development to further private sector expansion and growth. Issues related to food safety and SPS/TBT management capacity building to be promoted.
7.	Sao Tome and Principe	Cocoa	Upgrading business environment, infrastructure and services for cocoa exports
8.	Sierra Leone	Cashew nuts, Cocoa, Fisheries, Oil Palm	Strengthening quality control and inspection infrastructure and services, development of compliance of fisheries exports and support to EU designated competent authority, upgrading quality and export capacity in cocoa sector, support to the development of oil palms exports, support to the expansion of cashew nuts exports
9.	Senegal	Agricultural products	Support the development of national quality infrastructure, support export orientation of agricultural sector, promote expansion of confectionary nut export
10.	Tanzania	Cashew nuts, Fisheries, Spices	Upgrading compliance infrastructure and services, development of higher value added cashew nuts, development of high value fisheries exports, development of the spices sub-sector for exports
11.	Uganda	Organic products	Development of certified organic production, strengthening trade-related SPS and quality management in the fishery sector
12.	Yemen	Fishery sector	Develop metrology, develop infrastructural capacity to comply with standards
		Agricultural exports	Marketing system, distribution infrastructures, gender issues (particularly empowering women), capacity to comply wit standards
13.	Zambia	Food products	Quality management, Suppliers organization through joint advocacy organs, development of market linkages

Source: Own

Table 9: UNIDO's Work-in-Progress DTIS Analyses for Identification of Support to Selected LDCs

	LDC	Products or Sector	Identified Focus Support Measures
1.	Benin	Agricultural producers	o Entrepreneurship training (to raise awareness of and conformity to standards; on opportunities and challenges) o Support creation of sectoral advocacy organizations o Developing links to domestic and foreign markets
		Cashew nut sector	o Promotion of entrepreneurship undertakings o Training on production techniques o Develop linkages between training and agro-processing industries o Building value adding capacity o Build capacity to comply with standards
		Pineapple producers	o Entrepreneurship Training (to raise awareness of and conformity to standards; on opportunities and challenges) o Support creation of sectoral advocacy organizations o Developing links to domestic and foreign markets
2.	Mali	Livestock Sector	o Build capacity to conform with international health standards through training workshops, targeted firm support o Establishment of quarantine and disease free zones
		Handicrafts Industry	o Training o Establish of standards system o Establish market linkages
3.	Malawi	Groundnuts and Paprika Producers	o As in 1 above
4.	Maldives	Fishing sector	o Training on modern fishing techniques, post-harvest handling of the catch o Develop quality assurance system and compliance with standards, including hazard analysis critical control point (HACCP) o Support upgrading of fishing infrastructure and training institutions
5.	Madagascar		o Promote HACCP o Promote capacity to implement standards
6.	Guinea	Pineapple and Mango Producers	As in 4 above
7.	Ethiopia	Horticultural products	o Strengthening training institutions (on production methods, and standards and quality issues) o Training entrepreneurs
8.	Djibouti	Fisheries	o Training on fishing techniques o Build capacity to comply to standards
		Livestock sector	o As in Table 7 (11) above
9.	Lao PDR	Food sector	o Build capacity to comply with food safety standards, including through training
		Handicrafts industry	o As in 4 above

Source: Own

105. Following preliminary analyses of 22 DTIS from selected LDCs (see Tables 8 and 9), UNIDO has proposed generic support measures in three of the four main areas of interventions specified in Table 10, i.e. *enterprises*, *products* and *sector*.

E. Involvement of Stakeholders and Partners in the Architecture of UNIDO's Support Programmes for LDCs

106. UNIDO values the involvement of stakeholders and partners in the architecture of its support programmes for LDCs in the context of AfT and EIF. In this regard, it draws on the virtues of technical review by the experts from the targeted countries, peer review from partner institutions in the implementation of the programmes, and political review by the decision-makers in the targeted countries.

The Vienna LDCs Ministerial Conference

107. To underscore this approach, the LDCs Ministerial Conference, which was organized by UNIDO in collaboration with the Group of 77 and held in Vienna from 29 to 30 November 2007, explored at length how the existing opportunities, for example, from AfT, could be used to help to economically transform the LDCs. The request expressed through its Declaration that UNIDO should assist the LDCs to achieve sustainable industrial development as a means for accelerating their integration into the global economy, set in motion the activities to be deliberated on at the Siem Reap LDCs Ministerial Conference.

108. As a follow-up to the Vienna LDCs Ministerial Conference of November 2007, the Siem Reap LDCs Ministerial Conference shall offer a technical peer review mechanism, as well as a political review and endorsement, on the practicality of UNIDO's programme of assistance for LDCs in the implementation of AfT and EIF. It will provide LDCs with the opportunity to vet and make contributions to the support programmes proposed by various development partners in this connection.

The Siem Reap LDCs Ministerial Conference

109. The Siem Reap LDCs Ministerial Conference will:

(a) Underscore commitment to the AfT and EIF by UNIDO and other actors involved in the processes implementing the two programmes.

(b) Provide participatory mechanism for reviewing the practical issues of UNIDO's programme assistance for LDCs.

110. The participation of the high-level experts from LDCs at the Workshop held in Kigali was designed to provide a platform for technical review, and also cement ownership of the programmes by the LDCs. In this context, the preliminary deliberations and recommendations by the high-level *technical* forum at the Kigali workshop was important in generating inputs that will now form the substance for discussions at the political forum provided by the Siem Reap LDCs Ministerial Conference.

111. Equally important, by clarifying the resource needs and demands (by LDCs) to the resource supply (by the donor community), the presence of representatives from both, the LDCs and the development partners, is meant to contribute towards a better understanding of the financial feasibility and practicality of the intended support programme and measures.

V. CONSIDERATIONS FOR STRENGTHENING UNIDO'S DEVELOPMENT SUPPORT FOR LDCs THROUGH AFT AND EIF (PILOT EIF PROGRAMMES)

A. Key Considerations

112. *Matching LDCs' Demand and UNIDO's Mandate and Competencies***.** UNIDO's contribution will be guided by the demand of the targeted countries (from amongst the 49 LDCs) and its competencies. Invariably, the logical expectation is that, in line with its core mandate, the substance of UNIDO's intervention should be to build the capacities of LDCs to competitively produce tradables, and thereby boost the capacity to trade, through sustainable industrial development**.**

113. *Geographical Focal Point of Interventions.* There are at least three feasible levels of interventions: national, sub-regional (linked with regional integration schemes), and continental. However, due to the nature of international trade (e.g., need to overcome market fragmentation through the creation of larger markets), and the resultant dynamics in international trade arrangements, e.g. creation of regional trading arrangements RTAs as regional economic blocs, it might be more feasible to develop solutions for sub-regional economic entities. For practical purposes, the sub-regional option may offer the best approach for increasing the effectiveness of policy interventions. Hence, in order to fortify the capacities, the existing (RTAs), such as East African Community (EAC), Economic Community for West African States (ECOWAS), ASEAN, etc., could be used as the sub-regional levels for UNIDO interventions. While designing the national EIF programmes, it should be borne in mind that they will eventually have to be placed into a regional context, through an interactive bottom-up process.

114. *Bottom-Up Approach Interactive Process of Needs Assessment***.** The regionally focused supply-side interventions by UNIDO, targeting sub-regional economic blocs, will build on a bottom-up, interactive process of needs assessment. Accordingly, sectoral needs would systematically translate into national needs, and national needs would be summed up into sub-regional needs.

115. *Synchronization***.** The extent to which trade promotes growth depends on complementary interventions (policies, institutions, etc.). Thus, UNIDO will synchronize its interventions with those of other UN agencies (e.g. FAO, ITC, UNDP, etc.) and other multilateral organizations (IMF, WB, WTO, etc.), as well as international bodies (e.g. standard bodies).

B. Feasible Supply-Side Interventions by UNIDO

Spheres of Supply-Side Interventions

116. *Sustainable industrial development*. In line with its core mandate, the substance of UNIDO's intervention, as mentioned above, should be to build the capacity of LDCs to competitively produce tradables, and thereby boost the capacity to trade, through sustainable industrial development. Essentially, this means, industrial capacity building for value-added exports. Deriving from the main areas of constraints (see also Figure 10) and the various issues arising (see also Table 7), the feasible spheres of supply-side support by UNIDO to build sustainable industrial capacity can be clustered into four main areas of support (product, sector, institutions, and enterprises), as highlighted in Table 10.

Table 10: <u>Modalities for Determining the Feasible Supply Side Interventions Related to UNIDO's Competence</u>

	Area of intervention	Focus	Services
1.	Product	Dynamic products	Value chain analysis (and task selection)
			Analysis of product competitiveness in various markets (national, sub-regional, regional, global): price, standards (quality, environmental, social), quantity, reliability of supply, after sale services, etc.
		Tasks	Task-oriented analysis of efficiency and productivity
			Analysis of socio-economic returns to various tasks
		Portfolio diversification	Identification of commercially feasible products
		Diversification of domestic productive capacities	
2.	Sector	Dynamic sectors	Separate growing from declining sectors
		Overall sectoral interlinkages	o Assessment of inter-sectoral linkages: primary, secondary, tertiary, quartenary, quinary o Devise concrete measures for cementing gaps in various levels of production through VCA and cluster development, etc.
			Assessment of sectoral competitiveness: sub-regional, regional, global
3.	Institutions	Standards Organizations	Software for conformity with standards and regulations: development of relevant skills through training programmes
			Hardware for conformity with standards and regulations: (equipment and labs for) testing, certification, accreditation
		Technology Centres	o Technology development, technology adaptation, technology transfer, technology extension services o Greater involvement of private sector, e.g. industrialists associations, chambers of industry and commerce, etc.
		Industrial Promotion Organizations	Creation of appropriate institutional platforms
			Creation of appropriate inter-institutional platforms
		Private sector advocacy organizations (apex, etc.)	Producers associations, manufacturers associations, exporters associations, etc.
4.	Enterprise	Small and Medium Scale Enterprises (SMEs)	o Entrepreneurship and enterprise development o Cluster development o Creation of export consortia o Technology management
		Other criteria for enterprise categorization	Form of ownership: focus on private sector
			Legal status: to formal sector and informal sectors
			Sector (in the sense of primary to quinary sectors): to primary, secondary (manufacturing), and tertiary levels
			Type of business: to agribusiness, etc.
		New Public Management	Transformation from administrative and bureaucratic models to market-oriented management model

Source: Own

117. *Building and sustaining market competitiveness*. The overall objective of these interventions is to ensure that LDCs systematically build competitive positions in various markets, and monitor market dynamics, in order to timely implement necessary measures to sustain that competitiveness. Thus:

(a) For each service provided by UNIDO, the EIF should specify measurable indicators to measure progress and achievement (from a developmental perspective).

(b) Also, with regard to technology interventions, an innovative model of the 21st century should move away from public organization to private sector support.

118. *Centrality of Private Sector Development and New Public Management***.** In designing its support measures, UNIDO recognizes several facts associated with the role of entrepreneurship and enterprises. Among other things, entrepreneurial activities drive investments, production, and trade. In this context, entrepreneurial activities propel the growth of exports that can be achieved by the economy. Therefore, apart from targeted support to enterprises, interventions in the areas of products, sectors and institutions are relevant for Private Sector Development (PSD).

119. *Defining the Role for New Public Management***.** From the 1980s through to 1990s, the world witnessed large-scale privatization of state owned enterprises (SoEs). During this time, over US$ 850 billion worth of assets of SoEs went into private hands, of which US$ 250 billion was in developing countries. This wave of privatization was triggered by various factors, including poor performance of SoEs and collapse of communism (as the ideological/political beacon for SoEs). However, despite the changed circumstances, and the essentially universal recognition of the lead role which the private sector plays in a market-oriented economy, typically, virtually all economies of the world are mixed. Entrepreneurial activities are explicitly carried out by both the private sector enterprises and SoEs. As demonstrated by Khan (2008: 4), SoEs continue to play a significant role in the economies of many developing (and developed) economies, as evidenced by, *inter alia*, their contributions to Gross Domestic Product (GDP), employment, and incomes:

(a) SoEs' shares of GDP and investment in various country groups are respectively:
- (i) 8%, and 13% in high-income countries.
- (ii) 9% and 17% in middle-income countries.
- (iii) 14% and 28% in LDCs.

(b) SoEs also constitute an important source of government revenue in many developing countries: China (7%), Thailand (7%), Turkey (6%), Algeria (60%), Egypt (12%), Morocco (4%), Tunisia (7%), Jordan (14%), Lebanon (7%), Syria (24%), Czech Republic (2%), Hungary (3%), Poland (4%), Slovakia (5%), and Slovenia (3%).

(c) SoEs employ 34.3% of the total workforce in Ghana, 25.1% in Gabon, 12.2% in Sri Lanka, 8.1% in India, 7.7% in Kenya and 7.4% in China.

Also, SoEs substantially contribute to the exports of many countries. China's exports have been one of the most remarkable features of its economic achievement, since the commencement of its economic reforms in 1978. SoEs accounted substantially for such achievement, accounting for 53.3%, 67.3%, 47.9%, 50.3% of the share of industrial exports in the years 1995, 1996, 1997, and 1999 respectively (see Eckaus 2006).

Under these circumstances, involving SoEs in building a country's export capacity is still relevant. Implicitly, alongside PSD, the measures that are intended to build and consolidate the supply side capacity should also target SoEs. In this case, emphasis is put on New Public Management (NPM), which entails a shift from the *Administrative-Bureaucratic Models* of public enterprise management (PEM) to a *Market-Management Models* of PEM (see Trivedi 2008). Invariably, enterprise support measures as well as the other main areas of intervention highlighted in the Table 9 are relevant for both PSD and NPM, as are the support measures highlighted in most of the circles in Figure 10.

120. *Demand-Side Support from UNIDO***.** LDCs face several demand-side constraints as well. Therefore, the analysis of the competitiveness of products should cover the demand-side structures and dynamics as well. Although, technically, UNIDO's support as an industrial development promotion organization should ideally focus on the supply-side, which is more in line with its mandate and competence, it can also initiate measures relevant for addressing demand-side constraints. This can ideally be done in collaboration with such competent actors that specialize in this area, as the ITC.

C. Linking UNIDO's South-South Cooperation Initiative with Aid for Trade and Enhanced Integrated Framework Programmes

121. South-South Cooperation (SSC) is essential, because the wealth of knowledge and economic capacity in the South, if systematically mobilized and shared, can facilitate a more meaningful and effective participation of developing countries in the global economy.

122. As noted by Dr. Kandeh Yumkella, the Director-General of UNIDO in the foreword for the "Industrial Development, Trade and Poverty Reduction Through South-South Cooperation", released by UNIDO in Vienna in 2006:

> "*The rise of the South in the global industrial economy has added new perspectives to the rapidly changing nature of international industrial development Cooperation. South-South trade in manufactures, mainly within East Asia, has emerged as the most dynamic element in world manufacturing trade, exceeding the growth of both global and North-North manufacturing*".

123. The evidence of the potentials of the South's diversity to provide excellent opportunities for forging mutually beneficial South-South partnerships that can propel economic growth, industrial development, and poverty reduction, are ingrained in the growing weight of developing countries in the global economy. Concrete evidences include, *inter alia*:

(a) The growth of the share of the global manufacturing output, accounted for by developing countries.

(b) The trends in South-South economic interactions through trade.

(c) The trends in South-South economic interactions through investments.

Role of the South in Manufacturing Valued-Added

124. Concerning Manufacturing Value-Added (MVA), the global share of developing countries has increased consistently over time. As indicated in the "UNIDO International Yearbook of Industrial Statistics 2008", this group of countries accounted for only 21.9 per cent of global MVA. By 2005, their share had risen to 28.5 per cent.

125. A large part of the developing countries' global share of MVA is attributed to the South-East Asian countries (see UNIDO, op. cit), and the more advanced developing countries like Brazil and South Africa. For instance, the South and East Asian countries accounted for 70 per cent of the total MVA in developing countries in 2005, an increase from around 50 per cent compared to the year 1990.

126. In contrast, the LDCs, which tend to be technologically more backward compared to non-LDC developing countries, saw their global share of MVA virtually stagnating, averaging 0.3 per cent from 1999 to 2005.

Role of the South in Trade

127. As demonstrated in the "UNIDO Industrial Yearbook of Industrial Statistics (2005)", the share of the South in global trade is increasing at a phenomenal pace: from 20 per cent in 1970, to 25 per cent in 1990, and 35 per cent in 2003.

128. Trade within the South has also risen significantly. According to the United Nations Conference on Trade and Development (UNCTAD), during the period 1996 to 2006, South-South trade tripled, reaching a value of US$ 2 trillion. Asian exports of manufactured goods to Africa, in particular, have constantly grown. Africa's commodity exports to Asia have also increased remarkably since 1995. Partly due to South-South economic interconnections and trends, intra-South trade currently accounts for over 26 per cent of the entire South's trade.

129. To underline the rise of developing countries, in 2007, such developing countries, as Brazil, China and India, were the major contributors to the growth of the world economy; clearly coming ahead of Japan, USA, and Western Europe.

130. Moreover, recent reports by UNCTAD and the International Monetary Fund (IMF) concur on the observation that, exploring new models for, and boosting, South-South cooperation, will give a new momentum to the growth of the global economy. Indeed, besides the potentials of well-thought North-South Cooperation to stimulate development in developing countries, the rich diversity of the South itself can be tapped for the same purpose.

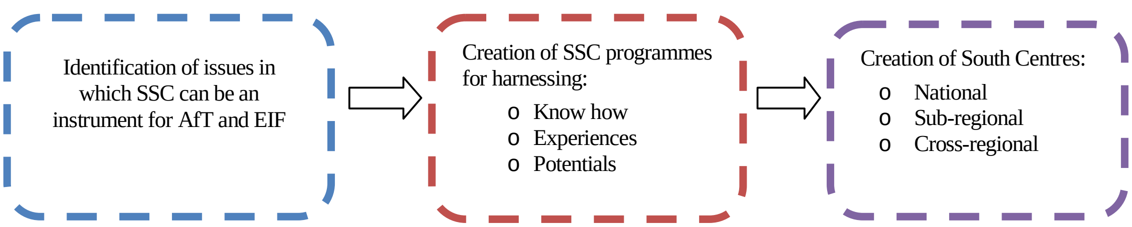
Role of the South Foreign Direct Investments

131. Investment flows among developing countries are also increasing. Foreign Direct Investments (FDI) from developing to developing countries rose from US$ 14 billion in 1995 to US $ 47 billion in 2003. Hence, in this respect, capital movements from within accounted for 37 per cent of the total FDI in developing countries, in 2003.

South-South Cooperation Process

132. UNIDO has conceived SSC as an instrument of AfT and EIF. The concept deepening South-South Cooperation involves three steps, culminating into the creation of South Centres (Figure 14). So far, two South-South Centres have been established: one in Beijing, China and the other in New Delhi, India.

Figure 14: The SSC Process



Sources: Own.

133. An issue that requires discussion in the context of AfT and EIF, is how best to use SSC to achieve the intended goals and targets. The Siem Reap Ministerial Conference will offer an opportunity for LDCs and other stakeholders to discuss and make inputs to UNIDO's South-South Cooperation programme, through its UNIDO network of South-South Centres.

VI. THECHNICAL INPUTS INTO, AND EXPECTATIONS FROM, THE SIEM REAP LDCs MINISTERIAL CONFERENCE

A. Technical Inputs

134. The Siem Reap LDCs Ministerial Conference presents a political forum for the sharing/presentation, discussion, vetting, and complementing of UNIDO's comprehensive concept for supporting LDCs by the various stakeholders: representatives of the beneficiary countries (i.e., LDCs) and development partners engaged in the delivery of the programme.

135. Presentations by UNIDO and other development partners on selected themes will guide the deliberations. In terms of content, all the papers will address both the technical and political dimensions of AfT and EIF programmes. Therefore, clear definitions of the political dimensions of AfT and EIF support measures should enable the LDCs Ministers of Industry to formulate appropriate political solutions, which are necessary in order to sustain the processes. The subjects of the presentation for discussion and vetting are:

(a) UNIDO's Comprehensive Supply-Side Approach, which will include, among others, the question of how AfT and EIF can be used as instruments for promoting South-South cooperation.

(b) UNIDO's agro-industries and sectoral support.

(c) UNIDO's private sector development support.

(d) Pilot EIF programmes for eight selected LDCs in (Benin, Cambodia, Lao PDR, Lesotho, Mozambique, Rwanda, Senegal, and Yemen).

136. UNIDO's inputs will be complemented by:

(a) Presentation by the WTO.

(b) Presentations by donor institutions.

(c) Presentations by regional development finance institutions.

137. In terms of content, all the papers address both the technical and political dimensions of AfT and EIF programmes. Unambiguous definitions of the *political dimensions* of AfT and EIF support measures enable the LDCs' Ministers of Industry to vet the proposals and make decisions of the appropriate political solutions, which are necessary in order to ensure political backing and sustenance of the processes.

B. Expectations

138. A stakeholders' consensus and reaffirmation of UNIDO's role in building the industrial capacities of LDCs so as to enable them to expeditiously and meaningfully integrate into global trade, is the main output expected from the Siem Reap LDCs Ministerial Conference.

139. Therefore, the most important tangible output of the Siem Reap LDCs Ministerial Conference will be the technical and political endorsement of the overall concept and programme of action for UNIDO's comprehensive supply-side approach for assisting LDCs to integrate into the global economy, with tangible measures, in accordance with the selection/specialization modalities specified in Table 9, and targeting:

(a) Four major areas of interventions:

(i) Product

(ii) Sector.

(iii) Institutions.

(iv) Enterprise.

(b) Concrete focus of interventions in each area of intervention (e.g. product ⇒ tasks, sector ⇒ inter-sectoral linkages, enterprise ⇒ SMEs, institutions ⇒ Industrial promotion organizations, etc.).

(c) Concrete services by UNIDO in respect of each focus of intervention, cognizant of its mandate and competencies (e.g. **tasks** ⇒ task-oriented competitiveness analysis, **inter-sectoral linkages** ⇒ measures for cementing gaps in various levels of production, **SMEs** ⇒ creation of clusters, **industrial promotion organizations** ⇒ creation of appropriate institutions and inter-institutional platforms, etc.

140. The recommendations arrived at will be integrated into, and enrich, UNIDO's comprehensive supply-side approach for assisting LDCs to integrate into the global economy.

VI. THE WAY FORWARD

A. Issues

141. For several decades, LDCs have enjoyed relatively generous trade preferences in the markets of developed, and some developing countries, which aim to make it easy for them to access their products to those key markets. However, increased trade liberalization through multilateral negotiations and regional trade arrangements (RTAs) have substantially eroded the trade preferences enjoyed by LDCs, making them less viable tools for promoting trade.

142. In recent years, many LDCs have launched economic liberalization programmes, aiming at stimulating economic activities by creating the right factor conditions. However, these efforts appear to have limited impact on triggering a competitive response. The failure of liberalization to send out the right signals to potential investors and other economic actors can be attributed, to a large extent, to a lack of receptive capabilities. For instance, few firms in this group of countries have invested in upgrading their technologies or acquiring advanced/new technologies.

143. Moreover, while global production networks have not totally bypassed LDCs they are constrained by the lack of adaptive capabilities and capacities that are required for them to participate in a dynamic process of international trade and production. That process entails a constant changing pattern in international production networks and changing specializations in international value chains. For the LDCs to participate more effectively in this process requires the creation of appropriate factor conditions coupled with technological efforts and the building of capabilities.

144. All these observations point to the fact that on their own, preferential trade arrangements will not be adequate to achieve the desired developmental response. These arrangements need to be augmented by a new approach that enables LDCs to build and sustain the necessary preconditions for trade. There is also the need to create innovative financial tools as well as appropriately designed programmes.

B. Options

145. From the outline presented in this paper, it is clear that the AfT and EIF initiatives provide, undoubtedly, excellent opportunities for LDCs to address their well-known supply-side constraints, and become viable partners in the global economy. In this context, the two initiatives can be used to assist LDCs through several channels, including but not limited to:

(a) Promoting of a 'technology culture' in private enterprises, not so much in terms of formal R&D (though this *is* relevant to large firms), as of raising technological effort to improve productivity and quality and develop more competitive products. This involves a range of measures like fiscal incentives, subsidized credit, and the provision of venture-capital. It also involves an effort to persuade enterprises of the need for greater technological effort, and for many, a change in management outlook, work practices and resource allocation.

(b) Raising awareness of quality needs, systems and techniques. This should be based on detailed analysis of enterprise practices and gaps, benchmarked against international standards. The efforts can be coupled through funding campaigns for quality improvement, including prizes, and visits to facilities and institutions overseas.

(c) Improving the infrastructure for metrology, standards, testing and quality (MSTQ), ensuring that industries have access to accredited facilities for testing, certification and calibration.

(d) Strengthening the R&D base in the public sector and universities. This can be achieved through improving their equipment, skills, access to information and interactions with similar bodies abroad, training research personnel in current research techniques used in more advanced countries, improving the salary and incentive structure to attract and retain good researchers, etc.

(e) Associating R&D institutions and universities more closely with industry, by using catalytic programs to fund enterprise research contracts and inducing institutions to earn more by selling services to industry. A concrete measure would be, for instance, to set a 'hard budget' constraint on R&D institutes, i.e. stipulating that 40 per cent of their revenues should be earned by the sale of services.

(f) Improving SME extension services and setting up productivity centers. This may include, encouraging the reaching out to enterprises and providing a package of financial, technical, management and marketing assistance with the minimum of bureaucratic procedures. Besides, such incentives can be results-based, e.g. extended to firms which fulfill certain thresholds n terms of productivity and exports.

(g) Providing the infrastructure needed for technologically progressive industries, including Information and Communication Technologies (ICTs) needs for exporters, etc.

146. Moreover, concerted efforts by the LDCs themselves, and their development partners, are needed to translate these opportunities into concrete strategies, programmes, plans and actions that will lead to tangible gains and results in terms of productive capacities. These required efforts must involve the development partners in the broadest possible context: domestic state and non-state actors, international private sector operating in LDCs, UN agencies and specialized bodies, international financial institutions, regional development finance institutions, donor organizations, knowledge generation and transfer institutions (universities, research centres, think tanks, etc.). The need for a consultative, participatory approach underlines the essence of the Siem Reap LDCs Ministerial Conference, as technical and political platforms for contributing towards a comprehensive support programme for LDCs to efficiently use the AfT and EIF initiatives for building productive capacities.

147. In conclusion, without enhanced and adaptive productive capabilities, the LDCs will not be able to improve the terms of their participation in the evolving trading system, which is both dynamic and complex. The challenge remains, therefore, to address the supply-side constraints in the most effective manner possible and in as comprehensive a manner as can be achieved.

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Annex A

List of Least Developed Countries

AFRICA (33)

Angola	Madagascar
Benin	Malawi
Burkina Faso	Mali
Burundi	Mauritania
Central African Republic	Mozambique
Chad	Niger
Comoros	Rwanda
Democratic Republic of the Congo	Sao Tome and Principe
Djibouti	Senegal
Equatorial Guinea	Sierra Leone
Eritrea	Somalia
Ethiopia	Sudan
Gambia	Togo
Guinea	Uganda
Guinea-Bissau	United Republic of Tanzania
Lesotho	Zambia
Liberia	

ASIA AND THE PACIFIC (15)

Afghanistan	Nepal
Bangladesh	Samoa
Bhutan	Solomon Islands
Cambodia	Timor Leste
Kiribati	Tuvalu
Lao People's Democratic Republic	Vanuatu
Maldives	Yemen
Myanmar	

CARRIBEAN (1)

Haiti

Annex B

VIENNA MINISTERIAL DECLARATION OF THE LEAST DEVELOPED COUNTRIES

We, the Ministers and Heads of Delegation of the least developed countries participating in the Ministerial Conference held in Vienna, Austria on 29-30 November 2007, reiterating our commitment to strengthen the role of the United Nations Industrial Development Organization in promoting the industrial development of the least developed countries as a means to accelerate their development and integration into the multilateral trading system, particularly in the context of the new opportunities being created by aid for trade and the Enhanced Integrated Framework.

Recalling the Declaration and Programme of Action for the Least Developed Countries for the Decade 2001-2010, adopted in Brussels in 2001,

Appreciating the particular focus by UNIDO, within its mandate, on two essential commitments of the Brussels Programme of Action:

Commitment 4: Building productive capacities to make globalization work for LDCs;

Commitment 5: Enhancing the role of trade in development.

Being aware of the importance that foreign trade can play in the industrialization and economic development of a Least Developed Country, and also aware that trade is an opportunity and not a guarantee, and requires policy intervention to be successful,

Recalling that within the framework of the Millennium Development Goal (MDG) 8, Indicator 40 is aimed at increasing the proportion of Official Development Assistance provided to help build trade capacity,

Recalling also that the 2005 World Trade Organization Hong Kong Ministerial called for the expansion of aid for trade to help developing countries, particularly least developed countries, to benefit from WTO agreements, expand their trade and enhance their ability to take full advantage of new trade opportunities.

Recognizing that new opportunities are being created by aid for trade and the Enhanced Integrated Framework,

Deeply appreciating the efforts of the United Nations Industrial Development Organization to assist the least developed countries to take the path to sustainable economic development, using manufacturing as a dynamic force, and to export more value added products complying with international standards,

Declare that:

1. The Millennium Development Goals, as well as the other internationally agreed development goals, can most effectively be achieved in the least developed countries through a process that also emphasizes industrial growth, diversification and export of manufactured products.

2. The least developed countries have the primary responsibility for their own development; however, the international community and multilateral institutions can play a vital supportive role by providing them with adequate resources and technical assistance to enhance their productive capacities.

3. The commitments made in the 2005 World Summit to address the special needs of the least developed Countries should be implemented fully. In this regard, all countries, the United Nations system, the Bretton Woods institutions and other organizations should make concerted efforts and adopt speedy measures to meet in a timely manner the goals and targets of the Brussels Programme of Action and the World Summit.

4. The beneficial and meaningful integration of the least developed countries into the multilateral trading system is an important objective of the Doha Development Agenda and the 2005 Sixth Ministerial Conference of the World Trade Organization. It is vital that the LDCs be able to enter the global value chains with manufactured products and processed foods, apart from other contributions in services, with the aid of targeted technical assistance from UNIDO.

5. In order to enable the least developed countries to benefit from the opportunities of the multilateral trading system, their manufacturing supply-side needs must be addressed. This requires the enhancement of their productive capacity, as stated in Commitment 4 of the Brussels Programme of Action. This will enable the least developed countries to enhance the role of trade in their development (Commitment 5).

6. Considering the limited opportunities available to least developed countries, we call upon UNIDO to play a pioneering role in developing industrial productive capacity in those countries in a manner that ensures that products conform to acceptable international standards. Depending on the needs of specific LDCs this may, inter alia, entail efforts to develop entrepreneurship, creating an enabling business environment, developing domestic research capacity, investment facilitation, development of agro-business, along with delivery of targeted technical assistance and capacity-building for developing standards, testing and certification capabilities accepted in international markets, and integration of the local with the global value chains.

7. Given the increasing importance of the South as a destination for least developed country exports and the potential for these countries to benefit from their increasing collaboration with the South, UNIDO should promote mutually beneficial least developed countries-South cooperation in areas within its mandate.

8. UNIDO should help least developed countries with commodity-specific interventions, wherever required by those countries, including in the development of technology, enhancing research, moving up the value chain and improving the welfare of those employed in, or dependent on, those commodities in the least developed countries. This is particularly needed for cotton.

9. The emergence of aid for trade, to assist least developed countries in developing their trade-related productive capacity and for meeting other trade-related needs, is a landmark development. The Enhanced Integrated Framework is a promising tool for analysis and identification of needs in the area of trade capacity-building, and for implementation of projects identified.

10. UNIDO's core mandate is to support industrial development, including in least developed countries. Aid for trade and the Enhanced Integrated Framework emphasize development of supply capacity and trade-related infrastructure. We call upon UNIDO to work closely with countries engaged in the Framework process and, wherever possible, to act as an implementing agency, particularly concentrating in developing industrial capacity and standards and conformity related infrastructure.

11. In enhancing productive capacity, donors should also utilize the services of UNIDO. We call upon UNIDO to create a special Trust Fund for least developed countries, and urge donors to contribute generously to the Fund.

The Ministers and Heads of Delegation of the least developed countries are deeply grateful to UNIDO for hosting the Ministerial Conference and for the arrangements made for its success. We also thank all those who, through their participation or input, have contributed to this process.