

# Enhancing LDCs productive capacity and resilience for the impact of Global Crises

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Thank you, Mr Co-Chair.

I am speaking today on behalf of CIDSE, a network of sixteen Catholic Development Agencies (14 of them in Europe and 2 in North America).

We welcome the focus on productive capacity and resilience. One of the trends that we have seen since the last LDC conference has been an increase in the vulnerability of LDCs (whether because of natural disasters, food price rises or the growing impact of global warming). Today I want to underscore four crucial lines of action where the LDC Conference can make a difference.

## 1. Small enterprises are central to resilience in LDCS

To enhance capacity and resilience it is crucial to correct a bias and blindspot that we have noticed exists with regard to small businesses.

--The economic importance of small businesses and their place in economic growth strategies is often neglected because their activities are not apparent, nor do they make the bulk, of the GDP figures that such strategies seek to lift.

--Although we do not know the contribution of small businesses to GDP, as we do not count it, what we know is their importance to this theme of enhancing resilience. Small businesses account for 80% of non-farm employment. In countries such as Bangladesh they provide 60% of income for poor households (in other LDCs this figure is higher). When the economic crisis hit, they provided a safety net to the majority of poor people who were not reached by formal safety nets. Finally, they can provide dignity, self-determination and a sense of well-being to the most disadvantaged.

--So, the plan of action to emerge out of this conference should correct the spending bias and the policy blindspot with regards to small businesses.

How can it be done?

We need:

- An appropriate definition of small businesses to allow proper targeting in LDCs. International definitions of 200 employees, used for example by the World Bank, could encompass, in many LDCs, almost every business.

- Proper mechanisms to include them in policy and spending decisions at all levels. Most small businesses are not represented in organisations as they cannot pay membership fees or are excluded by their informality. They are rarely included in consultations and are not surveyed for example to inform the Doing Business rankings.
- An end to the bias against targeting small businesses in investment and policy decisions in economic development strategies. Their role in economic development – particularly in achieving growth that reduces poverty, is resilient and promotes well-being, is too often ignored.

## 2. Financing productive capacity and resilience: The imperative of innovative financing

The commitments to enhance resilience and productive capacity need to be backed up by appropriate funding. The outcomes of the previous conferences have been rather disappointing in this regard, but we believe two sources of innovative finance are ripe for policy action, and the opportunity should not be wasted.

--Financial transaction taxes (FTTs): We believe that policies to tax the financial sector should be adopted. Although this is a sector with the function of only intermediating, not creating, wealth, its share of corporate profits went from 10 percent to 40 percent in the lapse of 40 years. As we learned with the recent financial crisis, these profits were made on the back of the implicit taxpayers' subsidy.

We support, in particular, financial transaction taxes. LDCs would benefit from them in at least two ways: one, is the potential to contribute to revenue raising, the other is the regulation and reduced volatility of financial asset prices that harms productive development in the most vulnerable countries. Technical experts from the IMF and from the Leading Group on Innovative Finance, among others, have reaffirmed their feasibility. So the question is now a political one for the leaders that will meet in Istanbul.

CIDSE supports a step by step introduction of a general and uniform Financial transaction tax which should cover all spot and derivate transactions on organized exchanges (shares, bonds, securities and derivatives, including trade of futures and options related to stocks, interest rate securities, currencies and commodities). In the long term the tax should be extended to "over-the-counter" (OTC) transactions directly related to asset prices, in particular to exchange rates and interest rates including derivatives.

-- Special Drawing Rights: We also support the use of Special Drawing Rights (SDRs) in innovative finance. The role of the SDRs in the international monetary system is the subject of intense debate nowadays. Enhancing their utilization represents the most viable option for countries to exit global imbalances without recessionary consequences. This would be, without a doubt, a win-win situation for the two countries most deeply interlinked in those imbalances: the US and China.

But more relevant to this conference, SDRs could also perform a crucial function as a means for plugging the gap in development and climate finance in LDCs. To realize this potential, there is a need to have new allocations of SDRs, accompanied by reforms in the interest charges, the composition of the basket, their liquidity, transferability and uses.

### 3. Trade as a tool for financial resilience

In our analysis, in the medium term the relative importance of trade income in LDCs, compared to other sources of financing for development, is set to go up. Unfortunately, this comes at a time when demand from traditional markets is projected to be depressed. Developed countries that traditionally imported continue to deal with slow growth and slashed spending. Many of them feel pressed now to reduce trade deficits or even build their own trade surpluses (e.g. the US government push to double exports in 5 years).

So LDCs need to be able to make the most out of their trade... at a time when trade is likely to diminish. There is a lot more than the international community can and should do to support LDCs in this difficult predicament, beyond the commitment to avoid protectionism:

--The international community should support LDC efforts to reorient their production to sources of regional and domestic demand, wherever this transition is feasible.

--It should also support LDCs 'efforts to diversify the export base across sectors.

--Finally, it should support efforts to enhance the taxation, exchange rate, investment and aid policies that can allow countries to gradually ensure a greater share of the value of trade remains in the domestic economy.

### 4. The voice of LDCs in the G20 Development efforts

--Finally, the outcomes of the LDC IV conference and the voice of LDCs must be heard at the G20. There is little purpose in least developed countries leading a plan of action or working in partnership if major donors and economic actors are to take decisions about the economic future of these countries largely behind closed doors in the context of the G20. It must be clearer how the G20 will work with LDCs in partnership and respecting their national ownership.