UNITED NATIONS

TD

United Nations Conference on Trade and Development

Distr.
GENERAL
TD/B/41 (2) /4 /Add.1
UNCTAD/LDC/1995/Add.1
11 August 1995

Original : ENGLISH

TRADE AND DEVELOPMENT BOARD
High-level Intergovernmental Meeting on the mid-term Global Review of the Implementation of the Programme of Action for the Least Developed Countries for the 1990s
New York, 26 September 1995
Item 3(a) of the provisional agenda

THE LEAST DEVELOPED COUNTRIES 1995 REPORT: AN ADDENDUM

Background

(i) This addendum to The *Least Developed Countries 1995 Report* has been prepared for the High-level Intergovernmental Meeting on the Mid-term Global Review of the Implementation of the Programme of Action for the Least Developed Countries for the 1990s. The addendum complements the analysis contained in the ***1995 Report*** and should be read in conjunction with that document.

(ii) The addendum responds to a request addressed to the secretariat at the second part of the 41st session of the Trade and Development Board to "prepare an up-date of the Report in time for the High-Level Meeting in September". In respect to that request, the addendum examines first, the reasons why some least developed countries have performed better than others in improving their development performance.* This analysis is contained in section I of the present addendum. Secondly, the addendum provides more recent data and analysis concerning trends in the provision of development finance to the least developed countries and in the evolution of their external debt and debt service. Section II draws a number of conclusions relevant to the proceedings of the High-level Meeting.

* See Report of the Trade and Development Board at the second part of the 41st session (TD/B/41/2)SSC/L.2, para. 3).

GE.95-52811

CONTENTS

	Paragraphs	Page
I. WHAT EXPLAINS THE DIVERGENT PERFORMANCES'OF THE LDCS	1-17	3-8
Introduction	1-3	3
A. The divergent economic performance of the LDCs	4-8	3-5
B. Strong growth LDCs	9-17	5-8
II. INTERNATIONAL SUPPORT MEASURES: EXTERNAL RESOURCES AND DEBT	18-39	8-15
A. External resources	18-28	8-11
B. External debt and debt relief	29-39	13-15

Text tables:

Growth rates and per capita income of LDCs, 1980-1993	5
Consultative and aid group and round-table meetings, 1985-1995	12

Annex	Treatment for the poorest and most indebted countries in the Paris Club (Naples terms)	17-19

Charts:

1.	The flow of external resources to LDCs, 1983-1993	20
2.	ODA to LDCs from DAC member countries, 1990 and 1993	21
3.	External debt and debt-service payments of LDCs, 1983-1993 . .	38

Tables:

1.	Composition of total financial flows to all LDCs in current dollars	22
	Net ODA from individual DAC member countries to LDCs as a group	23
3.	Bilateral ODA from DAC member countries and total financial flows from multilateral agencies to all LDCs . . .	24-25
4.	Total financial flows and ODA from all sources	26-27
5.	External debt and debt service, by source of lending	28-29
6.	Bilateral concessional debt and debt service by main creditor countries and groups of countries	30
7.	Multilateral debt and debt service by main creditor agency	31
8.	Total external debt and debt service payments	32-33
9.	Debt and debt service ratios	34-35
10.	Debt reschedulings with official creditors, 1988-1995	36-37

I. WHAT EXPLAINS THE DIVERGENT PERFORMANCES OF THE LDCS

Introduction

1. Two salient features characterize the economic performance of the LDCs over the past decade and a half.First their economic performance on average has been very poor and has deteriorated further in the early 1990s and secondly, there has been considerable divergence between the economic performance of individual LDCs. This chapter discusses why the overall performance of the LDCs has been so disappointing and examines the reasons why some countries have been more successful than others.

2. The real GDP growth rate of the LDCs averaged 1.8 per cent per annum between 1990 and 1993,a decline from the rate of 2.2 per cent attained between 1980 and 1990. With population growth rates averaging 2.9 per cent per annum during the 1990s - an acceleration from the 2.5 per cent recorded in the 1980s - real per capita output fell by 1.0 per cent per annum. Per capita output had declined by 0.2 per cent per annum during the 1980s. The marked deceleration in output growth during the years since the adoption of the Programme of Action is particularly noteworthy in light of the wide-ranging consensus arrived at in Paris to initiate a vigorous process of support for the economic and social transformation of the LDCs.

3. The performance of the LDCs has lagged behind that of other developing countries (DCs), at least since the start of the 1980s. DCs on average recorded real GDP per capita growth rates of 1.7 per cent per annum between 1980 and 1993. Moreover DCs have accelerated their GDP growth rates in the 1990s and reduced their population growth rates, and as a consequence have brought about a marked rise in per capita output growth rates.

A. The divergent economic performance of the LDCs

4. The average growth rates noted above mask considerable differences between the economic performances of individual LDCs. It is possible to differentiate between three broad groups of countries with respect to their economic performance over the last decade or so (see table 1).

5. First, a relatively small group of ten to twelve LDCs have achieved impressive growth rates for over a decade and as a result have been able to make significant progress in raising living standards. These are referred to below as the strong growth LDCs. Section B. below presents an analysis of the reasons underlying the relative economic success of the strong growth group of LDCs.

6. Secondly, a larger group, comprising approximately 21 countries, of which around 17 are in sub-Saharan Africa, as suffered a stagnation of economic growth since the early 1980s. In most of these countries living standards have been undermined by a combination of stagnant or falling per capita output and declining terms of trade. These countries suffered declines in per capita GDP of 1.1 per cent per annum between 1980 and 1993 with very serious adverse consequences for living standards. Their poor economic performance cannot be attributed to a dominant causal factor, such as, for example, civil strife. This group of countries epitomizes in many respects the developmentproblems facing the LDCs: output growth has failed to keep pace with population growth over a sustained period of time, poverty has intensified, and structural change has been minimal.

7. Although the factors responsible for retarding their development are not identical, they share a series of major problems and constraints, including a heavy reliance on primary commodities the world markets prices of which have been very depressed since the 1980s (their external terms of trade fell by 16 per cent between 1980 and 1992), vulnerability to natural disasters such as drought, rapid population growth and a series of deep-seated structural constraints relating, inter alia, to low levels of human resource development, rudimentary technology, especially in agriculture, and weak private entrepreneurial sectors. As the economic crisis intensified in the 1980s, most of the countries in this group, in common with other LDCs, began to implement major economic reforms known as structural adjustment programmes (SAPs). However, the economic benefits, so far, of these reforms have been limited: political considerations often impaired the consistent implementation of reforms and the supply response to the reforms was impeded by many of the structural constraints noted above.

8. For a third group of around 15 LDCs (almost one-third of the countries in the LDC group), economic and social development has been severely retarded by widespread and acute civil disorder. Wars have had a devastating effect on the economies of these countries and on the health and living standards of their populations. Central government functions have been undermined, and large amounts of scarce resources have been committed to fighting wars instead of to socioeconomic development. Infrastructure has been destroyed, causing severe problems for transport, communications and utility supplies. Agricultural production has collapsed in many countries as the rural population flees the war-afflicted areas, thus undermining food supplies and creating refugee problems for neighboring countries. Civil conflicts have been the dominant influence on the economic performance of this group of LDCs; hence ending these conflicts, and restoring some form of functional government able to command support from the majority of the population is an absolute prerequisite if the development process is to be restarted.

Table 1: Growth rates and per capita income of LDCs, 1980-1993

Country groups (LDCs)	Real annual GDP growth per capita (%)		GDP per capita ($ 1993 prices)	
	1980-1990	1990-1993	1980	1993
Group A	2.7	1.7	170	238
Group B	-1.3	-0.2	477	413
Group C	-0.7	-2.5	325	274
All LDCs	-0.2	-1.0	316	300
All DCs	1.5	2.6	728	906

Source: UNCTAD database

Note: **Group A**
12 strong-growth LDCs (Bhutan, Botswana, Cape Verde, Chad, Guinea Bissau, Maldives, Solomon Islands, Bangladesh, Lao People's Democratic Republic, Lesotho, Nepal, and Tuvalu);
Group B
21 stagnant LDCs (Benin, Burkina Faso, Central African Republic, Comoros, Djibouti, Equatorial Guinea, Gambia, Guinea, Kiribati, Madagascar, Malawi, Mali, Mauritania, Myanmar, Niger, Samoa, Sao Tome, Uganda, Tanzania, Vanuatu, and Zambia);
Group C
15 civil strife/war-affected LDCs (Afghanistan, Angola, Burundi, Cambodia, Ethiopia, Haiti, Liberia, Mozambique, Rwanda, Sierra Leone, Somalia, Sudan, Togo, Yemen, and Zaire). The data for these countries may suffer an upward bias because data are missing for some of the worst afflicted countries.

B. Strong-growth LDCs

9. The LDCs which have achieved consistent increases in real per capita incomes of 2 per cent per annum or above since the start of the 1980s are a very heterogeneous group of about ten to twelve countries. In terms of economic structure, size, geography or demography, these countries vary widely. They are Bhutan, Botswana, Cape Verde, Chad, Guinea Bissau, the Maldives, and the Solomon Islands, with Bangladesh, Lao People's Democratic Republic, Lesotho and Nepal being borderline cases. Tuvalu has grown very strongly in the 1990s but no data are available prior to 1989. Botswana's economic growth has been so rapid since the 1970s that it has recently graduated from the LDC group.

10. What the strong-growth LDCs appear to have in common is that they have avoided serious civil conflict since the 1970s (Chad is a partial exception). Most have followed relatively prudent macroeconomic policies and, with the exception of Guinea-Bissau, have avoided excessive rates of inflation. The mean consumer price inflation rate for this group of LDCs during 1987 to 1993 was 15 per cent per annum compared to a mean of 29.4 per cent for all LDCs /1. Most of these

countries have avoided accumulating insustainable levels of external debt: only two of these countries arranged to have official external debts rescheduled during the period 1988 to 1994. However approximately half have undertaken stabilization and/or structural adjustment programmes supported by conditional finance from the IMF and World Bank since 1980./2

11. With the exception of Chad, none of the strong growth LDCs has been heavily dependent for export earnings on primary commodities (e.g. coffee, cocoa, cotton) which have experienced severely depressed prices on world markets over the past 10 years. Fish products are a major export earner for the island economies, Botswana is a diamond exporter, while some of the other strong-growth countries have diversified into a range of industrial and manufactured products, including garments (Bangladesh, Lesotho, Maldives and Nepal) and electricity (Lao People's Democratic Republic and Bhutan). Partly because of this, they have achieved relatively strong export growth: their export values in dollars expanded at a rate of 9.9 per cent per annum between 1980 and 1993 compared to the LDC average of 1.8 per cent. For several of these LDCs, foreign exchange earnings have also been boosted by substantial inflows of foreign exchange in the form of remittances from their nationals working abroad. As a consequence of the strong growth of their exports and foreign exchange earnings, they have been able to finance an expanding volume of imports: their annual import volume growth rate was 4.7 per cent compared to an LDC average of 0.3 per cent between 1980 and 1993. The strong growth LDCs were thus able to avoid the import compression which has retarded production and investment in other LDCs.

12. For analytical purposes, the strong growth group of LDCs can be divided into the mainland and island economies. The island economies have a number of features in common relevant to their economic performance. These are discussed in the following sub-section. The mainland countries are a much more diverse group of economies. Four are in Africa and four in Asia. The four Asian countries in this group have probably benefited from the overall economic dynamism of the Asian region. Low wages coupled with access to OECD markets for products such as garments (for which exports from the newly industrialized countries (NICs) face quantitative restrictions) have enabled them to attract capital from the more industrialized countries in the region, such as Japan and the various NICs.

Island economies

13. A distinct sub-group of the strong-growth LDCs is made up of island economies (Cape Verde, Maldives, Solomon Islands, and Tuvalu). Two other Pacific island countries, Samoa and Vanuatu, have also made significant social and economic progress although per capita output growth since 1980 has been relatively sluggish (0.3 per cent and 0.4 per cent per annum, respectively). These six LDCs are all small countries in terms of population and share a number of characteristics which are atypical of most other LDCs and which may help to explain why their development performance has been

better than the LDC average: these include relatively high per capita income levels, strong domestic investment rates, substantial inflows of official development assistance (ODA), and high levels of social and human resource development.

14. The strength of many of the socioeconomic indicators in these island economies is not simply a result of the economic growth which took place during the past decade. These economies had already attained levels of income, socioeconomic and human resource development significantly in advance of those prevailing in most of the other LDCs by the end of the 1970s. Hence their relatively strong performance during the 1980s and early 1990s can in part be attributed to progress already been made in terms of socioeconomic development, and which provided a platform, in terms of domestic financial and human resources, from which to accelerate their development. The fact that they started from a relatively strong base in terms of income and aid levels has enabled them to sustain high levels of investment in physical and human capital which, in turn, has further boosted their economic growth.

15. In terms of per capita income, the island economies are effectively middle income DCs. Each had a per capita GDP of almost $700 or above in 1993, that is, more than double the LDC per capita average of $300. Two of the Pacific islands, Tuvalu and Vanuatu, had attained per capita income levels higher than the average for all developing countries (DCs) of $906 in 1993. In addition Cape Verde and the Maldives and Samoa will have attained per capita income above, or close to, the DC average by the year 2000, assuming that the growth rates they recorded between 1980 and 1993 are maintained. with the exception of the Maldives, all of these islands had already surpassed per capita income levels of $500 (in 1993 prices) in 1980, compared to an LDC average of $300 in that year.

16. The strength of domestic and foreign resource mobilization and capital investment has clearly made an important contribution to the strong rates of expansion recorded by the island economies. Investment as a percentage of GDP in these countries averaged around 40 per cent during the period 1980 to 1993 compared to the LDC average of about 16 per cent. The islands have all received very high levels of ODA: the mean level of ODA for these six LDCs amounted to an annual average of $157 per capita during 1981 to 1986 and $234 per capita during 1987 to 1993. This was around seven to eight times the annual average per capita aid receipts for all LDCs of $22 and $30 in these two periods respectively.

17. The island economies have attained high degrees of social development, in terms of nutritional, health and educational standards, compared to both LDCs and other DCs. Apart from Tuvalu for which there are no data, the daily calorie intake per capita for all of them during the period 1979 to 1981 and 1988 to 1990 exceeded the LDC average; that for three of them in the same two periods exceeded the average for all DCs. Infant mortality rates (IMRs) for all these countries were substantially below the average for both LDCs and DCs in 1985 to 1990 and 1992. Primary school enrolment ratios in the 1980s and in 1991, for the countries for which there are data, were above the average of both the LDCs and DCs. On adult literacy rates,

which reflect past educational attainments, these countries also outperformed LDCs and DCs. Human and social development has no doubt served to reinforce progress in the economic field. The crucial role of human capital in economic development is well understood. In these island economies, high levels of fixed investment have been combined with considerable human capital development, enabling sustained increases in productivity and output to be attained.

II. INTERNATIONAL SUPPORT MEASURES: EXTERNAL RESOURCES AND DEBTS

A. External resources

18. Revised figures for official development assistance (ODA) and other external resource flows for the current group of 48 LDCs essentially show the same picture as that analyzed in The Least Developed Countries 1995 Report. Actual ODA disbursements to LDCs by the OECD Development Assistance Committee (DAC) countries and multilateral agencies mainly financed by them fell by some $1.5 billion in 1993. Aid flows from non-DAC donors remained low. The graduation of Botswana from this category and the inclusion of Angola and Eritrea in the list of LDCs has not altered the performance of DAC donors in relative terms (ODA to LDCs as a group measured as share of donors' GNP) either collectively or for individual donors. For DAC as a group, this share amounted to 0.07 per cent in 1993 (0.09 per cent in 1990).

19. A cause of particular concern is the sharp decline in multilateral aid flows to the LDCs in 1993, accompanied by a drop of almost $2 billion in new aid commitments by multilateral agencies in that year and the uncertain resource outlook for some of these institutions and programmes, which play a major role in meeting LDCs' financing and technical assistance needs. Generous replenishment of these aid sources is needed in order to reverse the emerging trend of declining aid flows to the LDCs and to stop the backsliding in meeting the aid targets set in the Programme of Action. In this respect, the Group of Seven, at its summit meeting in Halifax in June 1995, urged all donor countries to support a significant replenishment of the resources of the International Development Association (IDA) through IDA-XI, and also expressed support for continuing concessional ESAF lending operations. Later the same month, European Union member states agreed on making available ECU 13.3 billion (some $17.2 billion) under the 8th EDF, a major source of assistance for those LDCs which are party to the Lomé Convention.'

20. The scale of non-ODA financing to the LDCs remains modest. The net inflow of official resources other than ODA from DAC sources to the LDCs as a group amounted to some $0.1 billion in 1993, and private flows to close to $0.8 billion, with the near-totality of the private flows recorded consisting of (off-shore) transactions with Liberia. Net direct investment and other private flows to LDCs other than Liberia together amounted to less than $150 million in 1993, as recorded in DECD/DAC statistics.

21. However, there is likely to be under-reporting of actual foreign direct investment (FDI) inflows to LDCs in DECD/DAC statistics, if only for the reason that **the latter record FDI from the DAC** countries only. Thus, they do not capture flows from other developing countries, which may be becoming an increasingly important source of FDI for the LDCs. The UNCTAD/DTCI (Division on Transnational Corporations and Investment) database which is based mainly on balance-of-payments data, indicates considerably higher FDI inflows to the LDCs in the early 1990s than the DAC figures, e.g. a net inflow of $0.8 billion in 1993 according to most recent estimates. Over half of this amount was accounted for by three host countries, Angola, Zambia and Myanmar.

22. Still, as long as there is no overall improvement in LDCs' economic situation and their debt-servicing capacity remains weak, it may be unrealistic to expect a substantially greater contribution of either official flows other than ODA or private flows to meet most LDCs' external resource requirements in the immediate future. Already, many LDCs have, as part of their adjustment and debt-management efforts, adopted a restrictive policy with regard to new non-concessional borrowing. Meanwhile, persistent pressures on aid budgets in donor countries affect the overall aid outlook. Preliminary estimates of ODA provided by the DAC countries in 1994 (ODA to all developing countries) indicates a further decline in donors' performance, with a decrease of 1.8 per cent in real terms of total DAC aid flows to developing countries in that year and the overall ODA/GNP ratio contracting to 0.29 per cent (as compared with 0.31 in 1993).

23. In view of the scarcity of ODA in relation to needs, questions of choice of beneficiaries in aid allocations, targeting interventions, more efficient use of available resources and aid coordination are assuming increasing importance in aid policy and practice. As regards country aid allocations, there seems to be growing recognition at the policy level of the vital role of ODA for the LDCs and other low-income countries, and the need to direct aid resources to them, while stressing recipients' own efforts and responsibility for an enabling environment for the effective use of aid. For instance, the World Bank/IMF Development Committee has recommended that donors focus concessional assistance on the low-income adjusting countries.' At its meeting in Washington, D.C. in April 1995, the Committee again noted the pressing needs of the poorest countries, and the Group of Seven at its June 1995 meeting in Halifax stated that it would encourage relevant multilateral institutions to focus concessional resources on the poorest countries, especially those in sub-Saharan Africa, which have a demonstrated capacity and commitment to use those resources effectively.

24. Along these lines, the Executive Board of the United Nations Development Programme (UNDP), in June 1995, setting out the principles for the next UNDP programming cycle, recognized that the development cooperation of the United Nations system requires flexibility and transparency for augmenting the availability of resources and efficiency in their allocation, and that UNDP continues to give priority to LDCs and low-income countries, particularly in Africa. The Executive Board decided to increase to 60 per cent the share of core resources to be allocated to the LDCs.7

25. LDCs' development assistance requirements span a wide range of needs: investment in basic economic infrastructure, support for economic and **political reform, for human and institutional development and** for social and specific poverty-reduction programmes, etc. Because of civil strife and emergencies in a number of LDCs in recent years, substantial resources have been devoted to humanitarian assistance, care for refugees and displaced populations and immediate relief, rather than longer-term development programmes. In this light, addressing root causes of potential conflict (e.g., enhancing food security), more effective response to impending crisis situations and timely and effective support in times of economic and political transition appear to be important elements in an international support strategy for the LDCs. Attention also needs to be given to the process of transition from relief-oriented to development-oriented activities and to the integration of emergency-related assistance into the programming of development resources.

26. In the search for aid efficiency, donors have, in recent years, devoted increasing attention to issues relating to conditions for effective use of aid and to development results. The objectives of sustainable development and poverty reduction are assuming central importance in development cooperation. All this has implications for targeting of programmes and projects and for aid modalities. These new concerns were reflected, for instance, in the deliberations of the UNCTAD Standing Committee on Poverty Alleviation at its third session in June 1995. The Committee, inter alia, called for consideration to be given to such institutional methods and criteria as targeting, decentralization, appraisal, evaluation and monitoring, an enabling environment and sustainability, so that ODA might reach and benefit the poor. In this respect, it stressed that focusing on women beneficiaries was especially important in enabling aid to reach and benefit the poor more effectively, both because women comprise the poorest of the poor and because they use their incomes to feed, clothe and educate their children, thus reducing poverty in both the short and long term. LDC Ministers and experts in a Declaration adopted in Niamey in January 1995 for their part underlined the need for aid agencies to apply more flexible conditions concerning development assistance procedures, especially for programmes targeted to the poorest women in the LDCs, and for complementing and reinforcing traditional government-to-government development cooperation by new procedures and mechanisms for direct support to non-governmental organizations (NGOs) and women's organizations.'

27. The World Summit for Social Development agreed that there was a need for additional financial resources and more effective development cooperation and assistance for the implementation, particularly in Africa and the LDCs, of the objectives and programme of action adopted by the Summit. Implementation of the "20/20 proposal" (to allocate on average 20 per cent of ODA and of national budgets to basic social programmes) could be instrumental in devoting more resources to the above-mentioned priority areas in LDCs.

28. Consultative and aid groups and round-table and similar meetings continue to play an important role in external resource mobilization for LDCs at the individual country level as well as in aid coordination. Already close to 60such groups and meetings (excluding sectoral and other follow-up events) were organized following the adoption of the Programme of Action up to the end of 1994. In the first part of 1995, ten more such meetings were held (see table 2). Of the two countries added to the list at the end of 1994, a consultative group for Eritrea was constituted in December 1994, while a round-table meeting was planned for Angola in September 1995.

Table 2: Consultative and aid group and round-table meetings, 1985-1995

Country and type of meeting	***Date of meeting'***
Consultative and aid group arrangements	
Bangladesh	Annual
Eritrea	1994
Ethiopia	1992, 1994
Guinea	1987, 1990
Haiti	1986, 1987, 1988, 1990, 1991, 1992,° 1994,° 1995
Madagascar	1986, 1988
Malawi	1986, 1988, 1990, 1992, 1993, 1994
Mauritania	1985, 1988, 1989, 1994
Mozambique	1987, 1988, 1989, 1990, 1991, 1992, 1993, 1995
Myanmar	1986
Nepal	1986, 1987, 1988, 1990, 1992
Sierra Leone	1994
Somalia	1985, 1987, 1990
Sudan	1987, 1988
Uganda	1987, 1988, 1989, 1991, 1992, 1993, 1994, 1995
United Republic of Tanzania	1986, 1987, 1988, 1989, 1991, 1992, 1993, 1995
Zaire	1986, 1987
Zambia	1986, 1988, 1990, 1991, 1992, 1993, 1994
Round-table and other arrangements	
Afghanistan	No meetings
Angola	No meetings
Benin	1992
Bhutan	1986, 1988, 1992, 1995
Burkina Faso	1991, 1993
Burundi	1989, 1992
Cambodia'	1992, 1993, 1994, 1995
Cape Verde	1986, 1992, 1995
Central African Republic	1987, 1991, 1994
Chad	1985, 1990
Comoros	1991
Djibouti	No meetings
Equatorial Guinea	1988
Gambia	1990, 1992, 1994
Guinea-Bissau	1988, 1994
Kiribati	No meetings
Lao People's Democratic Republic	1986, 1989, 1992, 1994
Lesotho	1988, 1995
Liberia	No meetings
Maldives	1986, 1989, 1991, 1994
Mali	1985, 1994

Niger	1987
Rwanda	1992, 1995
Samoa	1986, 1988, 1990
Sao Tome and Principe	1985, 1989, 1992
Solomon Islands	1988
Togo	1985,1988
Tuvalu	1990, 1991
Vanuatu	1988
Yemen	1992

Source*:*Information from UNDP and the World Bank.

a Meetings held up to the end of July 1995; those held since the adoption of the Programme of Action in September 1990 appear in bold type.

b Caribbean Group for Cooperation in Economic Development.

c Ministerial Conference on Rehabilitation and Reconstruction of Cambodia, co-chaired by UNDP (1992) and the International Committee on the Reconstruction of Cambodia (since 1993).

B. External debt and debt relief

29. According to most recent estimates, the total outstanding external debt stock of the 48 LDCs amounted to $127 billion at the end of 1993. The revision of the list of LDCs has meant the inclusion in this group of another severely indebted country, Angola, with outstanding external debt of around $9 billion and a debt-to-GDP ratio of 186 per cent in 1993.

30. The international community and individual creditors have made substantial efforts over the past few years to provide debt relief to the LDCs and other low-income countries. Consequently, there has been partial deceleration in the growth in the stock of debt and a shift in its composition. The growth in LDCs' long-term external indebtedness from the end of 1990 to the end of 1993 was mainly due to expanded concessional lending from multilateral institutions, which increased by $9.2 billion. Outstanding long-term bilateral debt to non-OECD creditors also continued to rise over this period, while corresponding obligations to OECD creditors and multilateral debt contracted on non-concessional terms fell.

31. In spite of the relief measures taken, however, the external debt situation has not yet significantly eased for the LDCs; in most of these countries, the debt burden remains enormous in relation to their economies and debt-servicing capacity. Total outstanding external debt in 1993 corresponded to 76 per cent of the combined GDP of the LDCs, as compared with 72 per cent in 1990. The majority of LDCs carry considerably heavier debt burdens than indicated by this average, with the outstanding debt stock in around half of them being close to or exceeding GDP in 1993. Over half of the LDCs are considered as being severely indebted."

32. Debt service payments by the LDCs in 1993 increased little from the previous year's level. At $3.3 billion, they corresponded to around 15 per cent of LDCs' combined export earnings in 1993. Slightly less than half of the payments were made on account of multilateral obligations. The relatively low level of payments in the early 1990s must be seen as mainly reflecting the poor economic performance of this group of countries during this period with the attendant difficulties in meeting contractual obligations, which continue by far to exceed payments actually made. A large number of LDCs continued to accumulate payment arrears in 1993."

33. Debt relief schemes for LDCs and other low-income countries continue to be developed. After protracted discussions in the Paris Club, agreement was finally reached in December 1994 on new "Naples terms" for the rescheduling in this forum of official bilateral debt of the poorest and most indebted countries. (See annex.) The new terms represent an improvement over the enhanced concessional treatment applied since late 1991 as the percentage of debt forgiveness can be increased from 50 to 67 per cent. Relief was accorded only on arrears and/or debt service falling due during limited consolidation periods. The second main innovation under the new Naples terms is the acceptance of the principle of debt stock treatment through the introduction of

an additional "exit" option, with outright reduction or rescheduling with an equivalent element of debt forgiveness applying to debt stocks. The debt stock forgiveness option is, however, likely to be implemented only for a small number of countries with a sufficient track record of adjustment, the expectation being that having completed their exit programme, they would no longer return to the Paris Club.

34. Seven LDCs in the first half of 1995 had their official bilateral debt rescheduled in the Paris Club after the introduction of the Naples terms . 12 Of these, the agreement with Guinea provides for a conventional rescheduling with 50 per cent forgiveness of debt service due on non-ODA official bilateral debts. Cambodia, Togo, Guinea-Bissau, Haiti and Mauritania received up to 67 per cent forgiveness of corresponding debt service due. Uganda became the first country to be accorded debt stock forgiveness (the percentage applied being 67 per cent), although this did not apply to the whole of the outstanding debt stock owed to the three Paris Club creditors participating in the agreement, but only to part of it (see annex).

35. The new Naples terms are a welcome step forward in the debt relief strategy for low-income countries. However, unless the new terms are applied to a sizable part of total outstanding debt, and, in particular, debt stock reduction is extended to a larger number of countries, their impact on LDCs' debt overhang may remain limited. It can also be observed that Paris Club operations are growing increasingly complex, and associated transaction costs risk becoming very high. Moreover, these operations need to be complemented by action on other types of debt, e.g. equivalent measures by other official creditors, support for commercial bank debt reduction and measures to alleviate multilateral debt burdens .l'

36. The UNCTAD secretariat has undertaken a simulation of the impact of the Naples terms option of 67 per cent debt stock reduction on the projected debt service ratios of a sample of potential beneficiary countries, of which 22 are LDCs. The results of the simulation show that for half of the LDCs included in the sample such debt stock reduction would significantly lower debt service ratios, helping in four of these countries to bring these ratios down to manageable levels (i.e. below a benchmark ratio of 20 per cent of export earnings; however, how arrears would be dealt with would have important implications for the levels of debt service.) In the other half of the LDCs included in the sample, the impact of debt-stock reduction under Naples terms would be relatively smaller. For some of the countries in the first group, debt service obligations on post cut-off-date debt would remain important. The simulation indicates that because of remaining debt-service obligations to other bilateral creditors and multilateral institutions, even full implementation of the Naples terms would not in itself be sufficient to bring down debt-service ratios to manageable levels in many LDCs.'4

37. Debt issues figured prominently on the agenda of the world Summit for Social Development held in Copenhagen in March 1995. In the Declaration adopted by the Summit, the international community committed itself to finding "effective, development-oriented and durable solutions"

to external debt problems of Africa and the LDCs, calling specifically for immediate implementation of the terms of debt forgiveness agreed on in the Paris Club in December 1994, and also inviting the international financial institutions to examine innovative approaches to assist low-income countries with a high proportion of multilateral debt, with a view to alleviating their debt burdens. Moreover, a commitment was made to develop techniques of debt conversion applied to social development programmes and projects. New debtrelief initiatives were also announced at the Summit. Denmark announced the implementation of additional measures to forgive outstanding development loans (a number of LDCs had already benefitted from ODA debt relief by Denmark on a case-by-case basis.) Moreover, Austria pledged to write off a substantial amount of debt for the poorest and most indebted countries.

38. The issue of multilateral debt is one that has recently come increasingly to the fore. So far, relatively little assistance has been available to help debt-distressed countries in meeting multilateral debtservice obligations.i5 Subsequent to the World Summit for Social Development, this issue was taken up at the meeting of the World Bank/IMF Development Committee held in Washington, D.C. in April 1995. However, the Committee on this occasion merely noted that some of the poorest and most heavily indebted countries have a heavy burden of debt owed to multilateral institutions, inviting the Executive Boards of the World Bank and the IMF to continue their review of this subject, which would be taken up again at the next meeting of the Development Committee.

39. The Group of Seven, at its summit meeting in Halifax in June 1995, urged the full and constructive implementation of the Naples terms. It also recognized that some of the poorest countries had substantial multilateral debt burdens. In this connection, participating heads of State and Governments said that they would encourage the Bretton Woods institutions to develop a comprehensive approach to assisting countries with multilateral debt problems, through the flexible implementation of existing instruments and new mechanisms, where necessary, along with better use of all existing World Bank and IMF resources and adoption of appropriate measures in the multilateral development banks to advance this objective.

Notes

1. IMF, World Economic Outlook, 1995.

2. Cf. The Least Developed Countries 1995 Report, annex table 34.

3. See also the more comprehensive picture presented in the Least Developed Countries 1995 Report. Charts and selected tables equivalent to those contained in the Report have been adjusted to reflect the revisions made to the list of LDCs by the General Assembly at its forty-ninth session. Moreover, the figures on resource flows have been updated with final estimates for 1993, including figures on non-DAC donors and non-concessional flows (annex charts 1 and 2 and tables 1 to 3). Debt tables have been updated on the basis of estimates made available by the OECD secretariat, including 1993 figures, and using revised GDP data (annex chart 3 and tables 4 to 9).

4. In recent years, between 35 and 45 per cent of all ODA channelled through the various aid programmes of the European Union has been allocated to LDCs.

5. SeeOECD press release SG/PRESS(95)46 of 21 June 1995.

6. Communiqu6 of the Development Committee of the Boards of Governors of the World Bank and the International Monetary Fund, Washington, D.C., 27 September 1993.

7. Decision 95/23 of the UNDP Executive Board, 16 June 1995. Before the Second United Nations Conference on the LDCs in 1990s, UNDP had decided to assign 55 per cent of IPFs to the LDCs in the course of its fifth programming cycle; taking into account countries subsequently added to the list of LDCs, the share of resources allocated to these countries during the fifth cycle amounts to 58 per cent.

8. Agreed conclusions of the UNCTAD Standing Committee on PovertyAlleviation at its third session in June 1995, as contained in TD/B/CN.2/L.10.

9. See Declaration adopted by the Expert Group Meeting on women in Development in the LDCs held in Niamey, Niger, in January 1995 (TD/B/LDC/GR/2).

10. In the most recent World Debt Tables (1994-95 edition), 26 of the LDCs are classified as severely indebted and another nine as moderately indebted. The severely indebted low-income (SILIC) group of 33 countries (including Afghanistan) identified by the World Bank is thus mostly composed of LDCs. LDCs where the severity of external indebtedness has increased over the past two years are Chad, Central African Republic, Guinea, Rwanda, Samoa, and Yemen. In only two cases (Haiti and Maldives) was there movement in the opposite direction and reclassification as less-indebted.

11. Available information (from the World Debt Tables 1994-95 edition) indicates that unpaid debt service in 1993 alone was in the order of close to $5 billion for the LDCs as a group. See also UNCTAD, The Least Developed Countries 1995 Report, chapter V.

12. Requests by a number of other LDCs were expected to be taken up later in 1995.

13. See further The Least Developed Countries 1995 Report, chapter V, Op.Cit.

14. For details, see UNCTAD, Trade and Development Report, 1995.

15. Available mechanisms include notably the supplementary IDA adjustment credit programme (the "fifth dimension"), IMF rights accumulation programmes and support groups for the clearance of arrears. See further UNCTAD, The Least Developed Countries 1995 Report, chapter V.

Annex

TREATMENT FOR THE POOREST AND MOST INDEBTED COUNTRIES IN THE PARIS CLUB

(NAPLES TERMS)

Following the Group of seven summit meeting in Naples in July 1994, Paris Club creditors agreed in December 1994 on new terms for the poorest and most indebted countries, the so-called Naples terms. These terms represent an improvement over the earlier enhanced concessional terms (enhanced Toronto terms), insofar as an additional option of reduction of debt or debt service by 67 per cent is included.

Thus, the Naples terms allow for a reduction, on a case-by-case basis, of 50 per cent or 67 per cent of the amount or the equivalent present value of the debt service (interest and principal payments) falling due during the consolidation period. In addition, in exceptional cases, a stock treatment can be applied, whereby the Paris Club reduces by 50 per cent or 67 per cent the stock of non-concessional debt owed by the debtor countries; this option is referred to as an "exit" option, as beneficiary countries are expected not to go back to the Paris Club to reschedule their debt again.

Eligibility criteria

In principle, countries eligible for Naples terms are the same as those which have benefited from the Toronto and enhanced Toronto terms.

The eligibility criteria for a 67 per cent reduction are a GDP per capita of less than $500 or a ratio of present value of debt over exports of more than 350 per cent.

Countries which will receive a stock treatment will probably be those which have a satisfactory track record with the IMF and the Paris Club and which are viewed by the creditors as having the capacity to respect the debt agreement and to exit once and for all from the debt-rescheduling process.

Terms

A. Under the option of 50 oer cent reduction of debt service:

Creditor countries can choose among options which are the same as those under enhanced Toronto termsa:

- Debt reduction: reduction of 50 per cent of debt service obligations, with the remaining half to be rescheduled at market interest rates over a period of 23 years, including a grace period of six years;

- Debt service reduction: reduction of 50 per cent of the present value of debt service obligations through rescheduling at reduced concessional rates, over a repayment period of 23 years, with no grace period;

- Commercial option: for budgetary or legal reasons, creditors would choose to simply reschedule debt service obligations over a period of 25 years, including 14 years of grace, at market rates.

B. Under the option of 67 per cent reduction of debt service:

Creditor countries can choose between the following options:

- Debt reduction: reduction of 67 per cent of debt service obligations, with the remaining third to be rescheduled at market interest rates over a period of 23 years, including a grace period of six years;

- Debt service reduction: reduction of 67 per cent of the present value of debt service obligations through rescheduling at reduced concessional rates, over a repayment period of 33 years, with no grace period;

- Commercial option: for budgetary or legal reasons, creditors would choose to reschedule debt service obligations over a period of 40 years, including 20 years' of grace, at market rates.

C. Stock treatment:

If there is sufficient consensus among creditors to reduce the stock of debt, reduction will be achieved through:

- Debt stock reduction of 50 per cent or 67 per cent, the rest being rescheduled over a period of 23 years, including six years of grace, at market rates;

- Reduced interest rates so as to reduce by 50 per cent or 67 per cent the present value of the stock of debt. The repayment period in the case of a 50 per cent reduction will be 23 years and in the case of 67 per cent, 33 years, in both cases with a grace period of three years.

D. ODA loans:

Under the 50 per cent reduction option, ODA loans are, as under the enhanced Toronto terms, rescheduled over 30 years, including 12 years of grace, at interest rates at least as favourable as original rates. Under the 67 per cent reduction option, ODA loans are rescheduled over 40 years, including 16 years of grace, at interest rates at least as favourable as original rates.

Scope of debt covered

The debt to be rescheduled is, as usual, the medium- and long-term public and **publicly guaranteed debt contracted before** the cut-off date .°

The scope of debt covered will be determined on a case-by-case basis, depending, in principle, on the financing gap requirements of debtor countries. Normally non-rescheduled pre cut-off date debt is considered first. Then, previously rescheduled debt (PRD) on non-concessional terms is most of the time included.

If needed, previously rescheduled debt under Toronto terms and, then, under enhanced Toronto terms could also be included. The reduction on these categories of PRD would be increased so as to reach the same level of reduction as under the current rescheduling agreement. For example, under the 67 per cent reduction option of the Naples terms, PRD under Toronto terms and under enhanced Toronto terms would be further reduced respectively by 50 per cent and 34 per cent.

Moratorium interest could also be included. In the case of stock treatment, the payment of moratorium interest could be capitalized for the first three years.

The scope of debt reduced varies between the ten countries (seven of them LDCs) which concluded agreements with the Paris Club under the new Naples terms during the first half of 1995. In the case of Uganda, the debt covered by the agreement was limited by a high de minimis` level and the exclusion of some previously rescheduled debt. The de minimis level of debt was raised, so that several creditors were excluded and only three creditors participated in the agreement; furthermore, the stock treatment. did not include the totality of outstanding eligible debt, as it related to the debt covered by some, but not all previous consolidation agreements with the Paris Club.

Notes

a. See the details of the menu of options under the enhanced Toronto terms in UNCTAD, *Trade and Development Report, 1992,* Box 1, p. 58.

***b*.** The cut-off date is the date before which loans must have been contracted in order to be considered under the rescheduling agreement. Usually the cut-off date is determined at the first rescheduling and will remain unchanged in subsequent reschedulings.

***c*.** The de minimis level of debt is a specified minimum amount of debt which is covered by the rescheduling agreement. Creditors whose claims are less than this specified amount do not participate in the agreement: