

COMPENDIUM

OF

OUTCOMES OF UNCTAD MEETINGS

IN 1998

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**EXPERT MEETING TO EXAMINE THE EFFECTIVENESS AND
USEFULNESS FOR COMMODITY-DEPENDENT COUNTRIES
OF NEW TOOLS IN COMMODITY MARKETS:
RISK MANAGEMENT AND COLLATERALIZED FINANCE**

I. AGREED RECOMMENDATIONS ADOPTED BY THE EXPERT MEETING

1. The experts agreed that there was a clear link between exposure to price risks on the one hand, and lower investment and growth, and more income inequality, on the other. They noted also that the savings on interest costs when using commodities as collateral can be considerable. Enhanced use of new tools for commodity risk management and collateralized finance can therefore make a large contribution to development goals, including the reduction of the vulnerability of the world's poor to the effects of volatile commodity prices.

2. While liberalization of the commodity sector was considered to be, overall, a positive experience, the withdrawal of the government had led to some gaps in the services provided to producers and others active in the commodity sector. In this respect, the Expert Meeting recognized the usefulness of commodity price risk management and warehouse receipt finance; the possibilities for structuring medium- and longer-term finance around commodity collateral; the importance of controls on the misuse of price risk management instruments; government exposure to price risks, and practical solutions; and the potential role of the international community in advocating, pioneering, monitoring and improving the use of commodity price risk management and financing practices. The experts noted that there are other, related risk factors in commodity trade, including transport risks and documentary risks, and although not discussing these wider issues, the meeting recognized the importance of work on them, and noted the relevance of trade facilitation issues in this regard.

3. The Expert Meeting agreed on the need for a comprehensive approach to enhance the understanding and use of commodity price risk management and collateralized finance. It considered that the best way for taking meaningful action in this regard was through coordination and cooperation not only among international organizations, but also with the private sector (including non-governmental organizations, farmers' associations and all other local stakeholders). Partnerships were seen as a highly effective way to advance work. Therefore, the experts welcomed UNCTAD's initiative in organizing the Lyon Partners for Development Summit, and the decision to include issues of use of modern financial instruments for commodity trade in the Summit's agenda. This was considered a useful way to raise the profile of this work, and obtain the needed political support for meeting policy challenges in this field. Experts expressed their appreciation for the excellent quality of UNCTAD's analytical work in this area and stressed its continuing importance to developing countries and countries in transition.

Addressed to national governments

4. Governments that are directly exposed to commodity price volatility (e.g. through their tax or royalty income) should consider initiating risk management units with a semi-independent role, which would analyse and quantify the government's risk exposure, gather relevant market information, and act on behalf

of the government both to cover governmental risks and, if the need exists, to facilitate the protection of some of the private sector players in the country.

5. Governments should undertake to set in place a policy framework conducive to the sound use of modern financial instruments in commodity trade by farmers, traders, processors, financial institutions and investors. In this regard, the following actions are of prime importance: governments need to recognize the importance of having sound legal, regulatory and institutional policies governing commodity trade. If the private sector finds it difficult to access modern financial tools, governments should undertake national reviews of government policies and regulations, if relevant with support from the international community. If these policies and regulations are found to be hindering the proper use of basic as well as modern financial instruments for commodity trade, a programme to modify such policies and regulations should be adopted:

- (a) When liberalizing agricultural marketing, governments (as well as international donor agencies) should bear in mind the importance in commodity trade of factors such as quality control, weight verification, information, access to risk management, and institutional arrangements which mitigate counter-party risks; and they should try, when possible, to promote the development of private sector institutions which can fulfil these kinds of functions before radically abolishing existing government entities.
- (b) Governments should facilitate (including through the adoption of relevant legal and regulatory provisions) the development of sound, private-sector-based standards for commodity trade, including standard contracts. This requires ensuring that legal decisions, or arbitration awards, can indeed be implemented; and that the legal and regulatory framework in place does not hinder the emergence of the necessary support entities (e.g. independent warehousing companies or inspection companies).
- (c) Governments should ensure that price and trade policies are consistent with the use of market-based risk management and finance instruments. Overall, price stabilization is not consistent with the use of these instruments.

6. The experts emphasized the important role that can be played by intermediaries, in particular local banks and farmers' organizations, but also private traders, processors and other stakeholders in the commodity sector, and when necessary, specialized government agencies, in the field of risk management and collateralized finance. They considered that upgrading the skills and capacities of these groups would clearly contribute to development goals. Among others things, the strengthening of local banks would lead to much easier access to modern financial instruments for local traders and farmers' associations; and they recommended a deliberate effort, focusing on developing country banks (including regional banks), in this direction, including the exchange of experience among countries.

7. The Expert Meeting agreed that strong farmers' organizations are desirable, and that efforts to strengthen them should focus on viable organizations. For this purpose, governments and intergovernmental organizations, in consultation and collaboration with such farmers' organizations themselves, should:

- (i) facilitate further reflection and debate among farmers' organizations at regional and national levels on risk management and collateralized

finance, with the objective of clarifying the position of farmers' organizations, and establishing a detailed plan of action by farmers themselves;

- (ii) provide appropriate training and briefing for farmers and farmers' organizations on the new tools in commodity markets;
- (iii) design and undertake pilot projects, focusing on the role of farmers' organizations in risk management and collateralized finance, at national and local levels ;
- (iv) facilitate dialogue and partnership among farmers' organizations and other relevant representative bodies in the private sector for the effective and useful application of risk management instruments and collateralized finance, for the benefit of small farmers.

Addressed to the UNCTAD secretariat, the World Bank and other international organizations

8. The Expert Meeting noted the important role of the World Bank and UNCTAD in providing policy analysis, advice and technical assistance in these areas, and while urging the continuation of the work done so far, recognized that these organizations, as well as others, including the Common Fund for Commodities, international commodity bodies and regional development banks, could play important roles, in close collaboration with each other and complementing the role of private sector players. The possible roles vary from organization to organization, but may include the following:

- (a) the role of "honest broker" between the financial entities offering modern financial instruments, and the beneficiaries, to increase confidence in the instruments and their use;
- (b) acting as a clearing-house for information on commodity price risk management and structured finance, and ensuring wide distribution of relevant information;
- (c) advocacy, awareness-raising, and provision of necessary training and technical assistance, to disseminate information and knowledge about modern financial markets and instruments relevant for the commodity sector, to identify risks, and to design and implement strategies to deal with them. In this light, country-level risk analysis, on a pilot basis or as a systematic part of country trade-review mechanisms, should be considered;
- (d) UNCTAD should continue its analytical work in this area, in particular with respect to:
 - analysis of factors affecting the level of risk along the transactions chain, and identifying possible implications for work in the World Trade Organization on trade facilitation, and needs for technical assistance;
 - analysis of constraints on strengthening the capacity of local banks to develop services in collateralized commodity trade finance and risk management;

- developing the scope for enhancing access to structured finance for the commodities sector by the formulation of sector-specific financing blueprints;
- (e) taking other actions to strengthen relevant institutions in developing countries and countries with economies in transition, including emerging commodity exchanges, warehousing companies, and local and regional banks; experts recommended that a workshop on these issues be convened in 18-24 months to exchange experiences of progress of various projects on these issues;
- (f) assistance in the development of appropriate risk management and financing instruments which are sufficiently simple in their use, and do not require overly cumbersome financial flows, including the consideration of linking lending to risk management (e.g. commodity-linked loans);
- (g) supporting the systematic review of national policies, with the purpose of identifying policies, regulations and practices that hinder or prevent the use of modern financial instruments in commodity trade and credit access;
- (h) promoting the exchange of experience and the development of partnerships between countries, markets and international organizations on various issues related to commodity price risk management and collateralized finance, including on the modalities for stimulating the emergence of a sound institutional framework (including warehouses).

9. Given its roles as an international financial institution focused on development, the World Bank Group, as well as the regional development banks, should consider undertaking the following actions:

- (i) facilitating commodity risk management transactions;
- (ii) facilitating the provision of commodity risk management transactions through local banks;
- (iii) examining the possibilities for increased guarantees on risk management and structured finance transactions between developing country entities and providers of these financial instruments.

Addressed to the international community

10. The Expert Meeting urged the international donor community to support country-level efforts to improve the environment for commodity trade, risk management and finance (in particular, the development of appropriate legal and regulatory frameworks), and to support the activities undertaken by the World Bank and UNCTAD, and other organizations, including the Common Fund for Commodities, actively involved in this area.

11. The international donor community was also invited to assist in demystifying modern financial instruments for commodity trade, and to consider to what extent such instruments could play a role in their own operations (taking into account

also provision of a consistent development assistance package), including support to structural adjustment programmes, and commodity projects.

12. The international community should support national debates on how warehouse receipt finance and other modern financial instruments can be used in commodity-dependent countries.

13. Donor organizations should consider the risk of stifling local initiative, in particular in the provision of collateralized finance, caused by excessive funding in situations where there is insufficient absorption capacity.

14. The international community should coordinate its work in the above areas.

**EXPERT MEETING ON STRENGTHENING THE CAPACITY FOR EXPANDING THE
TOURISM SECTOR IN DEVELOPING COUNTRIES, WITH PARTICULAR FOCUS
ON TOUR OPERATORS, TRAVEL AGENCIES AND OTHER SUPPLIERS**

I. AGREED CONCLUSIONS

The Expert Meeting examined ways and means of strengthening the capacity for expanding the tourism sector in developing countries, with particular focus on tour operators, travel agencies and other suppliers; it also considered the relation of air transport and global distribution systems to the tourism sector. The experts reached the following agreed conclusions and recommendations.

A. Addressed to the international community

1. An internationally agreed definition of the tourism sector should be universally applied; this would facilitate the acceptance and implementation of a uniform system of tourism accounting measures ("satellite accounts") which would provide a clear measurement of the role of the tourism sector in economic development and trade. Such a system could then be used in international negotiations on services, for which adequate statistics and policy analysis are a necessary prerequisite.

2. (a) Further liberalization commitments on trade in tourism should be negotiated under the General Agreement on Trade and Services (GATS). An annex on tourism services may be required, comprising, *inter alia*, regulatory issues such as definitions, competitive safeguards, access to information, fair and transparent use of global distribution systems, linkages between tourism and air transport, and security conditions for service contracts.

(b) The relevant provisions of GATS should be fully implemented, or, if necessary, new provisions should be developed, to prevent unfair competition arising from discriminatory practices in the issuance of visas to tourists which favour certain tour operators and travel agents.

(c) Articles IV and XIX of GATS should be effectively applied to the tourism sector, by adopting measures which effectively foster greater participation by developing countries in international trade in tourism services.

3. Effective mechanisms, including mechanisms for joint implementation, to deal with anti-competitive practices in the tourism sector and related sectors should be identified, in order to deal with the effects on trade of contractual practices relating to exclusive dealing, vertical integration and the abuse of dominance, particularly as regards new entrants to the industry.

4. Multilateral and regional financing institutions should give priority to appropriate strategies for the environmentally and financially sustainable development of tourism and related sectors, in particular for financing infrastructure projects, the provision of modern telecommunications services under pro-competitive regulatory regimes, and human resource development activities.

5. International organizations and donor countries should also increase their efforts in training and capacity-building in the field of tourism in developing

countries, including the effective use of computer reservation systems, global distribution systems and the Internet to maximize their earnings from tourism and to meet international standards.

6. The problems of air access of developing countries, particularly the least developed countries, should be addressed with a view to preventing the marginalization of those countries.

B. Addressed to national Governments

7. Developing-country Governments are invited to foster cooperation and collaboration efforts with the private sector and local communities in the development and management of the tourism sector in order to study, identify and, where necessary, remove obstacles to its development, and in order to better take advantage of the opportunities arising from the high level of growth foreseen for the sector globally.

8. Governments are invited to adopt comprehensive policies to ensure environmental and economic sustainability and to increase the attractiveness and quality of tourism services, including such elements as exchange rates, improved image, human resource development, investment in infrastructure and so on.

9. Developing countries are invited to consider the various options available for financing tourism infrastructure projects, such as government outlays, financing by multilateral and regional financial institutions, concession of services to the private sector through build-operate-transfer schemes, and foreign direct investment. Investment policies should encourage interlinkages between small and medium-sized enterprises.

10. National Governments are invited to review the fiscal treatment of the tourism sector and take the necessary fiscal measures to foster its growth and development, and avoid taxing exports.

11. Governments are invited to ensure that immigration regulations facilitate the movement of tourists and natural persons involved in the supply of tourism services.

12. Governments are invited to develop and, where available, effectively apply competition policy in the tourism and related sectors, by, *inter alia*, prohibiting anti-competitive clauses such as exclusive dealing, import requirements in franchising contracts and the abuse of dominance in air travel.

13. Developing-country Governments are invited to foster the development of regional tourism within the context of regional and subregional agreements, including common tourism and air transport policies.

14. Developed countries are invited to consider the adoption of mechanisms to encourage the export of tourism services by developing countries, including by facilitating the establishment of developing-country tourist offices, fiscal measures and so on.

15. Developing countries are invited to seek the collaboration of tourism authorities and of private-sector experts in formulating their negotiating objectives in the tourism sector and following through the complete process of negotiations, through their respective consultative procedures.

16. Tourism and transport policies should be consistent and mutually supportive. Developing countries are invited to prepare themselves for effective participation in the future multilateral negotiations under GATS and the possible revision of the GATS Annex on Air Transport Services.

17. Special attention should be paid to strengthening the bargaining positions of tourism-service suppliers in developing countries; in particular, Governments are invited to lead efforts to develop new model contracts to use in negotiations with tour operators and other suppliers, which may include, *inter alia*, insurance against non-payment by intermediaries.

C. Addressed to UNCTAD

18. UNCTAD and the World Tourism Organization should continue their collaboration on all aspects of tourism trade and development.

19. UNCTAD should cooperate with the World Tourism Organization and the Government of Tunisia in the organization of an international conference which this country has offered to host, in order to discuss concrete ways and measures to improve the relationship between developing-country tourism-service suppliers and agents operating in the main tourist originating markets, so as to achieve better and more sustainable business operations in the international tourism industry.

20. UNCTAD, in collaboration with the World Tourism Organization and other relevant organizations, should provide technical assistance to developing countries, particularly least developed countries, both at the governmental and business levels, in preparing for negotiations in several forums relating to trade and development in tourism and related services.

21. UNCTAD, in collaboration with the World Tourism Organization and other relevant organizations, should conduct studies on specific issues of interest to developing countries, including: the issue of leakages from the sector; the impact of all-inclusive tours on the financial sustainability of the tourism sector in developing countries; and the development of a model for integrating local communities in the formulation, implementation and management of tourism projects.

22. UNCTAD, with the assistance of the appropriate international organizations, should conduct a study on the feasibility of alternative modalities for including air transport services in plurilateral or multilateral negotiations on services (including a possible revision of the GATS Annex on Air Transport Services), considering, *inter alia*: the implications of adopting trade disciplines partially or completely; the incorporation of a sectoral protocol with trade disciplines; regulatory commitments; and other mechanisms of collective decision-making.

23. Given the importance of air transport services for tourism, and taking into account the provisions of Article V of the GATS Annex on Air Transport Services, the Commission should consider convening an expert meeting on air transport services.

EXPERT MEETING ON STRENGTHENING CAPACITIES IN DEVELOPING COUNTRIES TO DEVELOP THEIR ENVIRONMENTAL SERVICES SECTOR

I. AGREED CONCLUSIONS AND RECOMMENDATIONS

1. In recognition that environmental services can contribute to improving living conditions, especially for the poorest members of the population, experts decided to bring the following conclusions and recommendations to the attention of the Commission on Trade in Goods and Services, and Commodities at its third session.

A. Addressed to the international community

2. Increased, and improved access to, international financing for developing countries, including through non-governmental organizations, can facilitate their access to environmental goods and services and strengthen their domestic capacities to provide environmental services.

3. Technical support for institutional capacity-building, enhancement of social awareness and human resources development in developing countries for the preparation and enforcement of environmental standards and regulations should be encouraged.

4. Work in relevant international organizations should continue on improving statistics and definitions of environmental services and on analysing existing barriers in the sector. This would provide, *inter alia*, a basis for possible liberalization in the forthcoming negotiations on the General Agreement on Trade in Services (GATS), in recognition of the positive contribution of further trade liberalization in the environmental services sector to environmental protection.

B. Addressed to national Governments

5. Governments are invited to:

(a) Establish and maintain a strong and effective regulatory framework within which environmental laws and regulations are enforced. The objectives of such regulations could be pursued using a combination of regulatory, market-based and information-based instruments. This would also provide predictability and security for suppliers of environmental goods and services;

(b) Take steps to increase public awareness and to facilitate the participation of civil society in the decision-making process through disclosure of relevant information with respect to environmental needs, risks and costs, as well as the potential impact on health;

(c) Introduce or expand the environmental dimension in all national policies and programmes, with particular emphasis on education programmes, so as to allow for the support and enforcement of their environmental policies;

(d) Encourage partnerships between local environmental services firms, particularly small and medium-sized enterprises, and more advanced firms so as to make it possible to acquire state-of-the-art technology and develop supply capacities, including for export markets;

(e) Encourage public/private partnerships with a view to achieving a more effective use of environmental aid funds, creating new business opportunities in the environmental services sector, attaining improved efficiency and higher standards in the delivery of environmental services, acquiring state-of-the-art technology and management know-how, and facilitating participation of private capital, particularly in developing countries;

(f) Ensure that local and traditional management of ecosystems is recognized and promoted, when it contributes to ecological efficiency;

(g) Pursue further liberalization in the environmental services sector in the framework of forthcoming GATS negotiations, in recognition of the fact that trade liberalization in the environmental services sector could result in "win-win" situations, which could lead to environmental and economic benefits;

(h) Apply their public procurement practices so as to facilitate access to the necessary environmental services.

6. Governments of developed countries, pursuant to multilateral environmental agreements and relevant United Nations recommendations, are invited to facilitate developing country access to environmentally sound technologies (ESTs), giving priority to the acquisition of prevention technologies, so as to facilitate leapfrogging in technological development.

7. Developing-country Governments are invited to take steps, including the protection of intellectual property rights, to improve their capacity to absorb ESTs and adapt them to local conditions. Transfer of environmentally sound traditional technology should also be encouraged.

8. Governments envisaging an increasing role for the private sector (for instance in the water and waste segments) are invited to ensure that the goals of equity and efficiency are achieved.

9. Governments and intergovernmental and non-governmental organizations are invited to provide technical cooperation to developing countries if so requested. Governments in developing countries are invited to increase the level of their mutual technical cooperation.

C. Addressed to UNCTAD

10. In the context of its existing programmes, UNCTAD, in cooperation with the United Nations Environment Programme, the United Nations Industrial Development Organization, the United Nations Development Programme, the World Health Organization, the Commission on Sustainable Development, the Commission on Science and Technology for Development and other concerned organizations, should:

(a) Collect, analyse and disseminate information relating to experiences on:

- (i) Transfer of ESTs;
- (ii) Partnerships between developed- and developing-country firms, as well as between private and public firms;
- (iii) Use of ESTs for cleaner production in developing countries in key industrial sectors;

- (iv) Effective use of taxation policies and market-based mechanisms to promote environmental objectives;
 - (v) Contribution of official development assistance in facilitating the formation of environmental services firms in developing countries;
- (b) Promote:
- (i) Trade in environmental services - including those based on environmentally sound traditional technologies - particularly among developing countries;
 - (ii) An exchange of information on environmental policies;
 - (iii) Training to build or enhance human resources in developing countries in the environmental services sector;
- (c) Develop:
- (i) Appropriate procedures to follow up and obtain feedback on the present recommendations.

COMMISSION ON TRADE IN GOODS AND SERVICES, AND COMMODITIES

AGREED CONCLUSIONS AND RECOMMENDATIONS ADOPTED BY
THE COMMISSION AT ITS THIRD SESSION

Item 3: Ways and means of enhancing the utilization of trade preferences by developing countries, in particular LDCs, as well as further ways of expanding preferences

1. The effects of recent financial and economic turmoil and its several adverse consequences call for further strengthening of international cooperation.

2. The Generalized System of Preferences (GSP) and the Global System of Trade Preferences among Developing Countries (GSTP) and other trade preferences continue to play an important role as tools for development in developing countries, in particular the least developed countries (LDCs). The improvements and extensions of GSP schemes and other unilateral trade preferences that have been implemented or proposed, in particular those in favour of LDCs, are a sign of the continuing relevance of these preference schemes and the importance attached to them by both preference-giving and preference-receiving countries.

3. Concrete action should be taken so that a greater number of beneficiary countries can utilize more effectively the GSP advantages in order to rectify the present imbalances in the distribution of GSP benefits.

Addressed to preference-giving countries

4. There is scope for expanding and improving GSP benefits. In so doing, special attention should be paid to extending product coverage to match to a greater extent the comparative advantage of beneficiary countries,

5. The harmonization and simplification of GSP rules of origin could enhance their transparency, facilitate their application and thereby improve the effectiveness of the GSP. Rules of origin which encourage regional cumulation would serve to encourage trade among beneficiary countries by enabling complementarities in production capabilities to be exploited and greater advantage to be taken of international specialization.

6. The lack of stability, predictability and simplicity of a number of GSP schemes has had an adverse impact on the utilization of the GSP, undermining its effective exploitation in particular by LDCs. Such deficiencies in GSP schemes should be addressed.

7. Preference-giving countries should disseminate to the importers in their countries relevant information on the products covered and the rates and other conditions applied under the various preference schemes they maintain. Moreover, the prompt notification of changes in GSP schemes and the provision of GSP-related trade data by preference-giving countries to the UNCTAD secretariat would contribute to the quality of UNCTAD's analytical work and the success of its technical cooperation activities.

8. The GSP and other trade preferences in favour of LDCs need to be accompanied by efforts to eliminate the deep-seated weakness of supply capabilities in LDCs. Market access under special trade preferences should be further improved for export products from LDCs. In addition, all preference-giving countries should give full consideration to offering duty-free market access for all products from LDCs, on an autonomous basis. The further relaxation of administrative procedures in favour of LDCs would help them to enhance their utilization of GSP benefits.

9. To help to contribute to a better understanding of the problems of LDCs in utilizing the GSP, and find appropriate solutions, it would be useful if practical ways were devised for improving contacts between GSP preference-giving countries and LDC beneficiaries. The involvement of representatives from importing enterprises in preference-giving countries in such contacts might provide further insights into the problems which exist.

10. In the context of South-South cooperation, it is noted with appreciation that a number of developing countries themselves have taken initiatives to accord preferential market access unilaterally and without any conditions to LDCs. Other developing countries that are capable of doing so are encouraged to take similar initiatives. More detailed information on the stage of implementation of the various proposals and an analysis of the potential impact on the trade and development of LDCs of the new preference schemes would be useful. Clarification of certain legal aspects of preferences in favour of LDCs by other developing countries would be useful.

Addressed to preference-receiving countries

11. Many GSP trading opportunities have yet to be seized by beneficiary countries. Insufficient familiarity of exporters with the various GSP schemes and associated complex procedures and weak export capacities constitute important obstacles to a greater utilization of GSP benefits, in particular by LDCs. Therefore Governments in preference-receiving countries should assist in informing and training the private sector in the area of GSP and other trade laws. However, Governments in preference-receiving countries may require assistance in carrying out their educational role. The extent and type of assistance will vary according to the specific needs and development levels of the preference-receiving countries.

12. Technical cooperation addressed to LDCs in the area of GSP should also be provided by other developing countries in the context of South-South cooperation.

13. More LDCs should endeavour to join the GSTP. Participation by LDCs in the GSTP could provide a major boost to South-South trade.

Addressed to the UNCTAD secretariat

14. UNCTAD should continue to analyse the importance of GSP schemes and other trade preferences, on the basis of quantified and statistically supported evidence. It should identify the real benefits obtained from trade preferences.

15. UNCTAD should continue to provide technical cooperation to preference-receiving countries, particularly LDCs and certain developing countries with structurally weak and vulnerable economies, with a view to increasing the utilization of trade preferences. Such technical cooperation should aim to enable

these countries to hold workshops, carry out information activities and train their exporters themselves.

16. Owing to their administrative constraints, LDCs require direct technical assistance aimed at enhancing their human resource capacities for the more effective utilization of GSP preferences. This would need to include fortifying the existing GSP focal points or assisting in their establishment, and the provision of training materials.

17. UNCTAD should explore how new information technologies could be used to render technical cooperation in the areas of GSP and other trade preferences more effective. Many GSP information services and, to some extent, advisory services could be provided rapidly and cost-effectively to end-users in developing countries centrally from Geneva through communication channels such as the Internet and e-mail.

18. In conducting its future analysis and technical cooperation related to preferences, the UNCTAD secretariat should continue to ensure its complementarity and added-value with respect to other work in this area.

Item 4: Scope for expanding exports of developing countries in specific services sectors through all GATS modes of supply, taking into account their interrelationship, the role of information technology and of new business practices

A. Addressed to national Governments

19. The following policy initiatives could be taken at the national level:

- (a) Identify barriers to service exports, for example by circulating questionnaires to the private sector with respect to problems faced by the latter;
- (b) Facilitate the liberalization of market access through measures to strengthen producer services, *inter alia*, through outsourcing;
- (c) Apply policies to encourage enterprises to take advantage of market access opportunities for the movement of natural persons, in ways which reduce brain drain and facilitate the acquisition of skills;
- (d) Identify areas of comparative advantage in labour-intensive services so as to facilitate their active participation in the next round of GATS (General Agreement on Trade in Services) negotiations; and
- (e) Accelerate the inclusion of services and their liberalization in the context of subregional arrangements and strengthen cooperative efforts through such arrangements to prepare for the next round of GATS negotiations.

B. Addressed to the international community

20. The international community is invited to take the following initiatives:

- (a) Examine the effective implementation of, in particular, article IV and article XIX of GATS in the context of the development of the guidelines for GATS negotiations;
- (b) Foster conditions conducive to the transfer of technology to firms in developing countries, as well as the diffusion to the developing countries of technologies in the public domain; and
- (c) Assist the secretariats of UNCTAD and the World Trade Organization (WTO) in improving services statistics to meet the needs of policy makers and trade negotiators for the next round of GATS negotiations.

C. Addressed to UNCTAD

21. UNCTAD should, in close cooperation with other relevant international organizations and within existing resources:

- (a) Prepare jointly with WTO an assessment of the impact on developing countries of liberalization under GATS;
- (b) Undertake a systematic analysis to identify possible opportunities for expanding trade, so as to facilitate the preparation of requests in the GATS negotiations;
- (c) Analyse recent developments in trade and competition issues in service sectors;
- (d) Continue work on the MAST (Measures Affecting Service Trade) database with a view to supporting countries which wish to implement it to strengthen their negotiating capacity, and evaluate its functioning with a particular focus on the utilization of recent developments in the field of information technology;
- (e) Assist developing countries, especially LDCs, as a follow-up activity of the High-level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development, in improving their supply capacity in the area of trade in services through, *inter alia*, human resource development, institutional capacity-building, access to relevant new technologies and setting up adequate legislation;
- (f) Continue work on the Coordinated African Programme of Assistance in Services (CAPAS) and extend it to other interested African countries;
- (g) Take part in an international conference in Tunisia, organized by the World Tourism Organization, to consider ways and means of improving the relationship between developing countries' tourism service suppliers and travel agents from consumer countries in order to achieve a sustainable tourist industry; and
- (h) Prepare, in cooperation with WTO, a list of economic needs tests in the schedules of specific commitments under GATS and propose ways and means to introduce a greater degree of transparency and predictability in the application of such tests.

INTERGOVERNMENTAL GROUP OF EXPERTS ON COMPETITION LAW AND POLICY

AGREED CONCLUSIONS

The Intergovernmental Group of Experts on Competition Law and Policy,

Recalling the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices and the Third United Nations Conference to Review All Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices,

Taking note of General Assembly resolution 52/182 of 18 December 1997, which endorsed the change of name of the Intergovernmental Group of Experts on Restrictive Business Practices to the Intergovernmental Group of Experts on Competition Law and Policy, and the convening of a fourth United Nations Conference to Review All Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices,

Taking note with appreciation of the cooperation taking place with the World Trade Organization and other organizations active in the field of competition law and policy,

Taking note also with appreciation of the documentation prepared by the UNCTAD secretariat for the present meeting,

1. Reaffirms the fundamental role of competition law and policy for sound economic development; recognizes the importance of strengthened international cooperation in the area of competition law and policy; and in this connection recommends the continuation of the important and useful work programme being carried out on competition law and policy issues within the UNCTAD intergovernmental machinery, which has the active support and participation of the competition law and policy authorities of member States;

2. Recalls that the Intergovernmental Group of Experts on Competition Law and Policy has been able to mobilize a high level of participation of experts and practitioners from capitals, which has allowed it to discuss technical and policy issues in an informal and constructive setting. These working methods have enabled the Intergovernmental Group of Experts to pursue its objectives of clarifying and elucidating principles, concepts and policy issues concerning the formulation and enforcement of competition law and policy. The exchange of experiences and information by member States, in particular during the informal consultations of the Intergovernmental Group of Experts, continues to contribute to a better understanding of the issues concerned, capacity-building for individual countries and the promotion of international cooperation in this area;

3. Invites the Secretary-General of UNCTAD to continue cooperation with the World Trade Organization and other organizations working in the area of competition law and policy;

4. Invites the Secretary-General of UNCTAD, in view of the fact that the 1999 session of the Intergovernmental Group of Experts will be the last meeting of the Group before the Fourth Review Conference in 2000, to prepare a preliminary assessment of the operation of the Set of Multilaterally Agreed Equitable

Principles and Rules for the Control of Restrictive Business Practices since the Third Review Conference;

5. Takes note with appreciation of the voluntary financial and other contributions received from member States and invites all member States to assist UNCTAD on a voluntary basis in its technical cooperation activities by providing experts, training facilities or financial resources; requests the UNCTAD secretariat to pursue its technical cooperation activities within the available resources, taking into account the deliberations and consultations that took place at the present session; and invites the Secretary-General of UNCTAD to explore the feasibility of supporting training and capacity-building on a regional basis within the available resources;

6. Recommends that the consultations at the next meeting of the Intergovernmental Group of Experts should focus on the following topics:

- (a) The relationship between the competition authority and relevant regulatory agencies, especially in respect of the privatization and demonopolization processes;
- (b) International merger controls, in particular where they have effects in developing countries; and
- (c) The creation of a culture of competition;

7. Requests the UNCTAD secretariat to prepare for consideration by the next meeting of the Intergovernmental Group of Experts:

- (a) A report on the experiences gained so far with international cooperation on competition policy issues and the mechanisms used, taking into account commentary and information to be received from member States by 31 January 1999;
- (b) An updated review of technical assistance, taking into account the information to be submitted by member States and international organizations no later than 31 January 1999; and
- (c) A preliminary report on how competition policy addresses the exercise of intellectual property rights;

8. Requests the secretariat to continue to publish the following documents on a regular basis and to make them available on the Internet:

- (i) Further issues of the Handbook on Competition Legislation, including regional and international instruments;
- (ii) A revised version of the Commentary to the Model Law, taking into account in particular new trends in merger control;
- (iii) An updated version of the Directory of Competition Authorities; and
- (iv) An information note on recent important competition cases, with special reference to competition cases involving more than one country, and taking into account information to be received from member States.

**EXPERT MEETING ON EXISTING REGIONAL AND MULTILATERAL INVESTMENT
AGREEMENTS AND THEIR DEVELOPMENT DIMENSIONS**

I. AGREED CONCLUSIONS

1. The Expert Meeting reviewed regional and multilateral investment agreements in pursuance of the mandate given in paragraph 89 (b) of "A Partnership for Growth and Development" to identify and analyse implications for development of issues relevant to a possible multilateral framework on investment. The meeting focused on the objectives of regional and multilateral instruments and the question of definition of investment in existing investment agreements, paying particular attention to their development dimension. It had a broad discussion of these subjects.

2. As regards the question of definition, the Expert Meeting discussed, in particular, the advantages and disadvantages for development of broad and narrow definitions of "investment". It concluded that these provisions raise questions that are both difficult and complex, and, at the same time, very important because they interact with and define the scope of all other provisions. The Expert Meeting recognized the importance of developing a knowledge base concerning countries' experience with different types of definitions and recommended that the secretariat should prepare an analysis of such provisions in international investment agreements.

3. The Expert Meeting observed that development is an important objective of international investment agreements. How this can be achieved remains a critical issue that needs to be examined further. The experts felt that further work could be undertaken to elucidate development dimensions that need to be taken into consideration when formulating international investment agreements.

4. The Expert Meeting also felt that, in order to help clarify the complex issues related to international investment agreements, all appropriate stakeholders may be heard, so as to shed further light on the interrelationships between international investment agreements and economic growth and development.

**EXPERT MEETING ON THE GROWTH OF DOMESTIC CAPITAL MARKETS,
PARTICULARLY IN DEVELOPING COUNTRIES, AND ITS RELATIONSHIP
WITH FOREIGN PORTFOLIO INVESTMENT**

I. AGREED CONCLUSIONS

1. After a lively discussion on the issues related to the relationship between the growth of domestic capital markets and foreign portfolio investment, a common understanding on the following issues emerged:

- (i) It was recognized that portfolio investment is assuming an increasing importance as one of the sources of finance for developing countries and countries in transition, as well as industrialized countries. Furthermore, as the domestic financial system becomes more sophisticated, the distinction between foreign direct investment and foreign portfolio investment may become blurred due to the fact that direct investors can use financial engineering techniques to convert foreign direct investment into a more liquid form of investment.
- (ii) If the benefits of the free movement of capital flows are to be retained, the problems of financial instability and negative socio-economic effects of financial turmoil need to be addressed at the national and international levels. In a world of highly mobile capital flows and financial instability, sound macroeconomic fundamentals and appropriate monetary and fiscal policies are necessary, but they are not sufficient on their own to attract stable investment flows and avoid financial turmoil.
- (iii) It was also agreed that the existence of a healthy financial system, governed by a good regulatory framework and strong supervision which would oversee the operations of the banking sector and the securities and insurance sectors, is an important prerequisite in preventing financial crises. The potential benefits of internationally agreed principles, such as the Basle Committee Core Principles for Effective Banking Supervision, were recognized.
- (iv) Discussion on the ongoing process of financial liberalization suggests that countries may prefer to adopt a prudent and well-sequenced process of internal and external financial liberalization, according to the level of their development and particular circumstances, analysing the effects of each liberalization phase before proceeding further.
- (v) It is also necessary to encourage domestic savings and the development of domestic capital markets and institutional investors, including collective investment schemes such as pension funds and mutual funds, so as not to be dependent on external financing of investment. This would also help to minimize the consequences of international financial crises.

- (vi) The choice and maintenance of an appropriate exchange-rate regime, according to the specific circumstances of each country, also plays an important role in reducing financial instability.
- (vii) It was agreed that regional cooperation should be encouraged in order to strengthen the capacity of countries of the same region to cope with financial instability. Such cooperation could take the form of monetary and financial cooperation, as well as standardization of financial disclosure rules, accounting standards and enforcement rules.
- (viii) It is of the utmost importance to increase the transparency of information at the macro- and micro-level of a country. The transparency and quality of financial information concerning market operators and the standardization of statistical data and financial statements are also essential.
- (ix) It is also of the utmost importance to improve the current global financial system in response to the challenges posed by the globalization of financial markets.
- (x) It is recommended that UNCTAD should continue to examine measures that would help developing countries, especially the least developed countries, to design adequate policies to attract stable foreign investment flows. The UNCTAD secretariat should continue to work in this area in cooperation with other relevant international and regional institutions.

**INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL
STANDARDS OF ACCOUNTING AND REPORTING**

ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

For Governments and the international community

1. Accounting and reporting for the environment has become increasingly relevant to enterprises (whether they be businesses, non-profit organizations or institutions) because how an enterprise's environmental performance affects its financial health is of increasing concern to investors, creditors, governments and the public at large. Users of financial statements want to know the extent of a company's environmental exposure and how the company is managing its environmental costs and liabilities. In order to improve the quality of accounting and reporting for environmental costs and liabilities, policy makers and national standard-setters require guidance on how the traditional financial accounting framework could be used to produce useful information on environmental transactions and performance.

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) is put forward for the consideration of Governments, and both the quality of environmental accounting

2. ISAR requests Governments and international and regional organizations to assist UNCTAD in the dissemination of ISAR's position paper, including cooperating

**B. Strengthening of the profession in developing countries
and economies in transition**

Given the need to strengthen the accountancy profession in developing countries and economies in transition so that accountability and financial transparency are increased in both the public and private sectors,

Calls upon Governments and international and regional organizations with UNCTAD to create an enabling environment for the development of the accountancy profession in developing countries specifically by closing the education gap between the developed and developing countries by undertaking the following measures:

development of a global curriculum to serve as a basis for the courses of studies needed to educate fully qualified accountants capable of

- identification and elaboration of any other requirements necessary to
- support to UNCTAD's programme for long-term development of developing countries, particularly in Francophone African countries.

C. Accounting for small and medium-size enterprises

4. Given the significant contributions small and medium-size enterprises (SMEs) make to the effective functioning of the market economy and to the generation of employment, growth and sustainable development, and the necessity to determine the appropriateness of international accounting standards for use by SMEs,

Calls upon Governments to cooperate with UNCTAD in the identification of the accounting needs of SMEs in their countries and to provide information on any accounting rules currently in force for SMEs.

For the UNCTAD secretariat

A. Asian crisis and disclosure

5. UNCTAD should undertake together with the Asian countries in the Group a research project on the recent Asian financial crisis from the perspective of accounting and auditing, identifying room for improvement in the accounting and auditing systems and drawing lessons for the prevention of future crises, and should report back to ISAR as soon as possible.

B. Environmental accounting

6. UNCTAD should publish and disseminate ISAR's position paper on accounting and financial reporting for environmental costs and liabilities as widely as possible. Also, it should include in *International Accounting and Reporting Issues: 1998 Review* the position paper and the two background documents - "Accounting and reporting for environmental liabilities and costs within the existing financial reporting framework" and "Linking environmental and financial performance: A survey of best practice techniques". The annual *Review* should be published in at least three official languages in order to enhance its usefulness to developing countries.

7. UNCTAD should prepare training materials based on the *Review* for use in regional workshops and organize with interested parties workshops in environmental accounting for developing countries and economies in transition.

8. UNCTAD should continue its research on the development of environmental performance indicators which could be linked to financial performance indicators. It should request the IASC, IFAC, ISO, UNEP and other relevant organizations such as NGOs to join in a cooperative effort, and it should report back the results of this work to ISAR at an appropriate time.

C. Accounting education

9. UNCTAD should continue its work on the development of a global curriculum in cooperation with relevant bodies such as IFAC, ASCA and ACCA, as well as on other requirements necessary for producing fully qualified accountants. It should report back its results to ISAR at its sixteenth session.

10. UNCTAD should continue its efforts to strengthen long-distance learning programmes in Francophone Africa in cooperation with other organizations specialized in distance-learning and seek funding for this programme.

D. Accounting for SMEs

11. UNCTAD should begin work on this topic and report back to the seventeenth session of ISAR. Specifically, it should:

- analyse the accounting and reporting needs of SMEs in various developed and developing countries and economies in transition;
- determine the appropriateness of international accounting standards for use by SMEs;
- identify best practices among various countries in accounting for SMEs;
- make preliminary recommendations for elaborating an accounting and reporting model (basic rules and formats) for use in developed and developing countries and economies in transition with a view to promoting the harmonization of practices in different countries;
- develop training modules for accounting by SMEs, particularly for UNCTAD's EMPRETEC programme.

E. Government accounting

12. Taking into account the fact that there is a need for developing standards for government accounting, UNCTAD should commission studies, resources permitting, of the present practices in government accounting for possible future consideration by the Group as an agenda item.

Annex to recommendations

Position paper: Accounting and financial reporting for environmental costs and liabilities

A. Purpose and Focus of the *Position Paper*

1. Since the late 1980s, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has given extensive attention to issues relating to environmental accounting, and has undertaken a number of surveys at the national as well as at the enterprise level. In 1991, it reached agreement on a number of items that it felt could be considered by the board of directors for disclosure in its report or management discussion, in order to deal with relevant environmental issues. In 1995, its thirteenth session was devoted exclusively to the subject of environmental accounting. During that session, ISAR noted that although considerable research was already under way,

a significant effort was still required to study and evaluate the information being produced, so as to identify the most appropriate guidance that should be given to Governments and other interested parties. It concluded that providing such guidance was important. Without its prompt development, ISAR felt that differences would arise, and member States would subsequently find themselves in the position of having to reconcile their independent standards and procedures with those of other member States.

2. The purpose of this *Position Paper on Accounting and Financial Reporting for Environmental Costs and Liabilities* is to provide assistance to enterprises, regulators and standard-setting bodies on what is considered best practice in accounting for environmental transactions and events in the financial statements and associated notes. The sections on measurement and presentation are based on a synthesis of positions developed, or being developed, by standard-setting and other organizations, and includes extracts taken from some of the related documents. The section on disclosure is more extensive than that contained in the documents referred to, and includes some of the disclosures previously proposed by ISAR.

3. ISAR recognizes that a number of these issues are under consideration by the International Accounting Standards Committee (IASC). This *Position Paper* attempts to bring together in one place most of the issues which have been raised in corporate accounting and reporting of environmental impacts. It is unlikely that the IASC will issue such a comprehensive statement in the near future. It is more likely that it will incorporate environmental issues in each of its individual standards, as appropriate. This approach could take a number of years.

4. *The focus of this Position Paper is on the accountability of the management of an enterprise for financial implications of managing the environmental resources entrusted to it and that are linked to the enterprise's activity.*

5. The stated objective of financial statements as contained in the *Objectives of Financial Statements* issued by ISAR (1989) is to provide information about the financial position of an enterprise, which is useful to a wide range of users in making decisions and is necessary for the accountability of management for resources entrusted to it. The environment is a resource that is significant to many enterprises, and it must be managed efficiently for the benefit of both the enterprise and society.

B. Need to Account for Environmental Costs and Liabilities

6. Accounting for the environment has become increasingly relevant to enterprises (whether they be businesses, non-profit organizations or government enterprises, such as municipalities and crown corporations) because issues such as the pollution of the environment have become a more prominent economic, social and political problem throughout the world. Steps are being taken at the national and international level to protect the environment and to reduce, prevent and mitigate the effects of pollution. As a consequence, there is a trend for enterprises to disclose to the community at large information about their environmental policies, environmental objectives and programmes undertaken, and the costs and benefits related to these policies, objectives and programmes, and to disclose and provide for environmental risks.

7. How an enterprise's environmental performance affects its financial health and how financial information relating to such performance can be used to assess environmental risk, and the management of such risk, are often matters of concern to investors and their advisers. Creditors have similar needs, but an added factor is the possibility of having to take on the responsibility for rectifying environmental damage should a debtor default on a loan for which it has pledged land as security; the amount involved may be significantly greater than that of the original loan. Owners and shareholders are particularly interested because of the potential impact environmental costs may have on the financial return on their investment in the enterprise. Other interested parties would include customers, suppliers, regulators, the general public, and those acting on their behalf. The information provided should be presented in such a manner as not to jeopardize business confidentiality in sensitive areas or the competitive position of the enterprise.

C. Scope

8. This *Position Paper* deals with accounting for and reporting of environmental costs and liabilities arising from transactions and events that affect, or will likely affect, the financial position and results of an enterprise and, as such, should be reported in an enterprise's financial statements. The recognition and measurement of costs or events that are not absorbed by the enterprise are not covered. Examples of such costs (often referred to as external costs) can include those relating to the negative impacts of air pollution and water pollution on the environment, which are borne by society at large rather than the enterprise.

D. Definitions

9. The following terms are used in this *Position Paper* with the meanings specified:

The *environment* comprises our natural physical surroundings and includes air, water, land, flora, fauna and non-renewable resources, such as fossil fuels and minerals.

An *asset* is a resource controlled by an enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.

A *liability* is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

A *contingent liability* is a potential obligation arising from past events that exists at the balance sheet date, but whose outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events that are outside the control of the enterprise.

Environmental costs comprise the costs of steps taken, or required to be taken, to manage the environmental impacts of an enterprise's

activity in an environmentally responsible manner, as well as other costs driven by the environmental objectives and requirements of the enterprise.^{1/}

Environmental assets are environmental costs that are capitalized because they satisfy the criteria for recognition as an asset.

Environmental liabilities are obligations relating to environmental costs that are incurred by an enterprise and that meet the criteria for recognition as a liability. When the amount or timing of the expenditure that will be incurred to settle the liability is uncertain, "environmental liabilities" are referred to in some countries as "provisions for environmental liabilities".

To *capitalize* is to record an environmental cost as an integral part of a related asset, or as a separate asset, as appropriate.

An *obligation* is a duty or responsibility to others that entails settlement, by future transfer or use of assets, provision of services or other yielding of economic benefits, at a specified or determinable date, on occurrence of a specified event, or on demand.

A *legal obligation* is a statutory, regulatory or contractually based obligation. A *constructive obligation* is one that can be created, inferred or construed from the facts in a particular situation, rather than being legally based,^{2/} or that arises from ethical or moral considerations^{3/} and that an enterprise has little or no discretion to avoid.

10. Accounting for environmental costs and liabilities is covered by various basic concepts of accounting that have evolved. Of particular relevance are the definitions of "liabilities" and "assets". Additional disclosures may, however, be necessary or desirable to fully reflect various environmental impacts arising from the activities of a particular enterprise or industry.

E. Recognition of Environmental Costs

11. *Environmental costs should be recognized in the period in which they are first identified. If the criteria for recognition as an asset have been met, they should be capitalized and amortized to the income statement over the current and appropriate future periods; otherwise they should be charged to the income statement immediately.*

12. Issues relating to environmental costs centre on the period or periods in which costs should be recognized, and whether they should be capitalized or charged to income.

^{1/} Examples include costs of disposal and avoidance of waste, preserving or improving air quality, cleaning up oil spills, removing asbestos from buildings, researching for more environmentally friendly products, and carrying out environmental audits and inspections. As noted in paragraph 45, what is included as an environmental cost will require judgement.

Fines, penalties and compensation would be regarded as environmentally related costs, and would not be included in this definition of environmental costs, but would be disclosed separately.

^{2/} For example, there may not be any legal obligation for an enterprise to clean up an oil spill in a particular jurisdiction, but the enterprise's reputation, and its future ability to operate in that jurisdiction, may be significantly at risk if it fails to do so.

^{3/} Sometimes referred to as an equitable obligation.

13. In some cases, an environmental cost may relate to damage that has occurred in a prior period. Examples include environmental damage to property that occurred prior to acquisition, an accident or other activities in a prior period that now require clean up, clean up of property disposed of in a prior period, and costs of disposing or treating hazardous waste created in a prior period. Accounting standards, however, generally preclude environmental costs from being treated as a prior period adjustment unless there is a change in accounting policy or unless there was a fundamental error. The examples referred to above would, therefore, generally not qualify as prior period adjustments.

14. *Environmental costs should be capitalized if they relate, directly or indirectly, to future economic benefits that will flow to the enterprise through:*

- (a) increasing the capacity, or improving the safety or efficiency of other assets owned by the enterprise;*
- (b) reducing or preventing environmental contamination likely to occur as a result of future operations; or*
- (c) conserving the environment.*

15. The definition of an asset indicates that where a cost incurred by an enterprise will result in future economic benefits, it would be capitalized and charged to income in the periods in which those benefits are expected to be realized. Environmental costs that comply with such a criterion would, therefore, be capitalized. Capitalization is also considered appropriate when environmental costs are incurred for safety or environmental reasons, or where they reduce or prevent potential contamination, or conserve the environment for the future. While they may not directly increase economic benefits, incurring such costs may be necessary if the enterprise is to obtain, or continue to obtain, future economic benefits from its other assets.

16. Many environmental costs do not result in a future benefit, or are not sufficiently closely related to future benefits to enable them to be capitalized. Examples would include treatment of waste products, clean up costs relating to current operating activities, clean up of damage incurred by the reporting enterprise itself in a prior period, ongoing environmental administration, and environmental audits. Fines and penalties for non-compliance with environmental regulations, and compensation to third parties for environmental damage, are regarded as environmentally related costs, and are also instances of costs incurred that do not result in future benefits. Such costs would therefore be charged to the income statement immediately.

17. *When an environmental cost that is recognized as an asset is related to another asset, it should be included as an integral part of that asset, and not recognized separately.*

18. In most instances, environmental costs that are capitalized are related to another capital asset. There is no specific or separate future benefit that results from incurring the environmental costs themselves. The future benefit of such costs lies in another productive asset that is used in the enterprise's operations. For example, the removal of asbestos from a building does not in itself result in a future economic or environmental benefit. It is the building that receives the benefit. It would therefore be inappropriate to recognize such asbestos removal as a separate asset. A piece of machinery that removes pollution from the water or atmosphere, on the other hand, could have a specific or separate future benefit and could, therefore, be recognized separately.

19. *When an environmental cost is capitalized and included as an integral part of another asset, the combined asset should be tested for impairment and, where appropriate, written down to its recoverable amount.*

20. The integration of capitalized environmental costs with the related asset could, in some instances, result in the combined asset being recorded above recoverable amount. Consequently, the combined asset should be tested for impairment. Similarly, capitalized environmental costs recognized as a separate

asset should also be tested for impairment.^{4/} Whilst the recognition and measurement of environmental impairment involves the same principles as other forms of impairment, the uncertainties may be greater. In particular, the "stigma" effect of environmental pollution on the value of neighbouring properties has to be considered.

F. Recognition of Environmental Liabilities

21. *An environmental liability would normally be recognized when there is an obligation on the part of the enterprise to incur an environmental cost.*

22. An obligation does not have to be legally enforceable for an environmental liability to be recognized. There may be cases where an enterprise has a constructive obligation, where there is no legal obligation or where there is an expansion on the legal obligation. For example, it may be the enterprise's established policy to clean up contamination to a higher standard than that required by law, because its business reputation would be affected if it did not live up to this commitment, or because it is the right and proper thing to do. For an environmental liability to be recognized in such situations, however, there has to be a commitment on the part of the management of an enterprise to incur the related environmental costs (for example, a board decision recorded in minutes that are publicly available, or communicated by way of a public announcement). At the same time, an enterprise should not be precluded from recognizing an environmental liability simply because its management, at a later date, is unable to meet the commitment. If this eventuality does occur, there should be disclosure of that fact in the notes to the financial statements, together with the reason why the enterprise's management is unable to meet the commitment.

23. In rare situations, it may not be possible to estimate, in whole or in part, the amount of an environmental liability. This does not exempt an enterprise from disclosing the fact that there is an environmental liability. In such a situation, the fact that no estimate can be made, together with the reason therefor, should be disclosed in the notes to the financial statements.

24. *When environmental damage relates to the enterprise's own property, or is caused by the enterprise's operations and activities to other property for which there is no obligation on the enterprise's part to rectify, consideration should be given to disclosing the extent of the damage in the notes to the financial statements or in a section of the report outside the financial statements themselves. When there is a reasonable possibility that such damage may have to be rectified in some future period, a contingent liability may have to be disclosed.*

25. Although there may not be an obligation at the balance sheet date for an enterprise to rectify environmental damage, the situation may change in future periods, for example because of new legislation or a decision by the enterprise to dispose of its property, in which case there will then be an obligation. In any event, owners and shareholders are entitled to know the extent to which there is environmental damage to the enterprise's own property, as well as to the property of others.

26. *Costs relating to site restoration or the closure or removal of long-lived assets which the enterprise is under an obligation to incur should be recognized as an environmental liability at the time of identifying the need to undertake the remedial action relating to such site restoration, closure or removal. In the case of long-term decommissioning costs, however, an enterprise may choose to provide for such costs over the life of the related operations.*

^{4/} Refer to the work being undertaken by the IASC on "Impairment of Assets" for further guidance on this subject.

27. Since the obligation relating to future site restoration or closure or removal of long-lived assets arises when the related damage to the environment originally occurs, an environmental liability would be recognized at that time, and not deferred until the activity is completed or the site is closed. Because of their nature, however, an enterprise may choose to recognize decommissioning costs over the life of the related operations (see paragraph 40).

28. *Future site restoration costs, which relate to damage incurred in prior periods which were necessary to prepare an asset or activity for operation, and which are recognized as an environmental liability at the time the related damage is incurred, should be capitalized.*

29. In many situations, environmental damage has to be incurred before an enterprise can commence a particular activity and also throughout the life of that activity. For example, mining operations could not be commenced without related excavation work being undertaken. Enterprises are frequently required to undertake site restoration once the activity has been completed. Such restoration costs would be accrued when the environmental damage to which they relate is incurred (see paragraphs 26 and 27). The amount would also be capitalized and amortized to the income statement over the life of the related operations.

G. Recognition of Recoveries

30. *An expected recovery from a third party should not be netted against the environmental liability, but should be separately recorded as an asset, unless there is a legal right of set off. Where the amount is netted because there is a legal right of set off, the gross amounts of both the environmental liability and the recovery should be disclosed.*

31. In most cases, an enterprise will remain primarily liable for the whole of the environmental liability in question such that if the third party fails to pay for any reason, the entity would have to meet the full cost. If the enterprise is not responsible for the third party's portion should it default, only the enterprise's portion would be recorded as an environmental liability.

32. *Expected proceeds from the sale of related property and salvage proceeds should not be netted against an environmental liability.*

33. For an asset with limited life, salvage and residual values are normally taken into consideration in arriving at the amount to be amortized. It would be double counting to reduce an environmental liability by such amounts.

H. Measurement of Environmental Liabilities

34. *When there is difficulty in estimating an environmental liability, the best possible estimate should be provided. Details on how the estimate was arrived at should be disclosed in the notes to the financial statements. In those rare situations where no estimate can be provided, this fact and the reasons therefor should be disclosed in the notes to the financial statements.*

35. In some situations, an estimate of an environmental liability may be difficult to determine because of the uncertainty about a number of factors. Such factors include the extent and type of hazardous substances at a site, the range of technologies that can be used, and evolving standards as to what constitutes

acceptable remediation. Even though it may not be practical to estimate the actual liability, it will often be possible to estimate a "range of loss". In such an instance, the best estimate within the range should be provided. Where it is not possible to arrive at a "best estimate", at least the minimum estimate should be recognized. It would be a rare situation when no estimate can be made. In such a case, note disclosure should be provided.

36. *For environmental liabilities that will not be settled in the near term, ISAR expresses a preference for measuring the liability at the present value of the estimated future expenditures that will be needed, based on the current cost of performing the required activities and existing legal and other requirements. Measuring the liability at the full current cost amount is also considered acceptable. For long-term decommissioning costs, providing for the anticipated future expenditures over the life of the related operations is also considered acceptable. The approach used should be disclosed. Where the provisioning approach is used, the estimated amount of the full provision needed to cover the long-term decommissioning costs should also be disclosed.*

37. A number of approaches have been proposed for measuring liabilities relating to future site restoration, or closure and removal, costs and for other situations where expenditures relating to the settlement of the liability are not expected to be incurred for a considerable period of time. They include the following:

- (a) the "present value" approach;
- (b) the "current cost" approach;
- (c) providing for the anticipated expenditures over the life of the related operations.

Both the present value approach and the current cost approach require the determination of the estimated cost of performing the site restoration, closure or removal activities in the current period based on existing conditions and legal requirements (the current cost estimate). Under the current cost approach, this amount would be reflected as the environmental liability. Under the present value approach, however, the measurement of the environmental liability would be based on the present value of the estimated future cash outflows required to satisfy the obligations. Providing for the anticipated expenditures over the life of the related operations would be based on an estimate of the cash outflows that would eventually be required, rather than the amount that would currently be required.

38. The present value approach requires additional information about the time value of money and the factors that may affect the timing and amount of the estimated cash flows required to satisfy the obligations. Those latter items attempt to estimate the outcome of future events and, consequently, increase the level of uncertainty about that approach. As a result, some believe that the reliability of the present value approach is not sufficient to require recognition of a liability in the financial statements. They believe that the current cost approach is inherently more reliable than the present value approach because of the absence of uncertainties about future events.

39. Others believe, however, that the decision usefulness of the current cost approach decreases with increases in the length of time between the initial recognition of the liability and its eventual settlement, and that the relevance

of the present value approach outweighs the perceived reliability of the current cost approach.

40. In some industries, it is acceptable practice to provide for long-term decommissioning costs over the life of the related operations, for example with respect to the decommissioning of drilling platforms or nuclear power plants. The reasons for applying this practice are often pragmatic, in that it may avoid what some see as excessive volatility in reported income and financial position brought about by changes in the estimates of such costs.

41. In measuring an environmental liability based on the present value approach, the discount rate used to measure present value would normally be a risk-free rate, such as that used for a government security that has a similar term. Advances in technologies that are expected to take place in the near term would be taken into consideration, but those of a longer-term nature would not be considered. Expected inflation that will affect the costs to be incurred would also be taken into consideration. Further, the amount of the environmental liability would be reviewed each year, and adjusted for any changes made in the assumptions used in arriving at the estimated future expenditures. Measurement of a new or additional obligation will be based on factors relevant to the period in which that obligation arises.

42. For environmental liabilities that will be settled in the near term, the current cost approach would normally be used.

I. Disclosure ^{5/}

43. Disclosure of information relating to environmental costs and liabilities is important for the purpose of clarifying or providing further explanation of the items included in the balance sheet or the income statement. Such disclosures can be included in those financial statements, in the notes to the financial statements or, in certain cases, in a section of the report outside the financial statements themselves. In deciding on whether an item of information, or an aggregate of such items, should be disclosed, consideration should be given to whether the item is material. In determining materiality, consideration would be given not only to the significance of the amount, but also to the significance of the nature of the item.

Environmental costs

44. *The types of items that an enterprise has identified as environmental costs should be disclosed.*

45. Environmental costs arise in a number of ways. Costs incurred by an enterprise may improve the operational efficiency of the enterprise, as well as its environmental efficiency. What is included as an environmental cost will require judgement. Some enterprises may choose to include only those costs that are "wholly and exclusively" attributable to environmental measures. Others may choose to make an arbitrary allocation when a cost is only partly environmental. Disclosure of what has been included as an environmental cost should, therefore, be provided.

^{5/} ISAR acknowledges that the disclosure proposed goes beyond that advocated by standard-setting organizations. On the other hand, minimal disclosure is currently being provided by most enterprises.

46. *The amount of environmental costs charged to income, distinguished between operating and non-operating costs and analysed in a manner appropriate to the nature and size of the business and/or the types of environmental issues relevant to the enterprise, and the amount of environmental costs capitalized during the period, should be disclosed in the notes to the financial statements.*

47. *The types of items identified could include, but would not necessarily be restricted to: liquid effluent treatment; waste, gas and air treatment; solid waste treatment; site restoration; remediation; recycling; and analysis, control and compliance.*

48. *Environmentally related costs incurred as a result of fines and penalties for non-compliance with environmental regulations and compensation to third parties as a result of loss or injury caused by past environmental pollution and damage should be separately disclosed.*

49. *Fines, penalties and compensation are different from other types of environmental costs in that they provide no benefit or return to the enterprise. Separate disclosure is therefore appropriate.*

50. *An environmental cost recorded as an extraordinary item should be separately disclosed.*

Environmental liabilities

51. *Environmental liabilities should be separately disclosed either in the balance sheet or in the notes to the financial statements.*

52. *The basis used to measure environmental liabilities (the present value approach, or the current cost approach) should be disclosed.*

53. *For each material class of liabilities, the following should be disclosed:*

- (a) a brief description of the nature of the liabilities;*
- (b) a general indication of the timing and terms of their settlement.*

When there is significant uncertainty over the amounts of the liabilities, or the timing of settlement, this fact should be disclosed.

54. *Any significant measurement uncertainties relating to a recognized environmental liability and the range of possible outcomes should be disclosed.*

55. *Where the present value approach has been used as the basis of measurement, consideration would be given to disclosing all assumptions critical to estimating the future cash outflows and the environmental liability recognized in the financial statements, including:*

- (a) the current cost estimate of settling the environmental liability;*
- (b) the estimated long-term rate of inflation used in computing the environmental liability;*
- (c) the estimated future cost of settlement;*

(d) the discount rate(s).

56. The disclosure called for in paragraphs 51 to 55 will assist users of the information in their assessment of the nature, timing and extent of an enterprise's commitment of its future financial resources.

Accounting policies

57. Any accounting policies that specifically relate to environmental liabilities and costs should be disclosed.

General

58. The nature of environmental liabilities and costs recognized in the financial statements should be disclosed, including, inter alia, a brief description of any environmental damage, any laws or regulations that require its remediation, and any reasonably expected changes to these laws or to existing technology that are reflected in the amount provided for.

59. The type of environmental issues that are pertinent to an entity and its industry should be disclosed, including:

- (i) the formal policy and programmes that have been adopted by the entity;
- (ii) in cases where no such policy and programmes exist, this fact should be stated;
- (iii) the improvements in key areas that have been made since the introduction of the policy, or over the past five years, whichever is shorter;
- (iv) the extent to which environmental protection measures have been undertaken owing to government legislation, and the extent to which government requirements (for example, a timetable for the reduction of emissions) have been achieved;
- (v) any material proceedings under environmental laws.^{6/}

60. It would be desirable to disclose any government incentives, such as grants and tax concessions, provided with respect to environmental protection measures.

61. The disclosure advocated in paragraphs 58 to 60 could be provided either in the notes to the financial statements or in a separate section outside the financial statements. It enables users of the information to assess an enterprise's current and future prospects regarding the impact of environmental performance on the financial position of the enterprise.

^{6/} This is taken from ISAR's *Conclusions on Accounting and Reporting by Transnational Corporations* (United Nations publication, Sales No. E.94.II.A., New York), paragraph 209.

COMMISSION ON INVESTMENT, TECHNOLOGY AND RELATED FINANCIAL ISSUES

AGREED CONCLUSIONS OF THE COMMISSION AT ITS THIRD SESSION

(Agenda items 3 and 4)

Item 3: Recent developments in foreign direct investment trends and policies

1. The Commission recognizes that investment policy today is a fundamental element of national development strategies, and also recognizes the role that FDI plays in integrating countries into the world economy. Against this background, the Commission stresses the importance of technical assistance in national capacity-building for the design and implementation of such policies, as well as an exchange of experiences and policy reviews in this regard. The Commission also recognizes that nearly all countries are pursuing policies to attract FDI. Efforts should be made to help build capacities and create mechanisms in developing countries and especially LDCs so that they can effectively realize their investment potentials, including through negotiating and promotion techniques.

2. The Commission recognizes that many countries in Africa have made considerable efforts to attract FDI through improvements in their investment climate. The Commission underlines that there is potential on the African continent to attract additional FDI and that consistent policies in this respect help, as would a change in the undifferentiated negative image of the continent. In this respect, the Commission requests that the fact sheet prepared by the secretariat, entitled "Foreign direct investment in Africa: performance and potential", be updated and be made widely available, including by posting it on the Internet and translating it into other languages. The Commission calls on the international community to assist African countries in their efforts to create a sound investment climate, including through continued technical assistance activities in this area and other appropriate measures.

3. The Commission notes the resilience of FDI flows to Asia so far, in spite of the financial instability in this region, in which the volatility of short-term capital flows played a role. The Commission also notes the increase in FDI flows during 1997 into Latin American and the Caribbean countries. At the same time, the Commission notes that financial instability creates greater uncertainty in the investment environment. Therefore, it requests UNCTAD to continue to pay regard to the impact of financial instability on FDI flows, including the factors affecting these flows. It also requests UNCTAD to prepare and disseminate fact sheets on FDI in Asian developing countries, as well as Latin American and the Caribbean countries.

4. The Commission reaffirms the important role of FDI, recognizing the complex interrelationship between various types of capital flows, especially between foreign portfolio flows and FDI flows, and requests that further study be made of their characteristics, similarities, complementarities and differences, as well as of the development impact and policy implications arising therefrom. The results should be made available in a comprehensive study covering all regions. In this context, it is important that UNCTAD cooperate with international banking and financial institutions and other appropriate organizations so as to benefit from greater synergy effects.

5. The Commission recognizes the need for stable and well-supervised financial markets and institutions and financial transparency, including appropriate reporting and accounting rules, in the context of broader appropriate macroeconomic policies to attract stable investment flows into developing countries, and particularly into development-priority areas. An effective mobilization of domestic savings can play an important role in reducing the vulnerability to external movements of capital. In this connection, the Commission invites UNCTAD to continue its technical assistance activities geared towards capacity-building in developing countries in policies related to the area of private capital flows.

6. The Commission examined the Report of the Expert Meeting on the Growth of Domestic Capital Markets, particularly in Developing Countries, and its Relationship with Foreign Portfolio Investments, and accepted those of its recommendations such as contained in these agreed conclusions.

7. The Commission further requests that the materials, documents and summaries of publications prepared by the secretariat, including materials prepared for the Commission and its Expert Meetings, be made available on the Internet in a timely and effective manner, in accordance with existing rules and regulations.

8. UNCTAD's technical assistance activities in this area should be undertaken within existing resources and in accordance with the agreed plans on technical assistance. At the same time, UNCTAD invites potential donor countries to provide contributions in order to further strengthen these activities.

Item 4: Examining and reviewing existing agreements on investment to identify their implications for development, as called for in paragraph 89(b) of "A Partnership for Growth and Development"

9. The Commission recognizes the importance of the issues related to FDI and development, in particular those related to international investment agreements at all levels, and the need to pay attention to how these agreements can help to increase the FDI flows and further the objective of development.

10. The Commission stresses the complexity of the issues involved in international investment agreements, in particular as they relate to promotion of investment, economic growth and the development dimension.

11. In this context, the Commission takes note of the Report of the Expert Meeting on Existing Regional and Multilateral Investment Agreements and their Development Dimensions, commends the work being carried out by the secretariat in identifying and analysing implications for development of issues relevant to a possible multilateral framework on investment, taking into account the interests of developing countries and bearing in mind the work undertaken by other organizations, in pursuance of the Midrand mandate, and expresses its gratitude for the voluntary contributions made by countries to the trust fund on a possible MFI, which have made the implementation of this work programme possible.

12. The Commission further recognizes that UNCTAD can contribute to a better understanding of the development implications of international investment agreements and that this task requires further analytical and capacity-building work. In this context, the Commission looks forward to, among other things, the series of issues papers being prepared by the secretariat in the framework of its programme on a possible multilateral investment framework.

EXPERT MEETING ON THE IMPACT OF GOVERNMENT POLICY AND GOVERNMENT/PRIVATE ACTION IN STIMULATING INTER-FIRM PARTNERSHIPS REGARDING TECHNOLOGY, PRODUCTION AND MARKETING, WITH PARTICULAR EMPHASIS ON NORTH-SOUTH AND SOUTH-SOUTH LINKAGES IN PROMOTING TECHNOLOGY TRANSFERS (KNOW-HOW, MANAGEMENT EXPERTISE) AND TRADE FOR SME DEVELOPMENT

I. RECOMMENDATIONS ADOPTED BY THE EXPERT MEETING

Preamble

1. The experts reaffirmed the importance of inter-firm cooperation in enabling firms to meet the challenges of the new international competitive environment. Inter-firm agreements cover a variety of arrangements between small, medium and large enterprises, including licensing and subcontracting relationships, technology, marketing and other forms of strategic partnering. Inter-firm cooperation could be an effective mechanism for capacity-building in areas such as technology, product and process quality improvements, marketing and managerial know-how, particularly for small and medium-sized enterprises (SMEs). While inter-firm cooperation is relatively widespread in developed countries, evidence shows that firms in developing countries and economies in transition face certain obstacles in participating in such arrangements. The experts discussed the main conditions for successful partnering. These include the identification of the right partner, the need for a common vision, trust and strong motivation, clarity of organizational structures and a thorough preparation based on adequate information. The experts recognized that there is a vast diversity of country situations, requiring differentiated responses with regard to inter-firm cooperation, particularly in the least developed countries (LDCs).

2. The discussion at the Expert Meeting raised a number of issues that resulted in specific recommendations in terms of policy options and guidelines for different actors involved in the process of building inter-firm cooperation: for governments and national organizations in terms of setting the general policy framework and infrastructure, and in terms of providing direct services to SMEs at the local level; for the international community in terms of building bilateral or multilateral technical cooperation programmes fostering inter-firm cooperation; and for UNCTAD.

**Policy options and practical measures
to promote inter-firm cooperation**

A. Recommendations addressed to governments and national organizations

3. Government policies should focus on creating and maintaining an overall macroeconomic environment ("enabling environment") conducive to inter-firm cooperation. This includes providing close support to enterprises and encouraging the creation of efficient, flexible and independent local organizations such as business associations, chambers of commerce and industry associations.

4. Governments should ensure that the legal framework is favourable to inter-firm cooperation and define clearly the legal and regulatory measures that govern business and inter-firm transactions and collaboration, such as the system of property rights, contract law, commercial law, special tax measures and dispute

settlement. In addition, it is important that governments ensure effective and efficient implementation of their legal and regulatory measures.

5. To enhance successful and economically viable partnering, government policies should facilitate the development of local technological, managerial and organizational capabilities. In order to have a "partnership-ready" enterprise sector, it is essential to create the necessary capabilities in terms of human resources and institutional infrastructure by enhancing the educational level and skill formation of the labour force through ongoing general and vocational training and an adequate institutional framework for apprenticeship and craftsmanship. Particular efforts are required in LDCs.

6. Governments and private sector bodies need to play an active role in preparing the ground for inter-firm partnerships through, among other measures, raising awareness of the potential benefits from such partnerships and providing local firms with access to information as well as the right mix of financial and technical support where needed. Measures should also include access to independent advice at various stages of a partnership, for example during initial negotiations or when consolidating a partnership. In this regard, governments should work with private and public sector bodies to systematically collect information on the progress being made in locating partners for technology, production and marketing cooperation and in identifying the different types of arrangements being entered into with a view to disseminating "best practices".

7. Measures are necessary at all levels of government to foster the promotion and application of R&D results in industry with a view to strengthening the ability of firms to participate in international production networks. Governments could promote interaction between firms and R&D institutions or universities through such means as technology centres and parks. Such linkages are essential for training and the provision of skills to enterprises, especially SMEs.

8. Investment promotion agencies, public and private sector bodies and academic institutions should be encouraged to promote the upgrading of local technological and managerial capacity through inter-firm arrangements such as joint ventures and subcontracting and franchising relationships, through study tours and by securing government support for R&D.

B. Recommendations addressed to the international community

9. The international community should enhance inter-firm cooperation through providing access to capital, technology, managerial know-how and adequate financing on the most concessional terms to SMEs in developing countries, particularly in the least developed countries.

10. In support of national and regional initiatives to promote inter-firm cooperation, corresponding efforts should be made at the level of multilateral and/or bilateral cooperation. These efforts could include the creation of inter-firm cooperation opportunities (e.g. through pilot projects, fairs, study tours), training of staff from interested firms, facilitating technology transfer, provision of experts, financial assistance to support structures as well as information services. International cooperation schemes in developing countries and economies in transition should address the requirements of modern production (e.g. quality control, just-in-time production). Partnering agencies could also assist "would-be partners" to better articulate their objectives, focusing on trust-building processes and developing activities designed for this purpose.

C. Recommendations addressed to UNCTAD

11. Several initiatives could be undertaken by UNCTAD in cooperation with other international organizations, such as UNIDO, ITC and UNDP, to support the process of inter-firm cooperation. There is a need to (a) identify best practices in promoting inter-firm cooperation; (b) develop criteria and checklists of conditions, capacities and attitudes which make companies "partnership-ready", taking into account local conditions; (c) provide advice to governments in creating an appropriate policy environment for inter-firm cooperation as well as advice on policy options within specific sectors; (d) address the needs of least developed countries at the pre-collaboration level by identifying ways of enabling enterprises to build contractual trust through their legal systems, good-will trust by creating a common vision among the partners and technical trust by strengthening their technological and managerial capabilities to carry out agreed tasks; (e) establish an electronic network of North-South and South-South partnering programmes in the area of inter-firm cooperation, including useful information on intermediary match-making agencies, within UNCTAD's website and link it on-line to the EMPRETEC and the WAIPA networks; and (f) undertake a pilot project, if extra budgetary resources are made available, promoting networks of support services at the regional level.

EXPERT MEETING ON CLUSTERING AND NETWORKING FOR SME DEVELOPMENT

I. AGREED CONCLUSIONS AND RECOMMENDATIONS

1. The Expert Meeting reaffirmed the importance of SMEs and their critical contribution to employment, growth and development. It is also recognized that globalization has brought with it a new competitive environment and hence new requirements for sustained competitiveness and cooperation on the part of firms everywhere in the world.

2. The experts noted that clustering is a phenomenon in industrial development and thus over time the number of firms in a given branch and in a given location may restructure and grow. An emerging cluster attracts additional firms since inputs, machinery and qualified workers are easily available.

3. The experts also pointed out that clusters with intensive cooperation between firms, and firms and institutions, are much more rare, especially in developing countries and economies in transition. But it is this type of cluster that offers specific advantages and growth opportunities. Within a cluster of cooperative firms SMEs have more opportunity to become internationally competitive and to penetrate the global market. Clusters are often integrated into national and international networks which complement spatially concentrated clusters.

4. The experts discussed the relevance of clustering and networking for SME development, including the critical role of governments at all levels, business associations and other support institutions, including financial and educational institutions, and NGOs both individually and collectively in helping clusters and networks to grow sustainably. The experts made the recommendations set out below to the Commission on Enterprise, Business Facilitation and Development.

5. Considering the deep economic, social and political crisis facing most African countries, and taking into account the key importance of SMEs in Africa, it is highly recommended that special attention and assistance be accorded by local, national and international actors to the promotion and development of SMEs for ensuring the sustainable development of the continent.

Addressed to governments

6. Policy makers at all levels are invited to review their traditional industrial development policies with respect to both manufacturing and services and to give appropriate priority to promoting clustering and networking as an effective strategy for SME development.

7. Central governments, particularly in developing countries and economies in transition, are invited to maintain their focus on creating an enabling macroeconomic environment, and a favourable legal and regulatory framework, and providing basic infrastructure and services, including education, which encourage clusters and cooperation between firms. They are invited also to establish the appropriate level of decentralization for policy formulation and implementation, and for support measures for SME development.

8. Governments, together with non-governmental actors and public-private partnerships, are invited to aim at strengthening not only tangible but also and specifically intangible locational factors such as improving capabilities and responsiveness of local administrations, providing real services and strengthening

an innovative milieu which would lead to positive linkages within the domestic economy and greater transfer of skills and technology. The experts suggested that this approach could also help address the problem of poor backward and forward linkages and the low level of technology and skills transfer.

9. Given the importance of information and knowledge acquisition and dissemination for the growth of dynamic clusters, measures should be taken to improve the exchange of information and transfer of knowledge through initiatives such as the exchange of personnel between firms, universities and vocational and technical schools, and the utilization of university outreach programmes for SMEs, benchmarking, monitoring and experience exchange programmes.

10. Given that measures to stimulate SME clustering and networking will need to be formulated and implemented at the local and regional levels, governments should encourage and empower meso-level institutions (e.g. trade, professional and business associations, NGOs and SME support systems) to play an active role in promoting SME networking and clustering rather than assisting individual firms.

11. Business incubators, innovation centres and technology parks are demonstrating effectiveness in creating successful enterprises, economic revitalization and other benefits, and should be initiated under appropriate conditions by universities, public-private partnerships and other agencies. Governments are invited to consider supporting such business development centres. Such organizations should be operated in a business-like way.

12. Experts stressed the potential benefit of effective private-public partnership to support the emergence of a local development vision and the implementation of actions to give effect to that vision. Governments at all levels are therefore encouraged to foster continuous and effective dialogue and consultation with the private sector in the policy-making process.

13. Governments should seek to achieve a balance between policies which stimulate both competition and cooperative behaviour which improves efficiency and competitiveness.

Addressed to government, the international community and civil society

14. Leadership and trust, which are crucial for effective networking and clustering, should be nurtured through innovative programmes which focus on bringing together a critical mass of committed and dynamic entrepreneurs.

15. Bearing in mind that policies and programmes must be tailored to the stage of evolution in the cluster, network or enterprise, governments, the international community and civil society are invited to promote SME clustering and networking through measures such as:

- creating SME networking opportunities (e.g. seminars, fairs, study tours, exchange of staff);
- developing manuals drawing on the expertise and experience of the relevant bodies on how to create and run a business association, business incubator, innovation centre, export production village and special economic zone, taking into account the stage of development and cultural diversity;

- encouraging cooperation among service providers, and avoiding oversupplying and overlapping business development services;
- promoting support systems which are initially partially subsidized, particularly when directed to innovation and venture creation.

16. Bilateral and multilateral bodies should:

- promote networking and periodic information exchange on their programmes and projects;
- work together to increase the synergy among their programmes, in particular between those which offer financial services and those which offer non-financial services.

17. The cost-effectiveness of alternative SME support programmes now needs to be verified by the responsible agencies. These programmes need to be evaluated on the basis of agreed indicators such as impact, sustainability, replicability, skills enhancement and linkages, impact on directly assisted businesses and other businesses, meso-level institutions and business-government links.

Addressed to UNCTAD

18. UNCTAD should prepare a study on innovative, non-fiscal incentives which can be used to stimulate clustering, promote investment, develop positive linkages within the domestic economy and bring about a greater transfer of skills and technology.

19. Given the importance of creating a culture of innovation within firms, the experts recommended that UNCTAD work together with other UN agencies (UNIDO, ITC, ILO, UNDP etc.) to realize the benefits from complementary SME programmes.

20. Given the importance of the proper choice of business development services, UNCTAD in association with the Committee of Donor Agencies on Small Enterprise Development should study evaluation methodologies and advise governments on appropriate evaluation methods for different circumstances. In this context, UNCTAD is requested to take action on the recommendation of the Expert Meeting on Government and Private Sector Roles and Interactions in SME Development, held in July 1997.

**EXPERT MEETING ON CAPACITY BUILDING IN THE AREA OF ELECTRONIC
COMMERCE: HUMAN RESOURCE DEVELOPMENT**

I. AGREED RECOMMENDATIONS

A. Background

1. Experts recognize the importance of electronic commerce for trade and development, and the significance of UNCTAD's contribution to current and future activities affecting electronic commerce. They consider in particular that UNCTAD has a comparative advantage in its ability to combine an analytical and an operational approach to the issues related to electronic commerce. It also has the comparative advantage of being able to offer a cross-sectoral approach to electronic commerce, benefiting from its mandate and expertise in a large array of trade-supporting sectors and activities, including trade facilitation, customs, banking, insurance and transport. These comparative advantages are especially important in addressing the training needs of developing countries, particularly those of the least developed countries.

**B. Importance of human resources development
for electronic commerce**

2. Considering the fast pace of technological change, as well as the specificity of the legal, regulatory, social and economic challenges raised by the emergence of electronic commerce, it is of primary importance that all countries should benefit from adequate tools for the development of the necessary human resources in this area. Particular importance should be given to enhancing the capacity of smaller firms (small and medium-sized enterprises) to participate in electronic commerce.

3. The experts consider that much effort is needed to enhance developing countries' capabilities to better grasp the meaning and possible impact of electronic commerce. The provision of definitions, analyses and economic studies of the trade-and-development impact of electronic commerce (as well as of existing proposals related to electronic commerce) will be critically important in this respect.

4. The experts emphasize that enhanced knowledge, experience and awareness in the area of electronic commerce will contribute to increasing the level of interest and the quality of participation of developing countries in international discussions relevant to electronic commerce, including those on standards. Such collective efforts will thus contribute to the setting of a framework for global electronic commerce with positive benefits for all participants.

C. Recommendations to UNCTAD

5. In cooperation with the relevant institutions, UNCTAD should pursue its technical cooperation activities in the area of human resource development for electronic commerce, in particular through the training of trainers. Three main targets should benefit from UNCTAD's assistance in this area, namely:

- (i) Policy makers and negotiators;
- (ii) Small and medium-sized enterprise managers and trade practitioners;
- (iii) Technicians, including specialists in electronic data interchange and the Internet.

6. UNCTAD is called upon to pursue its work in the following areas:

- (i) Conceptual and quantitative analyses of the impact of electronic commerce on trade and development;
- (ii) Organization of regional seminars to raise the level of awareness of member States about the possibilities and challenges of electronic commerce, as well as about the current state of specific debates (proposals for a global framework for electronic commerce, international negotiations and discussions being held in various institutions);
- (iii) Production and dissemination of training packages for electronic commerce, in particular through its TRAINFORTRADE/electronic trade initiatives, undertaken in cooperation with other organizations and financed by the United Nations Development Programme (UNDP); the use of modern interactive techniques, including CD-ROM and Internet-based techniques, as well as of distance-learning packages, should be encouraged, taking into account local cultural and language specificities;
- (iv) Use of the Global Trade Point Network as an instrument for the dissemination of training tools for electronic commerce, and as an instrument for the continuous exchange of information and experiences among the practitioners of electronic commerce. In this respect, specific attention should be given to monographic training courses on contemporary software trends and the application of advanced technologies to electronic commerce.

7. In order to provide the most timely and relevant tools for human resources development in electronic commerce, UNCTAD should actively pursue its policy of inter-institutional cooperation, and mobilize substantive contributions from other institutions such as the World Trade Organization (WTO), the International Labour Organisation (ILO), the International Telecommunication Union (ITU), the International Trade Centre (ITC), the World Intellectual Property Organization (WIPO), the United Nations Commission on International Trade Law (UNCITRAL), UNDP, the United Nations Institute for Training and Research (UNITAR), the International Bank for Reconstruction and Development (IBRD), the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the International Chamber of Commerce (ICC), the Internet Society, the United Nations regional commissions and other regional organizations. In the context of such cooperation, UNCTAD could play a significant role in sensitizing

such institutions to the importance of addressing electronic commerce in their own training activities.

8. The experts pointed to the need for potential donors and contributing partners to support financially and technically UNCTAD's efforts in this important area.

9. The experts encouraged UNCTAD to pursue its efforts in building partnerships with civil society to offer proper training tools in the area of electronic commerce. It was considered that the holding of the Partners for Development meeting in Lyon, France, from 9 to 12 November 1998, offered a historical opportunity to intensify those efforts. The Lyon meeting, following both the WTO ministerial meeting of May 1998, and the OECD ministerial meeting to be held in Ottawa, Canada, in October 1998, would provide an opportunity to stimulate positive contributions from all countries to the creation of a global framework for electronic commerce.

COMMISSION ON ENTERPRISE, BUSINESS FACILITATION AND DEVELOPMENT

AGREED CONCLUSIONS AND RECOMMENDATIONS ADOPTED BY
THE COMMISSION AT ITS THIRD SESSION

Agenda item 3: The implications of the post-Uruguay Round economic environment for enterprise development, including policy issues relevant to inter-firm cooperation, clustering and networking

1. Globalization and the post-Uruguay Round have brought with them a new competitive environment and hence new requirements for sustained competitiveness on the part of firms. In this context, the Commission noted that international partnering, networking and clustering within localities are some of the best ways to build and sustain the kind of competitiveness that small and medium-sized enterprises (SMEs) need to survive and grow in a globalizing economy.

2. The Commission, taking note of the recommendations in the reports of the expert meetings on inter-firm partnerships and on clustering and networking (contained in documents TD/B/COM.3/12 and TD/B/COM.3/14 respectively), agreed on the following specific recommendations with regard to agenda item 3.

A. Addressed to Governments

3. Governments, particularly in developing countries and economies in transition, are invited to continue their efforts to create an enabling macroeconomic environment and provide basic infrastructure and services, including education, to promote private sector and SME development, including, *inter alia*, inter-firm partnerships.

4. For this purpose, Governments are invited to promote basic conditions such as a legal framework that includes a system of property rights, contract law, commercial law and bankruptcy laws, and a sound competition climate. Governments are also invited to develop local capital markets and mobilize domestic savings to facilitate the access of SMEs to finance.

5. Successful measures to stimulate enterprise clustering and networking require a constructive partnership between the public and private sectors and must provide demand-driven responses oriented to local conditions. Governments are accordingly invited to establish appropriate means which empower and encourage meso-level institutions to effectively support enterprise development, including, in particular, inter-firm cooperation.

B. Addressed to the international community

6. While developing countries have the primary responsibility for developing and promoting their enterprise sector, appropriate policies and support measures by the international community are of critical importance. These may include the provision of targeted technical assistance, access to information networks, and strengthening support for research and development systems through the enhancement of linkages with enterprises, universities and research institutions, as well as other appropriate channels.

7. A broad-based effort on the part of the international community is needed to assist SMEs in developing countries to meet internationally recognized standards. The international community should build awareness of the existence of such standards, provide information on how these standards can be met and provide related assistance.

8. A major challenge facing SMEs is access to finance. The international community should support and promote research on the feasibility of enhancing, designing and creating special financial mechanisms to meet SMEs' needs.

9. The international community is invited to facilitate inter-firm cooperation by contributing to the provision of access to capital, technology and managerial know-how, particularly in the least developed countries.

10. In support of national and regional initiatives to promote inter-firm cooperation, corresponding efforts should be made at the level of multilateral and/or bilateral cooperation. These efforts could include: support for programmes fostering the creation of inter-firm cooperation opportunities (e.g. through pilot projects, fairs, study tours, or website linkages); the training of staff from interested firms; facilitating technology transfer; the provision of experts; and financial assistance to support structures as well as information services. International cooperation schemes in developing countries and economies in transition should address the requirements of modern production methods (e.g. quality control, just-in-time production). Partnering agencies could also assist would-be partners in better articulating their objectives, focusing on trust-building processes and developing activities designed for this purpose.

C. Addressed to UNCTAD

11. UNCTAD is requested to complete expeditiously work mandated by previous sessions of the Commission and to undertake the following tasks:

12. UNCTAD, in cooperation and coordination with other international organizations, is requested to help developing countries integrate into networks of research institutions (in developing and developed countries) on networking, partnering and clustering issues in order to enable these countries to benefit from their research results.

13. UNCTAD should examine the feasibility, within the context of the EMPRETEC programme, of ways and means of increasing the access of SMEs to finance, including international venture capital.

14. UNCTAD should undertake case studies to identify best practices in promoting inter-firm cooperation with a view to developing criteria and checklists of conditions, capacities and attitudes which make companies "partnership-ready"; this includes addressing the needs of the least developed countries at the pre-collaboration level by identifying ways of enabling enterprises to build contractual trust through their legal systems, goodwill trust by creating a common vision among the partners and technical trust by strengthening their technological and managerial capabilities to carry out agreed tasks.

15. UNCTAD should provide advice to governments on creating an appropriate policy environment for inter-firm cooperation as well as advice on policy options within specific sectors.

16. UNCTAD should compile information or an inventory with a view to establishing, if necessary, an electronic network of North-South and South-South partnering programmes, relevant associations and organizations engaged in promoting inter-firm cooperation, including useful information on intermediary matchmaking agencies, using UNCTAD's website and linking it on-line to the EMPRETEC and the WAIPA (World Association of Investment Promotion Agencies) networks.

17. UNCTAD should prepare a study on innovative, non-fiscal incentives which can be used to stimulate clustering, promote investment, develop positive linkages within the domestic economy and bring about a greater transfer of skills and technology.

18. UNCTAD should also continue and expand its existing technical assistance programmes for developing countries, which are relevant for enterprise development such as EMPRETEC, TRAINFORTRADE and others. The least developed countries should have priority in the assistance provided by UNCTAD. The specific needs of certain developing countries with structurally weak and vulnerable economies should be addressed. UNCTAD should continue to provide technical assistance to economies in transition.

19. The Commission agreed to convene the following expert meeting under agenda item 3:

Development of sustainable local services and national and international support measures including financial and non-financial services, human resource development, access to information and an assessment of access to technologies, to improve and promote the role and capacity of small and medium-sized enterprises in developing countries within the framework of a dialogue between the private and the public sector.

Agenda item 4: The impact and relevance of electronic commerce on trade growth and development

20. In the years to come, the development of electronic commerce will affect fundamentally the functioning of international trade. The participation of developing countries - in particular the least developed countries, and certain developing countries with structurally weak and vulnerable economies - and countries with economies in transition, and in particular of their enterprise sectors, in electronic commerce will be an essential ingredient for growth and wealth creation at the global level.

21. However, present inequalities in access to underlying infrastructures (such as telecommunications) and networks (such as the Internet) need to be addressed if the potential benefits of electronic commerce are to be realized in a truly global fashion. Equally important in this respect will be the ability of these countries to access relevant information about the technical, legal, economic and policy issues raised by the rapid development of electronic commerce.

22. In this context, the "Partners for Development" meeting (held in Lyon, France, from 9 to 12 November 1998) constitutes a positive contribution towards

a common understanding of the development dimension of electronic commerce. The Commission considers that the pursuance of this positive approach could contribute to the work towards an international framework for electronic commerce.

23. The Commission expresses its appreciation to the secretariat for the quality of the analytical documentation produced for its third session, and stresses the importance of analytical documentation in raising awareness among member States of the potential benefits and obstacles specific to the development dimension of electronic commerce and in deepening understanding of policy implications. It considers that UNCTAD can make a significant and positive contribution to the current debate on electronic commerce by pursuing such work, while focusing on issues related to trade and development. This should be done in cooperation with international organizations which have a specific interest in the field of electronic commerce.

24. The Commission takes note of the recommendations of the expert meeting on "Capacity-building in the area of electronic commerce: human resource development", contained in document TD/B/COM.3/13.

A. Addressed to Governments

25. Governments are invited to provide the proper legal and regulatory environment for the rapid development of electronic commerce and its dissemination among enterprises, especially small and medium-sized enterprises with a view towards, *inter alia*, facilitating interoperability. In particular, policy measures likely to encourage investment in local telecommunications infrastructures and Internet connectivity should be considered as a precondition for the enhancement of the participation of all countries in electronic commerce.

26. Both the private sector and the public sector have important contributions to make to the design of the national and international rules and guidelines which will allow a fair and truly global dissemination of the benefits of electronic commerce. Governments are invited to pay appropriate attention to the experience and expertise of their own enterprises in the area of electronic commerce.

27. Governments are invited to pursue their efforts to give appropriate consideration to the development impact of the possible rules and regulations they could adopt nationally, regionally and internationally in the field of electronic commerce.

B. Addressed to the international community

28. The international community is invited to strengthen assistance to these countries in the following priority areas:

- (a) Raising the awareness of government officials, trade practitioners and entrepreneurs about the various legal, technical and economic dimensions of electronic commerce, and their potential impact on the ability of these countries to participate more actively in international trade;

- (b) Offering practical learning and information tools to enhance the ability of such countries and their enterprises to use the techniques of electronic commerce effectively;
- (c) Strengthening developing countries' ability to enhance their trade efficiency through the use of electronic means;
- (d) Providing necessary assistance to these countries in capacity-building and in setting up the necessary legal and regulatory framework to benefit from electronic commerce;
- (e) Facilitating broader participation of these countries in the work towards an international framework for electronic commerce.

C. Addressed to UNCTAD

29. The Commission takes note of the existing cooperation between UNCTAD and other relevant international and regional organizations which have relevance in the field of electronic commerce and stresses the importance of further enhancing such cooperation.

30. The Commission requests that UNCTAD gather information relevant to development-related dimensions of electronic commerce and that this be posted on UNCTAD's website. Such information could include development-related programmes of international organizations as well as basic statistics on Internet access and connectivity.

31. The UNCTAD secretariat is encouraged to pursue its analytical and research work on the links between electronic commerce and development, with special focus on measures and policies likely to enhance the ability of these countries to participate more fully in global electronic commerce. The secretariat is encouraged to approach other relevant organizations to produce joint studies in areas of particular interest to these countries. Specific importance should continue to be attached to the links between electronic commerce and trade facilitation. Such work should be made available to other relevant organizations, in particular the World Trade Organization (WTO).

32. The Commission requests UNCTAD to organize regional electronic commerce workshops; emphasis should be put in such workshops on stimulating exchanges of experiences among enterprises having a practical knowledge of electronic commerce.

33. The Commission takes note of the secretariat's revised proposals for the Trade Efficiency Assessment Methodology (TEAM) and encourages the secretariat to approach possible donors to expand, if necessary, to other countries the valuable exercise carried out in Cambodia.

34. The Commission takes into account and supports UNCTAD's work in the area of electronic commerce. Concerning the Trade Point Programme, the Commission reserves its conclusions for its next session in the light of the ongoing discussion on the in-depth review of that programme in the Working Party on the Medium-term Plan and the Programme Budget.

35. The Commission agreed to convene the following expert meeting under agenda item 4:

Capacity-building in the area of electronic commerce: legal and regulatory dimensions:

- (a) Potential impact on developing countries of the legal and regulatory proposals currently being discussed in international forums;
- (b) Capacities and policies to be considered by developing countries and the international community to stimulate the participation of smaller players (including small and medium-sized enterprises and least developed countries) in global electronic commerce.

It decided to mandate its extended Bureau to consider the topic for the second expert meeting under this agenda item.

SIXTEENTH EXECUTIVE SESSION

I. DECISIONS ADOPTED BY THE TRADE AND DEVELOPMENT BOARD
AT ITS SIXTEENTH EXECUTIVE SESSION

Decision 445 (EX-16): Action by the Trade and Development Board on the implementation by UNCTAD of the outcome of the High-level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development

The Trade and Development Board,

1. Takes note of the report of the High-level Meeting (WT/COMTD/12);
2. Endorses the Integrated Framework for Trade-Related Technical Assistance, including for Human and Institutional Capacity-Building, to Support Least Developed Countries in their Trade and Trade-Related Activities 2 and notes with satisfaction that the Framework aims to ensure that trade-related technical assistance activities are demand-driven by the least developed countries and meet their individual needs effectively;
3. Invites the UNCTAD secretariat, in the context of its work programme on issues of concern to LDCs, to:
 - (a) Contribute, through inter-agency coordination, to providing an integrated response to the trade-related technical assistance needs of those LDCs which submitted needs assessment reports but which were not featured in pilot country round tables;
 - (b) Assist in refining needs assessment, as required;
 - (c) Help, upon request, such LDC Governments that have submitted needs assessments to prepare, jointly with other agencies/partners, a multi-year trade-related technical cooperation programme;
 - (d) Upon request, contribute actively and provide technical support to those round-table processes at the country level envisaged in paras 5 (e) and (f) of the Integrated Framework;
 - (e) Contribute to the establishment and maintenance of an integrated country data base within the scope of the Integrated Framework;
 - (f) Contribute to the implementation, review, monitoring and evaluation of each country programme through an enhanced co-ordination process with the other organizations involved;
 - (g) Include UNCTAD activities under the Integrated Framework in the secretariat's annual report on technical cooperation to the Working Party on the Medium-term Plan and the Programme Budget and the Board;
 - (h) Ensure that existing relevant technical cooperation activities of UNCTAD, including country-specific, sectoral and other inter-agency programmes, are supportive of, complement and promote the effective implementation of the outcome of the High-level Meeting;

4. Invites development partners of LDCs, both bilateral and multilateral, to provide adequate extrabudgetary resources as necessary to UNCTAD to supplement regular budget allocations to implement the above activities in conformity with paragraph 5(j) of the Integrated Framework;

5. Requests the UNCTAD secretariat to ensure that the outcome of the two thematic round tables organized within the framework of the High-level Meeting is brought to the attention of the relevant Commissions and expert meetings of UNCTAD for consideration and necessary follow-up action; in particular, the outcome on trade should be referred to the Commission on Trade in Goods and Services, and Commodities, that on investment to the Commission on Investment, Technology and Related Financial Issues, and the outcome on wider development issues to the Commission on Enterprise, Business Facilitation and Development; the secretariat is requested to provide these Commissions with option papers setting out the policy options they may wish to consider in the light of the outcomes;

6. Recommends that the Secretary-General of UNCTAD consider convening an ad hoc meeting as soon as possible on GSP, GSTP and new initiatives for LDCs in the area of market access to provide an opportunity for officials and experts from member States to discuss the major new developments in their national GSP schemes, including review of their special provisions in favour of LDCs, propose measures to extend the necessary advisory services to enhance GSP/market access utilization, and follow up and monitor the announcements made in this regard during the High-level Meeting; the report of this ad hoc meeting should be brought to the attention of the Commission on Trade in Goods and Services, and Commodities;

7. Requests the UNCTAD secretariat to inform the Board, on a six-monthly basis to begin as soon as possible, on progress of work in the design and in the implementation of activities related to the High-level Meeting, and in particular on:

(a) Work relating to inter-agency co-ordination, both at the headquarters level and in the field;

(b) Suggested priorities arrived at in consultation with other agencies for the implementation of its part of the outcome of the High-level Meeting, taking into account available and possible future resources;

(c) The relevant allocation of resources, including, where possible, cost estimates relating to both regular-budget and extrabudgetary activities, including those supported by the Trust Fund for LDCs;

8. Invites the Secretary-General of UNCTAD to consider, in cooperation with the relevant organizations, appropriate arrangements at the inter-agency level to ensure coordinated implementation of the outcome of the High-level Meeting and to report at the April consultations of the President of the Board for further consideration of the matter by the Trade and Development Board;

9. Recommends that, in the light of the report of the Secretary-General, the Trade and Development Board consider how best to achieve intergovernmental coordination between the relevant organizations in order to ensure the most efficient implementation of the outcome of the High-level Meeting.

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16 February 1998

Decision 446 (EX-16): Guidelines on the efficiency and functioning of the UNCTAD intergovernmental machinery

Within the framework of the intergovernmental structure established at UNCTAD IX, the Trade and Development Board at its sixteenth executive session has reviewed the functioning of its intergovernmental machinery and has adopted the guidelines set out below in order to improve the working methods and enhance the functioning of that machinery. The various bodies at the different levels of the machinery, with the support of the secretariat, will apply these guidelines immediately and in a flexible manner to ensure maximum effectiveness.

General considerations

1. The role of bureaus should be an active one, both during and between sessions of the bodies concerned. Bureaus should deal with organizational and procedural matters. Should they wish to take up matters relating to the preparation of substantive issues, they should meet as extended bureaus.^{1/}
2. The UNCTAD calendar of meetings should be designed to ensure that expert meetings take place before the sessions of the relevant commission, and that commission sessions take place prior to sessions of the Board.
3. Delegations should be briefed on all aspects of a meeting at least four weeks before the meeting. Pre-session documentation should be distributed on time and in all languages.
4. Panels should be organized only when they can add value to the discussions of the bodies concerned. Member States should be consulted well in advance in connection with the topics of panels and the choice of panellists. The selection of panellists should be based on the need to ensure a balanced presentation of the topics selected, as well as linguistic and regional balance. Permanent missions should be informed of invitations extended to panellists or resource persons from their countries. Panellists should be properly briefed prior to meetings, and they should provide written summaries of their presentations for distribution to participants. The length of time spent on panels and the number of panellists should be limited in order to allow sufficient time for intergovernmental discussions. A written summary of the panel discussions should be produced by a rapporteur in order to ensure the necessary link with the intergovernmental debate.
5. To improve transparency and allow maximum participation, simultaneous meetings during a session should generally be avoided, and discussions on texts on which decisions must be taken, in particular agreed conclusions, should normally take place in informal plenary meetings, not in closed consultations.
6. All information relating to meetings, including preparations, documentation and outcomes, should be made available on UNCTAD's web site, which should be regarded as an integral part of meetings arrangements. Information on pre-

^{1/} An extended bureau comprises the officers of the bureau, the regional group coordinators and interested delegations.

session preparations and documentation should in principle be made available six weeks before a meeting.

7. Brief summaries should be prepared by the secretariat of all informal substantive discussions, without attribution of views to individual delegations.

Trade and Development Board and Working Party on the
Medium-term Plan and Programme Budget

8. The agenda for sessions of the Board should be prepared in such a way as to allow the Board to cover all issues addressed to it in the final outcome of UNCTAD IX. It should be well focused.

9. The Board should examine and evaluate the work of the Commissions and determine the direction of new work; it should not just take note of the Commissions' reports.

10. The Board should strive to achieve better coherence between its sessions and the sessions of the Commissions in terms of choice of items and preparation of the calendar to enable the expertise of the expert meetings to find its way up to the Board and to allow the Commissions to take account of the deliberations of the Board.

11. Preparations for the high-level segment, including the selection of the theme, the chairman and the panellists, should be transparent and based on consultations with all member States.

12. The theme of the high-level segment should be of international importance in order to attract high-level participation; the selection of the theme should take place in the first half of the year. In principle, there should be a direct link between the theme of the high-level segment and the agenda for the Board's session.

13. High-level representatives at the segment should be given an opportunity to present their views and participate fully, with the high-level segment being treated as a high-level intergovernmental debate.

14. The secretariat should prepare a summary of the discussions at the high-level segment as rapidly as possible and, if timing permits, before the end of the regular session of the Trade and Development Board.

15. The work of the Working Party should be coordinated and synchronized with the work of the relevant bodies in New York in order to ensure that the views of the Working Party are taken fully into account. Its work should also be organized in such a way as to give members sufficient time to consider documentation.

Commissions and Expert Meetings

16. The organization of work of the Commissions should be such as to allow the Commissions to devote themselves to substantive issues.

17. The bureaus of the Commissions, meeting in the appropriate configuration, should continue to function between Commission sessions with a view to dealing with, among other things: preparations for and follow-up to Commission sessions

and expert meetings; preparation of proposed topics for Commission agendas and expert meetings; organization of work; documentation.

18. The number of expert meetings to be convened by a Commission should be determined by the Board.

19. Each Commission should consider the findings of its expert meetings and discuss their policy implications. It should have before it an indication by the secretariat of the nature of those policy implications and of possible action to be taken.

20. In selecting the topics for expert meetings, Commissions should ensure that topics are demand-driven, are closely related to the Commissions' work and take into consideration issues of current interest to member States and in particular developing countries. Account must be taken of UNCTAD's comparative advantages and of the secretariat's expertise and capacity.

21. The Commissions should discuss and evaluate technical cooperation activities linked to their work programmes and make proposals to the Board. Special attention should be given to strengthening the synergy between policy dialogue, study and analysis, and technical cooperation.

22. Wherever possible, as the outcome of their work the Commissions should seek to adopt agreed conclusions of relevance to the international community, Governments and the UNCTAD secretariat. Recommendations for work to be carried out by the secretariat should be practical and realistic in terms of capacity.

23. When the Commissions request work to be carried out by the secretariat, the latter should inform the Commissions in particular of the schedule of work, the probable time of completion and reporting modalities.

24. The Commissions should have before them, at the following session, progress reports on the implementation of agreed conclusions and recommendations by the secretariat. These progress reports, which should include an evaluation of the work undertaken, should be presented to the extended bureaus before being submitted to the Commissions.

25. Experts attending expert meetings convened in accordance with paragraph 114 of "A Partnership for Growth and Development" are nominated by their Governments. All participants at expert meetings have the status of expert and serve in their personal capacity. In all matters relating to participation of experts in expert meetings, the secretariat should deal with permanent missions. Governments are encouraged to nominate non-governmental experts also.

26. To improve the effectiveness of expert meetings, the secretariat should provide experts with appropriate information on UNCTAD, its activities and procedures, and the anticipated nature of the expert meetings in question.

27. The agenda of each expert meeting should be clearly established by the Commission convening the meeting.

28. Wherever possible, as the outcome of their work expert meetings should seek to identify possible policy options relating to capacity-building and general policy guidelines.

29. After each expert meeting, it is recommended that the extended bureau of the relevant Commission meet in order to discuss the outcome of the meeting.

30. With a view to facilitating the participation of experts in expert meetings and thereby helping to improve the effectiveness of these meetings, member States are encouraged to explore means of enhancing such participation, including through contributions to the trust fund established by the Secretary-General of UNCTAD and other resources possible to finance the participation of experts from developing countries.

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Decision 447 (EX-16): UNCTAD's publication policy

The Trade and Development Board,

Decides that the Working Party on the Medium-Term Plan and the Programme Budget should meet as soon as possible to:

(a) Review the "Report on documentation and publications" (TD/B/EX(15)/5) of 27 May 1997 and the "Progress report on the implementation of UNCTAD's publication policy" (TD/B/EX(16)/3 and Add.1) in order for member States to ascertain to what extent the policy set out therein is in line with their objectives for the overall publications policy of UNCTAD, taking into account the current discussion in the General Assembly on the publications policy for the United Nations as a whole in the light of the report of the Joint Inspection Unit (A/51/946) and the comments of the Secretary-General of the United Nations thereon (A/52/685), and to enable member States to monitor that UNCTAD publications are in line with the publications policy;

(b) Recommend any changes that might need to be adopted to achieve such objectives and to ensure the role of member States in this process.

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Decision 448 (EX-16): Savings resulting from improved overall cost effectiveness

The Trade and Development Board,

Recalling paragraph 107(a) of "A Partnership for Growth and Development" (TD/378), paragraph 33 of General Assembly resolution 51/167 and paragraph 54 of General Assembly resolution 52/220,

Decides:

(a) To request the Secretary-General of UNCTAD to present as soon as possible to the Working Party on the Medium-Term Plan and the Programme Budget

a detailed report on the savings achieved pursuant to the ninth session of the Conference and paragraph 54 of General Assembly resolution 52/220;

(b) That the Working Party should meet urgently to review the savings resulting from the improved overall cost-effectiveness achieved pursuant to the ninth session of the Conference, including restructuring of the intergovernmental machinery and reform of the secretariat, and to analyse proposals, when forthcoming, on the use of such savings;

(c) That the Working Party should propose recommendations on how to allocate in the 1998-1999 budget cycle a part of the savings already achieved with a view to strengthening UNCTAD capabilities, including *inter alia* technical cooperation.

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SEVENTEENTH EXECUTIVE SESSION

Decision 449 (EX-17): UNCTAD's publication policy

The Trade and Development Board, taking into account the ongoing work in the secretariat to streamline UNCTAD's publications policy, the relevant reports, and the establishment of a Publications Committee within the secretariat, agrees that:

1. The efforts undertaken by the secretariat in this respect are most welcome; the Board also takes note of the Working Party's satisfaction with the mechanisms put in place within the secretariat to ensure the systematic oversight and improvement of UNCTAD's publications activities;

2. Member States be encouraged to take an active part in a transparent review of UNCTAD's publications policy through consultations between the member States and the secretariat, so as to ensure that publications meet their needs and fulfil the priorities set for UNCTAD;

3. The Secretary-General of UNCTAD be invited to hold meetings with member States regarding UNCTAD's publications policy at an appropriate stage of the planning and review process, as follows:

(a) The Working Party will, at the start of each year, meet informally with UNCTAD's programme managers to discuss the specific list of publications planned for the year; at the same time, the Working Party will also consider a report of the Secretary-General on the implementation of UNCTAD's publications policy and will report to the Trade and Development Board; the two meetings will not exceed two days altogether;

(b) In the autumn of the first year of each biennium, the Secretary-General of UNCTAD will meet informally with the members of the Working Party to discuss a draft list of publications proposed for the next biennium;

- (c) The Working Party will review the draft work programme early in the following year, including the draft list of proposed publications, after which the Secretary-General of UNCTAD will finalize his programme budget submission to the Secretary-General of the United Nations; the Working Party will review the proposed programme budget at the time it is submitted to the General Assembly and will report to the Trade and Development Board which, in turn, will endorse the recommendations to be transmitted to the General Assembly's review bodies;
- (d) The Working Party will also review the results of a survey of publications issued during the previous year, as well as any in-depth readership surveys of selected publications which will have been conducted; readership surveys should be conducted on an annual basis; in the light of recent experience, the secretariat should seek to improve the design, methodology and scope of readership surveys so that they fulfil their crucial role;
- (e) All member States are encouraged to respond as fully as possible to readership surveys.

893rd plenary meeting

8 May 1998

Decision 450 (EX-17): Trust fund to enhance participation of developing countries' experts in UNCTAD meetings

The Trade and Development Board, having received a progress report under item 3 of its agenda on the trust fund to enhance the participation of developing countries' experts in UNCTAD meetings in accordance with the decision of the forty-fourth session of the Board, decides that:

- (a) Informal consultations under the authority of the President of the Board shall be held on the operational modalities of the trust fund to enhance participation of developing countries' experts in UNCTAD meetings in accordance with paragraph 114 of "A Partnership for Growth and Development", with a view to enabling the Secretary-General of UNCTAD to modify the operational modalities of the trust fund to include *inter alia* two windows, one for earmarked and one for non-earmarked contributions;
- (b) The President of the Trade and Development Board is requested to complete these informal consultations by 3 July 1998 so that the operational modalities can be endorsed by the Trade and Development Board at its eighteenth executive session on 10 July 1998.

893rd plenary meeting

8 May 1998

EIGHTEENTH EXECUTIVE SESSION

OUTCOME OF THE MID-TERM REVIEW

INTRODUCTION

1. The reform project embodied in the Midrand outcome was a turning point in the history of UNCTAD. The Conference decreed the streamlining of the intergovernmental machinery of the organization, of its work programme, and of the structure of the secretariat. It also decided to improve UNCTAD's working methods and - most importantly - to adopt a different approach to the work, one based on dialogue and consensus-building and on practical objectives.

2. These goals have in effect been the guiding force of the organization since the Conference. A genuine effort - by both member States and the secretariat - has been made to attain them, and to a significant extent they have succeeded. But this major reform effort has, inevitably, encountered some difficulties, such as skill mismatches, compounded by the financial crisis of the United Nations. In the context of the mandates agreed upon at Midrand and subsequently endorsed by the General Assembly, which are not to be reopened, the Mid-term Review takes stock of the road already travelled, including its obstacles and pitfalls; considers what is yet to be done in the coming two years to fulfil these mandates; and makes recommendations on how to strengthen implementation.

3. The decisive test in the period up to the next Conference will be how well UNCTAD matches its description as the focal point within the United Nations system for the integrated treatment of development and interrelated issues in the areas of trade, finance, technology, investment and sustainable development. UNCTAD is also the focal point for LDCs for the United Nations system, and another test will be how effectively it delivers assistance to those countries. The key will be "integration": of programme elements (for example, FDI should be seen not in isolation but as a way of building supply networks of SMEs, strengthening the enterprise sector in recipient countries, bringing innovation, improving export competitiveness, etc.); among UNCTAD's Divisions and Branches in coping with cross-sectoral issues and between the secretariat and member States; and among relevant economic multilateral institutions and regional commissions in terms of the common or complementary points in their work programmes and in the implementation of integrated country programmes.

4. Capacity-building is the expression that better defines this approach - capacity to implement the appropriate policies at the country level but also the capacity to formulate and apply negotiating positions on trade, investment and the other central issues that shape the globalization process and which will consequently affect the external economic environment for development.

STOCKTAKING

5. UNCTAD's work since Midrand - both in the secretariat and at the intergovernmental level - has basically proceeded along the lines mandated by the Conference. Intergovernmental consensus-building, policy research and analysis, and technical cooperation have on the whole addressed the goal of assisting developing countries and economies in transition to promote their development and participate more effectively in the world economy under conditions conducive to their development.

6. Valuable analysis for policy-making has in particular been provided by work on interdependence and global economic issues; on development challenges facing LDCs and African countries; on foreign direct investment issues; on a positive agenda for developing countries in trade negotiations and the opportunities available in trade in services; on commodity diversification and risk management; and on electronic commerce. In this connection, the importance and usefulness of the flagship reports, namely the *Trade and Development Report*, the *World Investment Report* and the *Least Developed Countries Report*, have been recognized.

7. Applied work has been particularly valuable in the fields of debt management; investment promotion; capacity-building for entrepreneurship; accession to WTO; capacity-building in the trade field; commodity risk management; modernization of customs, cargo tracking and trade facilitation; transport and transit arrangements; and the setting-up of integrated country programmes for LDCs. Intensive work has been undertaken as far as accounting and reporting standards, and competition law and policy are concerned. The functioning of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting and the Intergovernmental Group of Experts on Competition Law and Policy is to be reviewed.

8. Databases in the field of trade in goods and services (Trade Analysis and Information System (TRAINS) and Measures Affecting Service Trade (MAST)) have been further developed and refined as analytical tools.

9. In the field of institutional reform, the Board adopted guidelines on the efficiency and functioning of the UNCTAD intergovernmental machinery which *inter alia* stress the importance of integrating the outcomes of expert meetings into the policy work of the Commissions.

10. Work has taken place within the framework of a participatory approach that emphasized the need for UNCTAD to incorporate civil society into its work; to liaise closely with other international organizations; and to integrate research and policy analysis and technical cooperation work.

11. However, several organizational factors have been identified in connection with which further efforts are necessary to strengthen the role and impact of the organization. Given the growing gap between the level of requirements and the level of resources available and their quality (skills and expertise of staff), there is a need for more flexible allocation of resources and a better matching between skills and priority areas. The problem is exacerbated by systemic rigidities and in particular the slow pace at which vacancies are filled.

12. The linkages between analytical and technical cooperation activities have not been fully developed. Cross-sectoral issues have not benefited from sufficiently integrated treatment within the intergovernmental machinery, nor

have they been dealt with as effectively as possible within the secretariat, and this situation has particularly affected the treatment of LDC-related issues. The impact of the activities and work of UNCTAD needs to be better measured.

13. The recruitment difficulties faced by UNCTAD in the last two years have especially affected the Office of the Special Coordinator for Least Developed, Landlocked and Island Developing Countries. The Office has suffered from the delay in appointing a Special Coordinator and in filling the other vacant posts, and this has negatively affected the direction of UNCTAD'S work on LDCs. High-quality appointments need to be made as a matter of urgency.

14. The Secretary-General of the United Nations has endorsed the agreement reached regarding the division of labour between UNCTAD and the Department of Economic and Social Affairs (DESA) on strengthening United Nations work in macroeconomic analysis. UNCTAD's present capacity to carry out analysis of international macroeconomic issues, particularly the impact of globalization and liberalization on trade and development, may therefore not be fully adequate in this new context.

15. While UNCTAD's work on Africa has increased in recent years and the Board's discussions of both substantive issues affecting Africa and UNCTAD activities in the context of the United Nations New Agenda for the Development of Africa in the 1990s (UN-NADAF) and the United Nations System-wide Special Initiative on Africa have generally proved satisfactory, further improvements could still be made. Support in terms of analytical inputs and human resources is still not sufficient, and internal coordination could be improved.

16. In work on globalization and development strategies, there is scope for improving the balance in the activities undertaken, since not all regions have been fully covered from year to year, and dissemination of analytical outputs needs to be improved; not enough has been done on how developing countries could pace and sequence liberalization. Funding of activities on debt management has not been secure enough, and activities relating to assistance to the Palestinian people now need to aim at having a direct beneficial economic impact. In work on investment, technology and enterprise development, priorities and targets could be defined more clearly. In work on trade, there has not been a clear enough division of labour between subprogrammes in respect of electronic commerce and commercial diplomacy. In work on services infrastructure for development and trade efficiency, there is a need for greater emphasis on creating a better understanding of the economic impact of electronic commerce and its emerging global framework. In work on least developed, landlocked and island developing countries, not enough emphasis has been placed on the follow-up to the High-level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development, and participation of LDCs in UNCTAD meetings has been inadequate.

RECOMMENDATIONS

General

17. The unique contribution of UNCTAD has to be made through its analytical function and by linking *research* and *action*, *analysis* and *policies*. UNCTAD's programmes should be evaluated with this linkage in mind. Links should be reflected both in the consensus-building process in the intergovernmental machinery and in UNCTAD's operational activities and through enhanced partnerships with civil society. Feedback from member States through adequate monitoring of implementation will be indispensable.

18. The partnerships for development envisaged by the Midrand Declaration should be the hallmark of UNCTAD. These will require further changes in the way business is conducted. UNCTAD should strengthen its links with civil society, in particular the private sector, and international organizations. Links with the private sector should be aimed at tapping its innovative capacity, engaging in joint activities and supplementing funding, and in this connection clear guidelines should be adopted for private-sector funding. Links with other international organizations, including regional commissions, which represent an equally valuable source of ideas, should be aimed at increasing synergies and avoiding duplication. Constructive ideas must be developed about how to improve the dissemination of policy advice, including through modern electronic means, to make sure it reaches the end-users in a user-friendly form (best practices, handbooks, model laws and/or contracts).

19. While recognizing the need to adjust priorities in the light of changes in the world economy, the scope and contents of the work programme of the secretariat should be commensurate with approved mandates, taking resource constraints into account.

20. Work on cross-sectoral issues must be better integrated into the work of the intergovernmental machinery, and the Board should in particular ensure that the cross-sectoral issues referred to in paragraph 106 of "A Partnership for Growth and Development" are integrated into the work of the Commissions.

21. UNCTAD's analytical and technical cooperation activities should be better coordinated, and the secretariat should put in place appropriate mechanisms for this purpose. The strategy for the coherence of regular budget and extrabudgetary programmes that seeks to strengthen these linkages should be further pursued and should be linked to the outcomes of expert meetings, the Commissions, the Working Party and the Trade and Development Board.

22. UNCTAD's management should deploy every effort to proceed speedily with recruitment and appointments so as to reduce the current excessive vacancy rate. It should also seek to reduce costs within the framework of system-wide efforts to improve efficiency. Staff training should be stepped up with a view to addressing skill mismatches and creating a flexible workforce able to adjust to changing requirements.

23. Taking into account current discussions in the United Nations system on results-based budgeting and performance indicators, the UNCTAD secretariat should integrate further in its work the use of performance indicators. In accordance

with commonly accepted national and international criteria, these indicators should be relevant, simple and measurable, and due account should be taken of the difficulties involved in measuring the impact of analytical work.

24. Focusing on results rather than inputs, the secretariat should examine and propose to the Board ideas for suitable feedback mechanisms to measure the impact of UNCTAD's activities. These proposals should be made available to the Board as soon as possible, and the Working Party should be involved at a later stage.

25. Cost recovery should be examined for certain technical cooperation programmes involving updating, maintenance and continuing servicing, account being taken of the situation of LDCs and low-income countries.

Specific

26. As UNCTAD is the focal point within the United Nations system for assistance to the least developed, landlocked and island developing countries, the work of the Office of the Special Coordinator should be strengthened. This could be achieved in part by filling current vacant posts as a matter of urgency. It is important that the Office coordinate the sectoral work, monitor the implementation of the Paris Programme of Action and initiate the preparatory process for the Third United Nations Conference on LDCs in close consultation and collaboration with the relevant agencies and institutions and civil society. LDC issues should be fully integrated into the work of the intergovernmental machinery at all levels. The lack of effective participation of LDCs in UNCTAD meetings should be addressed by the Board.

27. In view of its great importance to least developed countries, it is essential that decision 445 (EX-16) of the Trade and Development Board on the follow-up to the High-level Meeting on Integrated Initiatives for LDCs' Trade Development be implemented in full. Ownership of beneficiary countries should be assured. LDCs should be assisted in preparations for, and follow-up to, country-specific round tables. Cooperation, coordination and coherence of all the cooperating agencies' efforts remain the hallmark for achieving success.

28. Greater emphasis should be placed on cooperation with other agencies in the implementation of the Barbados Programme of Action for the Sustainable Development of Small Island Developing States. Work relating to development problems specific to landlocked and transit countries should be strengthened and proceed in consultation with all parties concerned.

29. Close cooperation and coordination must play a primordial role if the UNCTAD/WTO/ITC Joint Integrated Technical Assistance Programme in Selected Least Developed and Other African Countries, which, for the LDCs involved, represents a concrete step in implementing the integrated framework stemming from the High-level Meeting, is to meet its objectives. The secretariat coordination and focal point mechanism for activities relating to Africa should be strengthened.

30. Work on globalization and development strategies should have broader regional coverage, dissemination should be improved and more should be done on the pace and sequencing of domestic liberalization policies.

31. In debt management, more work should be done on the training of national staff and on domestic debt management. Work on debt problems of indebted

countries, taking account of the results of debt negotiations in various forums, including private sector forums, should be pursued within UNCTAD's mandate.

32. UNCTAD should analyse the impact of European economic and monetary union and the euro on developing countries, taking into account global analysis carried out in the relevant international organizations. Work on portfolio investment might best be carried out under the programme on investment, and advantage should be taken to the greatest possible extent of work being done by regional development banks and United Nations regional institutions.

33. In the programme on assistance to the Palestinian people, interagency coordination should be improved and a greater field presence should be considered.

34. UNCTAD's work in identifying and analysing the implications for development of issues relevant to a possible multilateral framework for investment addresses a prominent issue on the international agenda. UNCTAD should continue this timely work, which should be primarily analytical and include consideration of development-friendly elements. It should also pursue work to assist developing countries to strengthen their capacity to promote their trade and development through foreign investment. Further research should be undertaken into the factors which play a part in private sector firms' choices of investment locations. UNCTAD should continue its analysis on the current development of transnational corporations and help developing countries to improve the general understanding of issues related to transnational corporations and their contribution to development, as well as on policies allowing developing countries to benefit from TNC operations. More attention should be paid to promoting investment among developing countries. The integrated approach to investment and technology through the science, technology and innovation policy (STIP) reviews and investment policy reviews (IPRs) should be further pursued. Country-specific approaches to supporting national institutions and capacity-building should be preferred. Action should be taken to promote the continued expansion of the EMPRETEC programme, endeavouring to promote a regional balance.

35. In work on trade, further emphasis should be placed on capacity-building. Secretariat efforts to assist developing countries and economies in transition to participate effectively in international trade negotiations and in acceding to WTO should continue, including through the elaboration of a positive agenda, on which member States should be kept informed, and should receive appropriate funding from regular budget and extrabudgetary sources. Analytical work on the impact of trade preferences on the trade and development of developing countries should be strengthened, with special reference to identifying policy solutions in response to the decline in preferential margins and maximizing the utilization of preference schemes. In particular, it should identify ways to improve market access for developing country exports, including in new areas. The implementation of the special and differential provisions in favour of developing countries provided by the Uruguay Round Agreements should be analysed, bearing in mind the work being done in this area by WTO. Training in commercial diplomacy must be so designed as to ensure that UNCTAD's role is directed towards strengthening the analytical capacity of developing country officials in international negotiations. Work on commercial diplomacy courses should have a clear strategy and be sufficiently funded, and it should be developed in conjunction with the Training Development in the field of Foreign Trade (TRAINFORTRADE) programme. The role of different subprogrammes in respect of commercial diplomacy and electronic commerce should be clarified. As a

contribution to the discussion on issues on the international trade agenda, UNCTAD should continue to pursue its activities in the fields of competition law and policy; trade, environment and development; and services, including the use of the MAST database. Given the continuing dependence of a number of developing countries on primary commodities, work on diversification and risk management should be strengthened.

36. The sustainability of the Trade Point programme and Trade Points should be enhanced, particularly in respect of training, operability and interoperability, as may be recognized at the forthcoming evaluation of the programme. The concept of support services for the Automated System for Customs Data (ASYCUDA) should be developed, and measures to ensure its overall sustainability, as well as that of all other trade facilitation programmes, should be explored. The future activities of TRAINFORTRADE should be spelt out more clearly, taking into account the recommendations adopted by the Working Party on the Medium-term Plan and the Programme Budget following the evaluation of the programme and lessons learnt from the regional pilot projects. The Lyon Partners for Development meeting should be integrated into the work of UNCTAD through follow-up to private-sector/UNCTAD activities launched at the meeting. The analysis of global electronic commerce in terms of its impact on development should be an area of focus. In cooperation with relevant organizations, in particular WTO, ITU, WIPO and UNCITRAL, assistance should be provided to developing countries to prepare for possible multilateral discussions on electronic commerce.

37. The secretariat should produce an annual report on UNCTAD's activities in order to achieve greater transparency, to provide member States with a comprehensive overview and to permit a better assessment of UNCTAD's work and achievements. The Secretary-General may wish to take into account any views conveyed by member States as to the basic content of the report.

38. Expanded use of all aspects of information technology in UNCTAD's work should be sought. To that end, each Division should develop a plan to integrate information technology fully into its work.

894th plenary meeting

10 July 1998

TRADE AND DEVELOPMENT BOARD - FORTY-FIFTH SESSION

Agreed conclusions 451 (XLV): The causes, management and prevention of financial crisis

1. The current financial crisis afflicting the world economy has systemic elements and the countries affected cannot deal with the problem in isolation. An effective response needs to combine measures at both national and international levels.

2. Domestic factors have certainly played a major role in financial crises in some countries. However, others with sound economic fundamentals and institutions have also been affected by global financial instability. Moreover, the adverse impact of the crisis on commodity prices has been a major factor in reducing export earnings and growth in a number of countries, especially developing countries.

3. A single recipe for responding to financial crises is neither feasible nor desirable. Domestic policies need to be tailored to the specific circumstances of each country and designed to revive growth, restore confidence and ensure an orderly return to financial stability. Such efforts should be complemented by appropriate actions by developed countries. These efforts should ensure sustained economic growth and sustainable development.

4. Recourse to protectionist policies cannot be the solution to current global problems, but would merely serve to deepen the crisis. Growth-oriented policies hold the key to averting the risk of global recession and pressures for protectionism.

5. Recent events underscore the importance of a favourable external environment in attaining policy objectives in developing countries. An enabling external financial environment to support domestic measures could require, *inter alia*, adequate and transparent supervision of volatile, short-term capital flows.

6. There is a need to reform the existing international financial architecture so as to reduce the likelihood of financial crises and to manage them better. Full representation and participation of developing countries should be an integral part of the reform process. The views of developing countries should be taken into account. Effective multilateral and domestic surveillance is essential for the prevention of financial crises. Such surveillance needs to recognize the role of global interdependence in transmitting financial instability. Greater coherence is needed in international policy-making in the areas of trade, money and finance.

7. Reform of the financial architecture should address weaknesses and gaps in the existing regulatory framework for cross-border lending and financial flows. The scope of such reform may need to be extended to a wider range of financial activities.

8. Greater transparency of the operations of private financial institutions, Governments and multilateral financial institutions is essential for effective surveillance of policies and supervision of markets and for timely action to prevent financial instability. A consultative process should be encouraged for this purpose.

9. Strengthened prudential regulation and supervision of the financial system in a well-sequenced process of liberalization can contribute to greater financial stability. Domestic reforms to be considered might include: (a) increased transparency and disclosure; (b) strengthening of domestic regulatory standards; and (c) more effective burden-sharing arrangements, such as improved insolvency and debtor-creditor regimes.

10. There may also be a need to use other instruments to prevent the build-up of external financial vulnerability without impeding trade or medium- and long-term investment flows. Useful lessons can be drawn from the successful experiences in a number of countries with the use of such instruments. However, regulation and control over financial flows should not be used to sustain inappropriate policies.

11. While prevention of financial crises should be the ultimate aim of reform efforts, measures also need to be put in place for better management when crises arise. Establishing a genuine international lender of last resort with adequate resources to provide the liquidity needed to support countries facing external financial difficulties might be such a measure. However, given the serious impediments to this, it may also be useful to explore alternative means of crisis management that would provide safeguards against speculative attacks and disruption of markets, prevent moral hazard, and secure more equitable burden-sharing between debtors and creditors. The establishment of orderly debt work-out principles could be further examined. Developed countries should also consider other actions to facilitate access to liquidity of developing countries facing external financial difficulties.

12. The Board expresses its appreciation for the sound, independent and timely analysis provided in this year's *Trade and Development Report*. It urges the secretariat to continue to study international trade, monetary and financial issues as part of its work on interdependence with a development perspective as recognized by "A Partnership for Growth and Development". The proposals for the prevention and management of financial crises contained in this year's *Trade and Development Report* deserve wider dissemination and discussion, and further analysis. Within its existing mandate and taking account of work undertaken in other relevant organizations, UNCTAD should contribute to the debate on issues related to strengthening and reforming the international financial architecture by continuing to provide relevant analysis from a development perspective.

**Agreed conclusions 452 (XLV): Trade and investment in LDCs:
opportunities and constraints in
the multilateral trading system**

1. The Trade and Development Board carried out its eighth annual review of progress in the implementation of the Programme of Action for the Least Developed Countries (LDCs) for the 1990s, with the *Least Developed Countries 1998 Report* as the background document. The Board commended the secretariat for the high quality of the *Report* and its comprehensive analysis of the economic performance of LDCs and the opportunities and constraints facing LDCs in attempts to enhance their participation in the multilateral trading system. The main message of the *Report*, which is that LDCs should be fully integrated in the world trading system, needs to be brought out with greater clarity. However, it was recognized that the particular circumstances of LDCs continue to warrant special and differential treatment under the Uruguay Round agreements. Nonetheless, it is acknowledged that the long-term challenge for LDCs is to improve their competitiveness in international markets.

2. The Board was encouraged by the fact that the LDCs as a group had been able, in 1997, to sustain their recent economic recovery. Their improved performance was due to a combination of factors, both domestic and external. The Board was nevertheless concerned by the considerable uncertainty over the short-term prospects for LDCs; their fragile economies are particularly vulnerable to exogenous shocks such as the Asian financial crisis, declining commodity prices and natural calamities. The risk of policy reversals and continued civil strife also raises questions about the sustainability of the recent economic recovery in some LDCs. Furthermore, even if the current recovery could be sustained in the coming years, it would not by itself contain the continued marginalization of LDCs in world trade or enhance their necessary integration into the global trading system, or make much headway in alleviating poverty.

3. The Board noted that the improved economic performance of LDCs in recent years was mainly attributable to their own sound macroeconomic policy reforms, undertaken under most difficult domestic and external conditions. They were encouraged to continue their reform efforts, with the active support of the international community, in a spirit of partnership and shared responsibility, to create a conducive environment for sustained economic growth and development. They were also encouraged to make efforts to create conditions for improved domestic and foreign direct investment and diversification of their exports.

4. The Board considered the availability of adequate external financial resources to be of critical importance in sustaining growth and development in LDCs. The significant decline in official development assistance (ODA) flows to LDCs in 1996 was recognized with concern. Donor countries were called upon to increase their levels of financial assistance in line with established United Nations targets. The recent initiatives by some donor countries and the continued steadfast implementation of aid programmes in favour of LDCs by a number of other donors need to be supplemented by further efforts on the part of all LDC development partners with a view to meeting the commitments undertaken in the Programme of Action. That is particularly important in view of the inability of the LDCs to attract significant foreign direct investment (FDI) flows.

5. Despite the significant progress made by LDCs in implementing broadly-based economic reform programmes, most of them have not succeeded in attracting long-term investment. Although a wide range of investment opportunities exists in LDCs, particularly in the agricultural, tourism and mining sectors, LDCs still face obstacles in trying to attract FDI and other forms of private capital. That situation serves to underscore the critical importance of the role of official agencies (multilateral and bilateral development finance institutions and aid agencies) in helping to promote private flows to LDCs. LDCs need technical and financial assistance to improve their institutional and physical infrastructures in order to enhance their ability to attract more foreign equity investment flows and draw benefits therefrom.

6. While the Board welcomed major debt relief initiatives, it considered that further efforts are needed to alleviate the external debt situation of LDCs, which continues to be a source of grave concern. Without a sustained and decisive reduction in their external debt and debt service obligations, the growth prospects of LDCs and their ability to attract FDI will remain limited. The Board also welcomed the Heavily Indebted Poor Countries (HIPC) initiative, but noted that its implementation has so far been limited. Two years after its launch, only one LDC has benefited from the full-fledged relief provided by the initiative. The extension to the year 2000 of the initial two-year deadline for countries to be considered under the HIPC initiative, so as to allow more countries to meet the entry requirements, was welcomed. However, there is a need to provide an effective and early exit from the debt overhang problem in support of debtor policy reform efforts and to secure the necessary resources for the full and expeditious implementation of the initiative. The eligibility criteria should be flexible enough to take into account different debt situations and to include all LDCs which are truly in need of debt reduction and which are undertaking the necessary reforms. Donor countries might wish to give due consideration to the proposal made by the Secretary-General of the United Nations that all remaining official bilateral debt owed by the poorest HIPCs should be converted into grants.

7. The Board stressed the importance of supporting LDCs in their efforts to reverse their current marginalization in world trade and to become integrated into the world economy and international trading system. An expeditious accession process for LDCs which are not members of WTO is an integral part of those efforts, and UNCTAD should continue its efforts to assist LDCs in meeting their terms of accession. LDCs should be enabled to achieve accession on terms consistent with their LDC status. The challenge for the accession negotiations to be held in WTO is to combine, within a reasonable time-frame, the necessary rigorous observance of multilateral disciplines with a degree of flexibility and understanding for the difficulties and constraints faced by LDCs.

8. The full and effective implementation of the Marrakesh Ministerial Decision in favour of LDCs and the special and differential measures in favour of LDCs contained in the Uruguay Round agreements, further enhancement of market access for LDCs' exports and support for their efforts at capacity-building are essential if LDCs are to become integrated in the world economy. While moves by several developed and developing countries to increase market access for LDCs were welcomed, there remains substantial scope for further market access for agricultural and industrial products of export interest to LDCs. The effective implementation of the WTO Action Plan for LDCs, adopted at the first WTO Ministerial Conference, and the decisions of the High-level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development would help to address the residual market access problems faced by LDCs.

9. Supply-side constraints are at the root of LDCs' weak participation in international trade. The international community should help LDCs to enhance their competitiveness through commodity diversification, improvement of their trade infrastructure and trade-supporting services, and human resource development. Moreover, the LDCs themselves have a responsibility, in the context of their macroeconomic policy, to overcome the problems of supply-side constraints, for example the issues of high tariffs and other restrictions.

10. LDCs should also receive assistance to enable them to take an active part in negotiations which are part of the built-in agenda and take an active interest in the current debate on new issues. UNCTAD's role in that regard was emphasized. It was also underscored that, in the process of the negotiations on the built-in agenda, the special needs of LDCs should be taken into account.

11. The Board expressed concern at the pace of implementation of the Integrated Framework for Trade-Related Technical Assistance, including for Human and Institutional Capacity-Building, to Support Least Developed Countries in Their Trade and Trade-Related Activities. The need to continue to enhance and improve coordination and coherence among agencies involved in the implementation of the Integrated Framework was emphasized.

12. Civil society has an increasingly important role to play in enhancing socio-economic development. The international community and, in particular, member States need to take effective measures to promote private enterprise and boost entrepreneurial activities in LDCs. The creation by LDCs of a favourable institutional and legal framework is an indispensable prerequisite in achieving that objective. The role of women and non-governmental organizations (NGOs) needs to be re-emphasized, and efforts should be undertaken to integrate all civil society partners into the LDC development process. International development partners, especially NGOs, could play a vital role in that regard by entering into meaningful relationships with national NGOs and the private sector in LDCs.

900th plenary meeting
23 October 1998

Decision 453 (XLV): Contribution of the Board to the consideration by the General Assembly, at its fifty-third session, of the date, duration and venue of the Third United Nations Conference on LDCs and its preparatory process

The Trade and Development Board,

Recalling General Assembly resolution 52/187 of 18 December 1997, in which the General Assembly decided to convene the Third United Nations Conference on the Least Developed Countries at a high level in the year 2001, and Board recommendation 442 (XLIV) of 22 October 1997,

Welcoming the generous offer of the European Union to host the Third United Nations Conference on the Least Developed Countries in the first semester of the year 2001,

Recommends to the General Assembly for its adoption at its fifty-third session the following draft resolution entitled "*Third United Nations Conference on the Least Developed Countries*":

"The General Assembly,

Recalling its resolution 52/187 of 18 December 1997 in which it decided to convene the Third United Nations Conference on the Least Developed Countries at a high level in the year 2001,

1. Welcomes and accepts the generous offer of the European Union to host the Third United Nations Conference on the Least Developed Countries in the first semester of the year 2001;

2. Designates the Secretary-General of UNCTAD as the Secretary-General of the Conference and requests him to make all necessary preparations for the Conference;

3. Decides to convene the Third United Nations Conference on the Least Developed Countries in the first semester of the year 2001 for a duration of seven days, at a venue and time to be determined by the Secretary-General of the Conference in consultation with the European Union;

4. Requests the Secretary-General of the Conference to organize the Intergovernmental Preparatory Committee (in two parts) and the three expert-level preparatory meetings referred to in paragraph 1 (b) of resolution 52/187;

5. Requests the Secretary-General of the Conference to organize, in consultation with member States and in cooperation with relevant organizations and agencies, well-focused sectoral and thematic or, where appropriate, country-specific round table meetings during the Conference to contribute to the work of the Conference;

6. Calls upon the United Nations Development Programme (UNDP) and the World Bank to link the forthcoming Round Table and Consultative Group Meetings to the preparatory process of the Conference and to ensure that they make substantive contributions to the Conference;

7. Requests the Administrator of UNDP, in his capacity as Convenor of the United Nations Development Group, to ensure the full involvement in the preparations for the Conference of United Nations Resident Coordinators and country teams in the least developed countries;

8. Calls upon the Secretary-General of the United Nations, in consultation with the Secretary-General of the Conference, to convene an inter-agency meeting to ensure the full mobilization and coordination of all relevant organs, organizations and bodies of the United Nations system, as well as other relevant institutions, for the purpose of the preparations for, and the follow-up to, the Conference;

9. Invites the Secretary-General of the Conference to make arrangements, on the basis of consultations with member States, to facilitate the involvement of civil society, including non-governmental organizations and the private sector, in the preparatory process and the Conference;

10. Decides to defray the cost of participation of two government representatives from each least developed country in the work of the Intergovernmental Preparatory Committee meetings and the Conference itself through the use of extrabudgetary resources, and, should they prove to be insufficient, to consider all other options."

900th plenary meeting
23 October 1998

Agreed conclusions 454 (XLV): UNCTAD's contribution to the implementation of the United Nations New Agenda for the Development of Africa in the 1990s: Prospects for agriculture, trade and industrialization

1. The economic recovery which began in Africa in 1994 has proved to be fragile owing *inter alia* to lower commodity prices and more recently the effects of a slowdown in the world economy as a whole. This recovery did not generate the hoped for increase in national savings and investment which, together with the attainment of the 6 per cent annual growth target envisaged by the United Nations New Agenda for the Development of Africa in the 1990s (UN-NADAF), is essential for the achievement of sustainable development in Africa.

2. While African countries have made determined efforts to improve macroeconomic fundamentals, reforms have failed adequately to address all the structural constraints, especially as regards the underdevelopment of human resources and of physical infrastructure, as well as institutional limitations. These therefore remain severe. The design and implementation of structural adjustment programmes should take account of these constraints. Therefore, their conceptualization, including the premises on which they have been built, should be reviewed and adjusted to the requirements of individual countries, and coherence in policy advice should be ensured. Full ownership of reforms, founded upon a broad-based national consensus, is a necessary condition for success.

3. The debt overhang continues to be a major constraint facing African countries. It is particularly acute in the light of a reduction of official development assistance (ODA), lower export receipts and meagre resource flows,

including foreign direct investment (FDI). The debt overhang is having major adverse consequences for the fiscal health of African countries, and this may discourage domestic, foreign, public and private investment. While the Heavily Indebted Poor Country (HIPC) Initiative has been designed to contribute to an enduring solution to the debt problem, greater flexibility, additional efforts and a broader basis would help to put African countries back on the path to growth and development.

4. Bearing in mind the joint responsibility of both debtors and creditors in the accumulation of African debt, innovative approaches involving the affected countries are required. In this connection, taking into account the proposals contained in the *Trade and Development Report 1998*, the international community may wish to consider ways and means of identifying that portion of the debt assessed as unpayable for possible action by creditors. UNCTAD should continue to consider the debt situation of African countries and provide technical assistance for debt management.

5. The continued fall in levels of ODA in real terms continues to be a major cause for concern. This trend needs to be reversed. Donors are invited to increase the level of ODA in accordance with internationally agreed targets. As well as its scale, the quality and predictability of ODA remain critical factors for Africa.

6. Agriculture is centrally important in overall economic development in most African countries. There is a need to address the problem of undercapitalization and low productivity. For this, market-based reforms need to be supported. Government action, in most cases, has an important role to play in overcoming the institutional hiatus in input and output markets, infrastructural impediments and deficits in research and development, all of which hinder agricultural development. Promoting the tradable sector in agriculture can be greatly facilitated by better market access and reduced subsidies in industrialized countries. Moreover, graduation into "value added" agro-based manufacturing is highly desirable. To that end, the issue of tariff peaks and tariff escalation as regards products of special export interest to African countries needs to be adequately addressed. UNCTAD should therefore continue to analyse the ways in which conditions in domestic agriculture are affected by the global economic environment and come up with practical and sustainable policy options, including those involving enhancement of market access in the context of assisting developing countries in the formulation of a positive agenda.

7. An emphasis on agriculture should not lead to the neglect of industrialization. Experience shows that commodity-based industrialization, building on either agriculture or minerals, is a viable option. FDI can play an important role. But public sector support and domestic investment are crucial. UNCTAD should cooperate with other relevant international organizations in helping African countries to identify opportunities open to them in this area.

8. Adequate openness to trade and full integration into the international trading system constitute a crucial objective for African countries. However, the timing, sequencing and degree of liberalization should be adjusted to the needs and constraints of African economies as they build up their international competitiveness. UNCTAD should continue to explore the links between trade, international transport and African economic growth and their policy implications.

9. Assistance should be extended to African countries by UNCTAD and other relevant international organizations in order to enable them to identify trade

2. Notes with satisfaction the continued increase in the level of UNCTAD's technical cooperation expenditures in 1997;

3. Expresses its appreciation to bilateral and multilateral donors for their contributions to UNCTAD's technical cooperation programmes, and appeals to them to extend their contributions in line with UNCTAD's technical cooperation strategy and plan;

4. Notes with satisfaction that the share of technical cooperation expenditures originating in the United Nations Development Programme (UNDP) increased in 1997, and encourages the secretariat to continue its efforts to deepen its cooperation with UNDP;

5. Notes with satisfaction that the level and share of technical cooperation expenditures towards LDCs have increased, welcomes the progress achieved with respect to the LDC Trust Fund, expresses its appreciation for contributions from traditional donors and developing countries to the Trust Fund, and invites further contributions;

6. Requests the secretariat, in consultation with member States, to intensify its efforts to ensure a better relative balance in the share of technical cooperation activities of the various regions, taking into account their respective needs;

7. Notes with satisfaction the progress made by UNCTAD in its cooperation with other organizations, including through the signature of Memoranda of Understanding, and requests the secretariat to pursue its efforts to intensify such cooperation, including with the World Intellectual Property Organization (WIPO) and the International Telecommunications Union (ITU);

8. Encourages the secretariat to continue to deepen its cooperation with the World Trade Organization (WTO) and the International Trade Centre (ITC) with a view, *inter alia*, to better coordinating technical cooperation, in particular in the implementation of the Integrated Framework for Trade-Related Technical Assistance for Least Developed Countries and of the Joint Integrated Technical Assistance Programme in Selected Least Developed and Other African Countries (JITAP);

9. Urges the secretariat, in the implementation of technical cooperation activities, to make maximum use of capacities from developing countries, including local and regional expertise;

10. Requests the secretariat to finalize the handbook on UNCTAD's technical cooperation and make it available to member States in all United Nations official languages and on the Internet as soon as possible;

11. Decides that an in-depth evaluation of the competition law and policy Programme be considered at the next session of the Working Party in 1999 dealing with technical cooperation;

12. Requests the secretariat to prepare the rolling three-year technical cooperation plan in a simplified format for 1999-2001 for consideration by the Working Party at the second part of its thirty-second session in December 1998 and thereafter by the Trade and Development Board in 1999;

13. Takes note that, during the first part of its thirty-second session, the Working Party requested its Chairman to hold further consultations with interested member States on the modalities of partial cost recovery for ASYCUDA, DMFAS and ACIS on the basis of the proposals set out in the secretariat's report (TD/B/45/6, Chap. III), taking into account comments and suggestions of the Working Party, and to report thereon to the Working Party at its resumed thirty-second session in December 1998 with a view to taking an early decision on this issue.

899th plenary meeting
16 October 1998

**Decision 456 (XLV): Financing the participation of
developing country experts in
UNCTAD expert meetings**

The Trade and Development Board, having received the President's report on his consultations on the establishment of guidelines and modalities for the distribution of the relevant funds for the financing of experts in order to enhance participation of developing country experts in UNCTAD expert meetings in accordance with paragraph 114 of "A Partnership for Growth and Development", in compliance with action taken by the Board at its seventeenth executive session, decides that:

1. Experts benefiting from the financing should be nominated by their Governments and have proven experience; they will serve expert meetings in their personal capacity.

(a) The nomination procedure will be as follows:

(i) The Secretary-General will include, in each notification to member States for forthcoming expert meetings, a specific request for nominees to benefit from the financing;

(ii) At least four weeks before each meeting, members States could each name one expert per expert meeting to benefit from the financing, attaching a curriculum vitae;

(b) The Secretary-General will base his decisions regarding the enhancement of the participation of developing-country experts on the principle of equitable geographical representation, beneficiary needs and the expertise of the experts concerned.

2. Once the list of experts has been finalized, the Secretary-General will subsequently have all travel arrangements made in accordance with United Nations financial rules and regulations. In the event of scarcity of resources and in order to stretch available resources to cover as many experts as possible, the Secretary-General will be authorized to use the least costly travel fare.

3. The financing will facilitate the participation of the appropriate number of developing country experts for each UNCTAD expert meeting. The Secretary-General will present a report to the regular session of the Trade and Development Board on the financing and on the participation of experts in UNCTAD expert meetings in achieving the objectives of the financing.

900th plenary meeting
23 October 1998