International Dialogue on Exploring a New Global Partnership for the LDCs in the Context of the UN LDC IV

Global Development Challenges Faced by Least Development Countries: The Case of Sub-Saharan Africa

Presented by

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Distinguished Scholars and Development Experts, Your Excellencies, Members of the Diplomatic Corps and Esteemed Leaders, Ladies and Gentlemen, with all protocol already observed during the official opening of the meeting, allow me to repeat by specifically thank Professor Mustafizur Rahman, Executive Director, Centre for Policy Dialogue (CPD) and Mr Carlos E Alvarez, Deputy Director, OECD Development Centre, for co-organizing this important meeting, and of course all of you for finding time to attend. I was specifically asked to present my views on issues related to the performance of LDCs in the global context, major development challenges of the Least Developing Countries (LDCs), impact of global financial crisis, and any other issues I may feel are relevant for LDCs in view of the upcoming United Nations Least Developing Countries (UNLDC IV) event in Istanbul in May 2011. Knowing the diverse nature of the LDCs and the different or varying nature of challenges they face, I chose to narrow my focus to those countries in Africa, which happens to constitute the majority among the 45 LDCs, with only 15 located in Asia Pacific and only one in the Caribbean. Most of the African poorest states are situated south of the South and North of the Republic of South Africa, and hence my focus on Sub-Saharan Africa countries. I will do that without losing sight to the fact that the task of uplifting the livelihoods of people of LDCs, who account for 12 percent of the world population\(^3\), requires joint efforts among the LDCs irrespective of their geographical positions. My work is made easier by the elaborate exposition of the key challenges we face as LDCs presented in the Concept Note for this Dialogues; that both developed and developing countries urgently need to address all the pending issues required to (a) ensure there is a more equitable trading relationship and that we do all we can to remove both supply and demand-side constraints to trade facilitation; (b) put the necessary measures to support investment flows into the productive sectors that benefit the majority of our people; (c) invest in both software and hardware to close the digital gap and ensure that our societies and economies face the challenges of knowledge-based competitive global economy; (d) to develop both physical and human productive capacity; and (e) to institute inclusive policies necessary to sustainably support the overall goal of economic equitable growth and human prosperity where societies are devoid of extreme poverty. Let me add a sixth area that will require a concerted effort just like the other aforementioned intervention areas; that is the need to develop middle and high level skilled manpower and minimize brain drain and/or encourage brain circulation. In my view, this is the most critical aspect, like a master key needed to open all doors, be that leading to enhanced trade, bridging the digital divide in a knowledge based global village or ensuring that we have the right combination of policies and institutions to plan and manage our productive capacities, enter into

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\(^3\) but their share of global wealth is less than 2 percent!
meaningful partnership with foreign investors for an all inclusive sustainable economic growth that benefits the majority of our populations.

On Human Capital Development and Retention of Skilled Manpower

Since “people are the real worth of nations” as both the 1990 and 2010 editions of UNDP’s Human Development Reports emphasized, it makes sense to start by interrogating the role of human capital in improving the economic relationships between developed and least developed countries. Although it is widely recognized that “…development is primarily and fundamentally about people” (UNDP, 2010), most of the LDCs, especially those in sub-saharan Africa have lost more than two decades of opportunities to invest in a healthy population with well trained and skilled manpower. This was after being compelled to reduce public expenditure in education and other social services such as health and water as part of Work Bank’s structural adjustment programmes (SAPs) in the 1980s. Callisto Madavo, former World Bank’s Vice President, Africa Region summed up the nature of SAPs as “… a one size fits all model of development applied across the board regardless of countries’ specificities, destroying the states’ capacities in the process” (Madavo, 2008). It is now common story in most LDCs: a slower pace of capacity growth to offer vocational and university education to an increasing young population eager to get higher education, deterioration of learning facilities and worsening students:tutor ratios, all leading to poor quality of graduates ill prepared to serve increasingly more dynamic private-sector led economies. The SAPs resulted not only to limited investment in high level trained manpower but more seriously to the ability to retain them in public services, universities and private sector establishments, opening a floodgate of LDCs experts migrating to the North: USA, UK, Canada and continental Europe. Overall, it is estimated that some 1 million skilled persons from LDCs lived and worked in developed countries in 2004, a brain drain of 15%, considering that there were by then some 6.6 million people in LDCs who have university-level educations. The world’s 50 LDCs are more affected by brain drain than are developing countries in general, where the rate of such emigration is below 8%. As shown in the chart on LDCs with highest emigration rates in 2000 (Skilled emigrants as percentage of persons with university-level education in country of origin) included Haiti, Cape Verde among the smaller countries (more than 60%) and Mozambique and Madagascar (more than 35%) among the larger countries. Unfortunately, these highly skilled experts from LDCs when they go to the developed countries they are called migrants but when sometimes less skilled persons from donor countries come to LDCs they are treated as “experts” (Herfkens, 2008).

4 Source: UNCTAD, Least Developed Countries Report 2007
We all know that based on this scarcity of local experts in LDCs, most of the donor-funded development programmes in most sectors, including softer areas such as advocacy for HIV/AIDS prevention, will come with foreign experts whose support budget (remuneration, housing, transport, etc) can consume up to a half of the total budget. It is not uncommon for such foreign experts to get paid ten times more what an equivalent national expert obtains. The situation cannot be wholly blamed on the North, especially if one looks at the myriad of push factors discouraging LDCs experts to remain at home. This means LDCs have to take the responsibility of ensuring a more conducive environment for their trained manpower to desist from emigrating and those in the Diaspora to come back home. In order to solve this problem, we need to open up a dialogue to ensure that we initiate new and more ambitious programmes supported by the United Nations to fast track the generation and retention of middle and high level trained manpower who will take charge of the enhance productive capacity, ensure a vibrant and knowledgeable private sector to take advantage of new opportunities for enhanced south-north and south-south trade, and manage our economies better, among other things.

LDCs Have to Rely More on Trade Rather than Aid

Official Development Assistance (ODA) has been an important component in the budgets of most LDCs, in some accounting for more than 50 percent. ODA from the developed countries through projects and net-forgiveness for the LDCs between 2000 and 2008 rose from about USD 75 billion in 2000 to between USD 105 and 120 billion during 2005-2008 (see chart sourced from UNCTAD, 2008).

The LDCs, individually and collectively, have consistently raised their voices calling for more gainful trading arrangements with the developed economies (e.g. Cairo Plan of Action, the Cotonou Agreement and Kigali meeting), arguing that by reforming the south-north trade relationship the need and level of ODA can be eliminated or substantially reduced. This call has been backed by leaders from the North, who have reiterated their political desire, as evidenced in their several communiqués when they meet either as G8 or G20. The text in the Doha Development Agenda gives a special weight on the need to increase trade-related aid as exemplified by the European Consensus on Development and subsequent EU Strategy for Africa. The Kananaskis Africa Action Plan, Gleneagles Communiqué and Heiligendamm Summit Declaration on Growth and Responsibility in Africa; all commit to building technical capacity, including trade facilitation measures, as well as supporting regional integration. The European Commission has already pledged to increase trade-related aid from €800 to €1 billion a year between 2007-2013, which is elaborated in its EU Aid for Trade Strategy. While we
appreciate the political will of G8 and G20 in driving the agenda, real tangible action has not been forthcoming as expected. One might be excused to entertain a speculative idea that perhaps voters in the North, and in particular the private sector, as dominated by multinational corporations, are not yet ready for the needed reforms in international trading relationship with LDCs. Otherwise how can we explain the paradox of multiple declarations and the rather painful and slow pace in allowing LDCs unconditional and effective market access based on faithful implementation of duty-free and quota-free market access of their goods to developed economies?\(^5\) There has been slow progress in addressing issues beyond simplification of Rules of Origin (RoO), abolishing non-tariff measures (NTM) and trade remedies (anti-dumping and countervailing duties), as well as dealing with trade standards. LDCs are still struggling to improve market access in trade in services, whereas their internal markets are de facto already liberated by virtue of technical assistance-tied donor programmes and FDI special incentives. On the other hand there have been efforts, supported by regionally owned banks such as the African Development and the Asia Development Bank, to invest in trade facilitating infrastructure as part of initiatives towards export diversification and reducing supply-side constraints of the LDCs. The BRIC countries Brazil, India and PR China) have come up with special schemes to assist LDCs in export-import guarantee reference schemes to access markets of developed economies and other advanced developing countries. The role of BRICs, and in particular China in opening up market opportunities for LDCs products is increasingly being appreciated although most of the Africa countries, for example, are yet to establish on what they actually want from China. During 2000-2008, trade between China and Africa grew at an average rate of 40 percent a year, reaching USD106 billion by 2008. It is estimated that by 2006 there were 800 Chinese companies operating in Africa, bringing with them as FDI about USD 1.6 billion between 2003 and 2007 (ACET, 2010).

While it appears easy to point out reform areas for LDCs to access the market in the North, there is a huge unexploited potential to trade among least and developing countries. South-South trade accounts for a very a small proportion of global trade as shown in the concept note, mostly due to lack of understanding and/or absence of political will to encourage trade among LDCs. This anomaly has led to sub-optimal utilization of expensive and often donor funded transport infrastructural projects connecting countries and regional economic blocs. A compendium of transport and trade facilitation instruments prepared and signed by African countries (UNECA, 2010) indicate that most are lukewarmly implemented to the extent that movement of citizens between African countries is sometimes more difficult than going to other non-African countries. It should make sense therefore that while LDCs push for easy access to the markets in the North; they also put their house in order to ensure that their domestic and regional markets are optimized. It’s logical that through well tested products within the regional markets the private sector will be able to develop the experience and product perfection to enable penetration of the more sophisticated markets in the North.

\(^5\) According to Global Trade Alert, despite the G20 members making pledges for no more protectionism “they have imposed 316 beggar-thy-neighbour policies between November 2008 and early 2010. And between January and June 2010 some 96 more discriminatory measures implemented by G20 countries have been discovered, representing at least a 40 percent increase” (Evernett, 2010: p.21).
There is a need to mobilise investment capital from both local and foreign investors

According to UNCTAD 2010 report, FDI inflows into the LDCs accounts for a significant share of domestic capital formation between 23 and 28 percents. This is particularly more pronounced for African countries, where it peaked in 2008 before it slightly fell to 2004 levels in 2009 due to the global economic crisis. By all estimates FDI is likely to have a significant impact on LDCs investment sources in the near future. As we garner support from the North to create special instruments to encourage flow of public and private capital to LDCs, we shouldn’t lose sight of the fact that private capital is usually interested in quick wins. This means investments in the productive sectors, which are public goods in nature and/or with a longer gestation periods, are likely to require more innovative approaches to attract private sector investments. Developed countries will have to support LDC governments, individually and through their regional economic communities to invest in capital intensive undertakings such as rehabilitation and building of roads, railways, ports and irrigation infrastructure. The African Development Bank, for example, has earmarked trade-facilitating type of regional infrastructure a priority in its strategic plans (AfDB, 2009). However, as it shall be presented by other experts during this workshop for such investments to be beneficial, LDCs must put in place special incentive and protective measures to specifically incoming foreign capital into the productive sectors. Countries must explore on new ways of tapping into some new or additional sources of finance for investment in the productive sectors. A case in point is that reported in the African Economic Outlook 2009 where Tanzania’s local finance houses in collaboration with pension funds teamed to resuscitate the energy sector with a financial package equivalent to 10 percent of the GDP. This case illustrates the fact that as we look to the North for LDCs salvation, we should consider what role can domestic stakeholders play in guaranteeing private capital investments, whether international or regional/domestic in the development of public goods, especially infrastructural projects. The main message here is that as we continue to dialogue and encourage governments in the North to create the right environment for their private sector to invest responsibly in LDCs, using clean money, it is our responsibility to ensure that we not only mobilise local resources, both human and finance, but create the right environment for sustainable synergy between local and foreign capital. This will require

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The Bank was in 2010 preparing a number of Regional Integration Strategy Papers (RISP) to guide Bank Group interventions of regional integration dimension for its Regional Member Countries. The undertaking of the RISPs is being guided by the Bank’s Group Strategy on Regional Integration approved by the Board of Directors in March 2009. The Bank wide strategy is underpinned by two major pillars, namely (i) support for regional infrastructure development and (ii) support for institutional capacity building, including trade facilitation.
concerted efforts of well planned and orchestrated action by both developed and LDCs
government to transform rhetoric to tangible results. This is more so in the wake of global
financial crisis whereby governments and private sector businesses are still evaluating options
for ensuring the recovery of own economies on one hand and attending to the concerns of LDCs,
on the other. Evidence so far indicates that the former will carry the day. Why? It’s an open
secret than even before the current economic crisis, only a handful of developed countries were
near to the promised allocation of at least one percent share of their GDP as ODA to developing
countries. This implies that although LDCs wishes to get financial support from the North in
dealing with the aftermath of the financial crisis for example, they will be better off if the
designed and implemented home grown solutions to complement the international interventions.

Bridging the Digital Divide: Access to Technology a Must to LDCs
The economic success of LDCs during an era of a knowledge-based global economy\(^7\), which is
largely driven by information science and technology, requires that both governments and
private sector expand their capacities for embracing the basic tenets of science, technology and
innovation (STI) for accelerated growth and economic diversification. As hinted in the opening
remarks, human resource development is critical in sustaining diffusion and adoption of
information and communication technologies (ICT) for productive and inclusive growth. Sharing
the burden of investment to save as many LDCs as possible, thus exploiting economies of scale
will only come possible through programmes sponsored under regional economic blocs. Utilizing South-South cooperation for improving LDCs’ access to technologies was recently
shown by the example of public-private sector partnerships that rolled out fibre-optic cable
connecting Southern Africa (SADC countries) and Eastern Africa (EAC states) to India and
Europe\(^8\). The ventures, SEACOM (private sector) and EASSy (public-private) immediately
reduced interconnection charges and final consumer prices for internet use quite considerably;
and set to improve further after some time. The roll out of mobile phones infrastructure and
services has given rise to, among many services, mobile banking, which has become a popular
alternative means for funds transfer in developing countries where banking infrastructure is still
undeveloped. In a world where a significant proportion of the population are migrants\(^9\),
affordable technology for communication and funds remittance has a role to play in stimulating
development (UNDP, 2009; IFAD, 2009). For that reason, while the private sector might
contribute in developing commercially viable technologies, it is up to governments in both
developed and developing economies to create the right policy, legal and institutional
environment. Recent investments by the Universal Postal Union in rolling out International
Financial Services (UPU), whose charges are cheaper than using Western Union and
MoneyGram are some of the global initiatives most welcome to simplify and reduce cost of
remitting funds for low income customers globally (Lunogelo, 2009). LDCs will need further

\(^7\) With Europe’s internet penetration more than 15 times that in Africa where less than 2% of her population have
access to internet.

\(^8\) The establishment of the submarine cable for East Africa (EASSy) was joint project between IGAD, EAC and
SADC, which made possible the laying of optic fibre cable around the African east coast. However, although it
started earlier, a wholly private sector venture, SEACOM, which started much later, was completed and
commissioned before EASSy, showing the power of the private sector if the right policies and institutional setup are
conducive enough.

\(^9\) It is estimated that the African Diaspora consists of more than 30 million individuals living outside their countries
of origin. These migrants jointly send about USD 40 billion in remittances back home each year (IFAD 2009).
assistance to roll out ICT in remote areas so their application is used for e-governance, distant learning/education, e-medicine and environmental monitoring in the wake of climate changes.

**LDCs Should Convince Developed Countries to Invest in LDCs’ Productive Capacities**

As LDCs gear themselves for more collaborative support to improve its productive capacity, it’s important to factor the ability and cost of maintaining the investments. Many years of neglect of the pre-colonial infrastructure calls for a larger than usual investment packages to put in place systems for improved energy generation and distribution, railways, pipelines, and the like. Among the lunch-spoiling questions often put across by some development observers is “how many kilometres of railway track have your African country constructed after independence?” It is an embarrassing question among most of the LDC citizens, especially in Africa, since more often than not, the answer will be “there has been no addition at all” or “some of the tracks have since been uprooted!” This mind boggling scenario call for our governments to take a leading role in reviving and putting into operation public goods such as railways. Such investments require huge investments such that it is self-deception to imagine that by simply putting in place attractive incentives they will convince the market and pull the private sector to build and operate them. Developing countries have an obligation to ensure that they work in partnership with LDCs to funding priority projects that will enhance the productive capacities of their economies. Developed economies on the other hand must fulfil their pledges made in various high level international and bilateral meetings.

**LDCs Should Have the Right Policies, Legal and Institutional Frameworks**

Whatever development interventions are to be undertaken, the need to have strong institutions anchored on sound legal foundations is paramount. For most LDCs this requires reforms in many sectors, including the rather forgotten area of “change in perception and mindset” of the LDCs population and their leaders, which is needed in order to take full charge and responsibility for the development agenda. In undertaking such reforms it is important that they are done out of genuine realization of owning the processes and outcomes. Short of that LDCs will always run the risk of reforming for the sake of impressing donors and meeting conditionality for new or extended aid. Such behavior ends in undermining the “recipient’s capacity and sense of ownership of policies and programmes that cannot support sustainable growth”. It only succeeds in perpetuating more dependence (Herfkens, 2008). It is sometimes worrying that whenever developed countries provide support to LDCs to reform some institutions it is usually done with conditionality of some sort. For example, when supporting improved public expenditure management it would be done to justify that the provided grants through general budget (instead of programmes) will be safe! This creates the impression among the recipients that the reforms would not be needed if there wasn’t donor money promised. There is a need to listen to each other and understand what are the priorities and challenges faced by LDCs in order to have more meaningful partnership in reforming institutions and how the two sides engage each other. This ultimately calls to go beyond building the capacity of institutions for market and economic management. Serious consideration should be made to enhance sustainable capacities for LDCs to negotiate and adequately and effectively represent the interests of LDCs in Multilateral Trade Negotiations (MTN). This should prevent situations where LDC experts accede to agreements without the full knowledge of the medium and long term implications of such arrangements (Chifamba, 2007). It should also be appreciated that for that to happen it is the responsibility of LDCs, rather than Developed Countries, to ensure that their experts are well equipped and
prepared to make informed arguments during international negotiations. This will require foregoing some type of donor assistance (e.g. personnel, quick studies, workshops) that is usually offered as trade-off during negotiations, compelling LDCs to make concessions whose impact on national economies is not clear (Chifamba, 2007).

At The End of The Day it Boils Down to the Dream of a Fairer World Economic Order

It would appear the clarion call for a more just world economic order as championed by the LDCs statesmen in the 1970 is far from being answered. Starting with the Group of 77, and despite some commendable work by the South-South Commission, we are still on the talking mode, with very little “walking that talk”. With the risk of appearing like a political activist, should we believe that the next round of UNLDC will move a step forward in address the inherent injustices built in the social and economic relationships between Developed and LDCs? Of course our preoccupation with North-South trade and development funding partnership is at the expense of forgetting equally very serious injustices to human kind being perpetuated within LDCs through poorly managed social and economic system of which the North takes little or no blame. I believe it is high time LDCs took the fight for fairer economic order at both the domestic and international fronts. This will require investment in institutions for research and capacity building so that decisions for reforms are made based on well research evidence, which are convincing to policy makers and national leaders.

Conclusion: Ladies and Gentlemen, I look forward to more revealing presentations by different experts and lively deliberations and resolutions at the end of this meeting. I thank you.
Bibliography