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Sessional Committee I

DRAFT REPORT OF SESSIONAL COMMITTEE I

Rapporteur: Mr. Shambhu Ram Simkhada (Nepal)

Speakers: Secretary-General of UNCTAD
Secretariat
Bangladesh (for the least developed countries)
Ethiopia (for African Group)
Brazil
China
Sri Lanka (for Asian Group and China)
Luxembourg (for European Union)
Uganda
Morocco

Note for delegations

This draft report is a provisional text circulated for clearance by delegations.

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Chapter I

**REVIEW OF PROGRESS IN THE IMPLEMENTATION OF THE PROGRAMME OF ACTION FOR THE
LEAST DEVELOPED COUNTRIES FOR THE 1990s**

**(a) POLICY REFORMS IN AGRICULTURE AND THEIR IMPLICATIONS FOR LDCs'
DEVELOPMENT**

**(b) CONTRIBUTION BY THE BOARD TO THE CONSIDERATION OF THE GENERAL
ASSEMBLY, AT ITS FIFTY-SECOND SESSION, OF HOLDING A THIRD
UNITED NATIONS CONFERENCE ON THE LEAST DEVELOPED COUNTRIES**

(Agenda item 4)

1. For its consideration of this item, Sessional Committee I had before it the following documentation:

The Least Developed Countries, 1997 Report (TD/B/44/6 - UNCTAD/LDC/(1997 and overview)

2. In his introductory remarks, the Secretary-General of UNCTAD stated that the deliberations on this agenda item at the current session of the Trade and Development Board were taking place in the paradoxical context of declining ODA assistance to LDCs and yet a multiplicity of autonomous initiatives attempting to address the problems of those countries. These initiatives included LDC-related meetings, autonomous national programmes, WTO-sponsored high-level meetings to which UNCTAD gave substantial assistance, the renegotiation of the Lomé Convention, the Japanese initiative regarding Africa, the special initiative undertaken by the United States of America in respect of Africa and the forthcoming High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development. A question that needed to be answered was how these new initiatives could reinforce one other.

3. A second consideration in respect of the external environment was the need to start preparing for the Third United Nations Conference on the LDCs. UNCTAD was assigned the task of serving as the focal point in the United Nations for monitoring the implementation and follow-up of the Programme of Action for the Least Developed Countries, launched in Paris in 1990.

4. He noted that two points highlighted in the LDC Report - reform of the agricultural sector, and economies in regress - were essential to the debate on the problems of the LDCs. The Report was comprehensive enough to cover most of the difficulties faced by LDCs in the challenge of development.

5. He also noted that the Report broke new ground in trying to link economies' performance with other issues, such as refugees, the decline of the State and civil strife. These problems had a cost not only for the LDCs themselves but also for the international community. There was a need for early warning systems to sound an alarm before the situation reached crisis point.

6. Despite the multiplicity of initiatives addressing the problems of LDCs, UNCTAD had a unique role to play. It gave added value to the debate on LDCs by giving the latter the necessary confidence to take advantage of the opportunities provided by the new environment and making them capable of building the foundations of a market economy and competing in the world economy.

7. UNCTAD was encouraged by initiatives taken by the Bretton Woods institutions with regard to the highly indebted poor countries (HIPC). However, there was a need to improve the eligibility criteria, as well as to have more flexible rules. He concurred with the comments made by the head of the World Bank that the initiatives should be seen as a dynamic process and not a closed one. He reiterated the commitment of UNCTAD to the preparation of investment guides for the LDCs to improve policies and practices for attracting investment.

8. A recent symposium on portfolio investment for the LDCs had received a good private-sector response in terms of attendance. Another one was scheduled to take place in Lyon, paving the way for concrete partnership.

9. While UNCTAD continued to work closely with sister organizations such as the WTO and UNDP in addressing the problems of LDCs, it was also developing new approaches to dealing with these problems. An important one was the Integrated Country Programmes for strengthening the supply capacity of tradable goods and services, the first of which had recently been launched in Bangladesh and had been preceded by a multi-agency mission to that country. It was a possible model for the High-Level Meeting.

10. The Secretary-General concluded by saying that UNCTAD was deeply committed to the cause of the LDCs. Any society would ultimately be judged by the way it treated its most vulnerable members, which in this case were the LDCs.

11. The Officer-in-Charge, Office of the Special Coordinator for Least Developed, Land-locked and Island Developing Countries, highlighted three two issues relating to questions arising from The Least Developed Countries, 1997 Report: agriculture and economic regress in LDCs; the Third Review Conference; and the Integrated Country Programmes for strengthening supply capacities for exportable goods and services in LDCs, and the Trust Fund for LDCs.

12. An improvement in the economic performance of many LDCs, notably some of the African LDCs, had taken place in the mid-1990s, despite a stagnation of aid flows and the debt overhang. Sustained growth in the LDCs would, however, require agricultural development, which in turn was dependent upon a range of sectoral and institutional reforms. In contrast to the improvements recorded by some countries, development in a significant number of LDCs had been severely retarded by the breakdown in institutional structures, particularly the structures of the State.

13. He noted that in a significant number of LDCs the deterioration of the institutional structure of society, particularly the state structure, had been responsible for wrecking whatever development had been achieved in the past and had impaired development over a prolonged period. The most extreme and damaging form of a crisis of governance and state failure or collapse was manifested in internal conflicts which had ravaged, and continued to wreck, several LDCs. The costs of regress for LDCs were profound, particularly since regress most often easily spilt over from its original state boundaries into neighbouring States and assumed regional dimensions. The international community should give urgent attention to helping LDCs strengthen their institutional structure in order to prevent state collapse, facilitate a peaceful resolution of internal conflicts and rebuild war-torn societies. External assistance could help to prevent state collapse in LDCs where institutional deterioration was not too advanced. UNCTAD's interest in this subject arose because regress had major consequences for development in LDCs, for the regional partners, and for development strategies pursued by aid donors and the international community.

14. The current session of the United Nations General Assembly would be considering the convening of the Third Global Review Conference on the LDCs with a view to its making a comprehensive appraisal of the implementation of the Programme of Action and deciding on subsequent action. As the organization with the focal role for the review and appraisal of the implementation of the Programme of Action and its follow-up at the global level, UNCTAD could make a valuable input to the consideration of this issue by the General Assembly. It

could, in particular, make recommendations regarding the dates of the Conference, its possible mandate and the required preparatory process.

15. In accordance with the mandate given to it at the previous session of the Trade and Development Board, UNCTAD had initiated the design and formulating of Integrated Country Programmes (ICPs) in four LDCs - Bangladesh, Cambodia, Gambia and Madagascar. The ICP for Bangladesh had been launched at a Sectoral Round Table. Under the ICPs, UNCTAD, in partnership with other international agencies, would provide technical assistance to strengthen supply capacities for exportable goods and services. Finance for the preparatory phases of these ICPs was provided by the Trust Fund for LDCs set up by the Secretary-General of UNCTAD. He expressed UNCTAD's appreciation to those countries which had so far contributed to the Trust Fund.

16. The spokesman for the least developed countries (Bangladesh) said that The Least Developed Countries, 1997 Report referred to encouraging developments having taken place among some LDCs in the mid-1990s. Many of those resulted from determined domestic efforts to implement economic policy reforms. The Report suggested a viable strategy for agriculture, which it identified as a key sector. Significantly, and most appropriately, the Report reiterated the need for international support. The record of such support left much to be desired. There had been unremarkable progress in the implementation of the Programme of Action for the LDCs. ODA flows to LDCs as a percentage of DAC GNP had fallen to 0.06 per cent in 1995, the lowest ever level. The share of LDCs in global exports had not risen above 0.04 per cent. Despite a record FDI inflow of \$129 billion to developing countries out of a global total of \$350 billion in 1996, the LDCs had received a mere \$1 billion. Their external debt burden had continued to grow between 1990 and 1995, the combined debt stock increasing by \$20 billion. He emphasized the importance of ODA to LDCs and said that in no way could trade be a substitute for it. Commitments in that respect, therefore, had to be honoured. LDCs were constrained by weak supply capabilities, and looked to the international community to assist in strengthening them. Despite an admittedly low level of tariff protection in major markets, LDCs still faced serious entry barriers in certain sectors, including agriculture, textiles, clothing, and fish and frozen food products. Those difficulties were compounded by tariff peaks, preference erosion and tariff escalation, together with the potential for abuse of anti-dumping, countervailing, sanitary and phytosanitary measures. With regard to the GSP, there was a need for special treatment of LDCs through the granting of comprehensive product coverage of all dutiable ranges, including agricultural and resource-based products, tropical industrial

manufactures, leather, footwear, textiles and clothing products. Such action would encourage LDCs to keep up with their efforts, and with their commitments.

17. The crushing debt burden, particularly of African LDCs, remained a source of grave concern. To date, debt relief measures had proved grossly inadequate. Without a decisive reduction in debt stock, which had mounted, and debt service obligations, which had increased enormously, any meaningful growth rate could well nigh be ruled out. In that respect, the speaker welcomed the HIPC initiative, but clearly there was a need to do more, such as cancelling outstanding bilateral official debt. He said that research had to be directed towards determining how the pangs resulting from marginalization could be averted and how the LDCs could be fitted into the global system in a way that was truly mutually beneficial. The time had come to take some definitive decisions with regard to the Third Global Review Conference on the LDCs, as envisaged in United Nations General Assembly resolutions 45/206 and 50/103. This Conference was due to take place at a high level in the year 2000, in the month of September, and to last for a week. It should be mandated to review the implementation of the Programme of Action during the 1990s, to review international support measures, particularly in the areas of ODA, debt and trade, and to consider formulation and adoption of appropriate, national and international policies and measures for sustained and sustainable development of LDCs during the first decade of the next century. UNCTAD should already be designated as the focal point for its preparations. An intergovernmental Preparatory Committee could be convened during the spring of 1999 for this purpose. It could be preceded by three expert-level meetings, two of which could take place in Africa and one in the Asia-Pacific region. United Nations savings could be used to defray the cost of participation of two representatives from each LDC in the Conference and in the Preparatory Committee.

18. The spokesman for the African Group (Ethiopia) said that the unique role of UNCTAD, as the focal point at the global level for the monitoring, follow-up and review of the implementation of the Programme of Action for the Least Developed Countries (LDCs), had been reaffirmed by UNCTAD IX and the General Assembly.

19. After a long period of economic slump and deteriorating living conditions, the last two years had witnessed economic recovery and modest growth in the LDCs. Macro-economic reforms in the LDCs, in particular in the area of monetary and fiscal policies, in pursuit of the objectives of the Programme of Action had begun to stimulate higher growth rates in their economies. However, these improvements would remain transitory and frail unless accompanied by policies

at both the national and the international levels favourable to strong institutional and technological capacity-building.

20. The growth performance of the LDCs contrasted with the unfavourable international economic environment for them, with continued reductions in ODA, persistently mounting debt constraining their economic revival, and declining prices for their main primary exports. ODA flows had fallen short of special aid targets and commitments agreed in the Programme of Action, and the ODA/GNP ratio for DAC donors had fallen from 0.09 per cent in 1992 to 0.06 per cent in 1995. In addition, aid was being diverted away from development purposes to emergency programmes, with potential negative consequences for long-term economic development. A reversal in the current trend in donor performance in terms of the level of assistance and the direction of aid was required.

21. The African Group recorded its appreciation to Norway, Denmark, the Netherlands and Sweden for their efforts to surpass the 0.20 per cent target, to Ireland, Luxembourg and New Zealand for the expansion of their aid programmes, and to Japan for being the largest contributor of ODA in absolute terms.

22. The LDCs had experienced an increase of 56 per cent in foreign direct investment (FDI) in 1996 after several years of decline. However, in relative terms, their share continued to represent a low and declining proportion of FDI flows to developing countries as a whole.

23. The level of debt of the 29 LDCs currently included in the group of HIPC countries continued to be high and growing, amounting to \$135 billion. External obligations exceeded many countries' capacity to pay. The World Bank/IMF HIPC initiative on debt, though welcome, was constrained by its selectivity criteria and the long period required for positive effects to be felt. Creditor countries and international financial institutions were urged to increase their efforts to implement the proposed and agreed measures to alleviate the debt burden of the LDCs and to reduce it at least to sustainable levels.

24. The African Group noted with satisfaction the greater qualitative dimensions of the Least Developed Countries, 1997 Report. In particular, the Report provided extensive coverage of the important role of agriculture in LDCs' economies. The analysis in the Report constituted an important input in terms of assisting national policies aimed at addressing problems in the agricultural sector. The African Group subscribed to the main components identified in the Report for a viable long-term agricultural development strategy, which were local in nature, but emphasized the need for greater analysis of the

international dimension of the policy problem in agriculture. This would show that LDCs had not fully benefited from their agricultural sector, in which they had a comparative advantage, due to external constraints, including market access.

25. With regard to the issue of economic regression, the experience of many countries had shown that political regression could be reversed internally, but this required international solidarity and cooperation. The international community should give urgent attention to helping LDCs strengthen their institutional structures in order to prevent state collapse, facilitate peaceful resolution of internal conflicts and rebuild war-torn societies.

26. The African Group underlined that the Third United Nations Conference on the LDCs should be organized with more vigour, vision and commitment. UNCTAD's role in making the necessary preparations was critically important, in conformity with the Programme of Action. The role of UNCTAD in the preparation of the High-Level Meeting on Integrated Initiatives for LDCs' Trade Development was also essential.

27. The African Group attached the utmost importance to the technical cooperation activities of UNCTAD with special reference to the LDCs. Development partners and other countries were called upon to contribute generously to the UNCTAD Trust Fund for LDCs, which provided funding to cover the start-up costs of Integrated Country Programmes. The African Group congratulated UNCTAD on taking the lead in launching the first ICP for Bangladesh, and speedy implementation of similar programmes in the African LDCs was called for.

28. The representative of Brazil commended the UNCTAD secretariat for the quality of the LDCs 1997 Report and the excellent analyses contained in it. She welcomed the call in the Report for the international community to react urgently to halt the process of economic regress among a number of LDCs. Although Brazil was not a major donor, it was providing assistance to some African LDCs in areas such as agriculture, power generation and education. She drew attention to the formation of the Commonwealth of Portuguese-speaking Countries in 1996, under which resources amounting to \$3 million had been allocated to finance development programmes in Angola, Mozambique, Cape Verde, Sao Tome and Principe, and Guinea-Bissau. She noted the importance of agriculture to LDCs and the role that this sector could play in reviving their economies. She hoped that UNCTAD would continue to receive strong support in order to continue its work in favour of LDCs so that they would profit from the benefits and opportunities provided by globalization.

29. The representative of China expressed his Government's full support for UNCTAD, which had made an important contribution to solving the problems of the least developed countries in its capacity as the focal organization in the United Nations system for monitoring and follow-up of the implementation of the Programme of Action for the LDCs. He said that the establishment of the Trust Fund for LDCs was an important development which would help in addressing the problems of LDCs. For many years and on a bilateral basis, China had assisted these countries in their development efforts. In that context, he announced that his Government would contribute \$100,000 to the Trust Fund for LDCs.

30. The spokesman for the Asian Group and China (Sri Lanka) commended the secretariat for The Least Developed Countries, 1997 Report. He noted with satisfaction that policy reforms introduced in the Asian LDCs, and the proximity of some of them to the world's fastest-growing region, had contributed to the increase in the growth rate in those countries. The benefits of globalization were, however, yet to reach the Asian LDCs in an equal manner. He noted with satisfaction that the Asian LDCs benefited from the successful experience of Asian countries in improving food security and agricultural output, and he believed that their experience could be used by LDCs in other regions.

31. While it was true that the sustainability of growth in Asian LDCs would depend on the continuation and deepening of adjustment and economic reform measures already initiated, it should be stressed that growth could have been much higher had the Asian LDCs benefited from higher levels of ODA and investment. He therefore urged the LDCs' development partners to increase the level of ODA committed at the second UN Conference on LDCs and in other major international conferences. The declining trend in ODA, coupled with the debt problem of many poor countries, was far from being resolved. He welcomed the recent HIPCs initiative to tackle the debt of the heavily indebted poor countries and urged that this initiative be pursued in a comprehensive way without delay, with the support of the international community.

32. He said that it was encouraging to note that new countries were emerging as providers of external assistance to LDCs, and that the Republic of Korea was becoming an emerging donor with the potential for making a significant contribution to ODA to supplement the aid resources provided by the traditional donors.

33. Most of the Asian LDCs had not been able to benefit from the increase in FDI to developing countries. He called upon UNCTAD to look into that issue and to advise on ways and means of facilitating FDI flows to those countries.

34. He expressed his appreciation to the UNCTAD secretariat for helping a number of countries to elaborate and launch Integrated Country Programmes to strengthen the supply capacity of tradable goods and services, and in that connection he expressed his appreciation to the LDCs' development partners for their contributions and pledges to the Trust Fund for LDCs.

35. The speaker stressed the importance of initiating preparations for the Third Global Review Conference on the LDCs and designating UNCTAD as the focal point for that purpose. He stressed the importance that his Group and China attached to the necessity for the current session of the Trade and Development Board to contribute to the General Assembly's consideration of the holding of that UN Conference in the year 2000.

36. In conclusion, he stressed that all LDCs should be treated equally, and that any preferential measures in favour of the LDCs to be offered in the future should be extended to each and every LDC on the basis of equality.

37. The representative of Luxembourg, speaking on behalf of the European Union, commended the UNCTAD secretariat for the excellent quality of The Least Developed Countries, 1997 Report. She said that LDCs received priority attention from the European Union in its development policy. At the forthcoming High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development, the European Union intended to reiterate the conclusions of its Ministerial Council regarding both extensions of preferential treatment to all LDCs and improved rules of origin. She pointed out that the theme relative to agriculture in the Report was of the greatest interest to the European Union, as the LDCs had priority in EU development policy and the EU was the largest importer of LDCs' agricultural products.

38. Given the importance of the agricultural sector for rural incomes, food security and linkages with the agro-processing industry, the speaker said that the European Union considered that diversification of agriculture in LDCs should be a priority development objective. In addition, she noted the importance of education for long-term development of the agricultural sector; and she encouraged UNCTAD to pursue its research into the major aspects of development strategies for agriculture. These aspects related to extension services and research, as specified by the Report, as well as agricultural policies, relevant decision-making, and operational aspects such as law enforcement and inspection. The European Union took the view that it was important to promote the role of the private sector in agricultural development, and to support it strongly. Development of non-agricultural rural employment was a major socio-economic

objective of the LDCs, which implied that diversification policies should be global (horizontal as well as vertical) and not limited to commodity diversification.

39. The European Union had actively participated in the World Food Summit, and had for a long time implemented food security policies for developing countries, and in particular for the LDCs. Furthermore, it recognized the existence of systematic and technological causes of environmental degradation in rural areas of the LDCs, and supported institutional and social programmes for sustainable development in those countries.

40. The European Union had been supporting the promotion of rural financial institutions to facilitate access to appropriate financial services for the rural poor and considered that investment in the form of non-refundable funds was necessary. In that connection, the European Development Fund was an important partner for the LDCs.

41. In conclusion, the speaker said that the European Union vigorously supported sectoral development in the LDCs, in particular through the Agricultural Investment Programmes, and called for coordination among donors for efficient support to sectoral, agricultural and rural policies in the LDCs.

42. The representative of Uganda commended the UNCTAD secretariat for a well-researched LDCs 1997 Report, which addressed the current challenges facing the LDCs. He noted that in a characteristic and bold move the Report addressed the problems of economies in regress. Uganda had experienced negative growth in all facets of public life from 1971 to 1986. But it had demonstrated that with genuine political commitment, good governance, efficient economic management and international support, those problems could be tackled and overcome. In his view, the Report justifiably focused on agriculture, which dominated the Ugandan economy. It accounted for 50 per cent of GDP, 85 per cent of export earnings and 80 per cent of employment, and provided most of the raw materials for the country's steadily growing agro-industrial sector. However, most of Uganda's agricultural exports faced high tariffs as well as complicated sanitary and phytosanitary rules in some markets, which militated against export expansion. He listed domestic problems which frustrated Uganda's efforts to modernize its agriculture: antiquated land tenure and obsolete technology; paucity of finance for agricultural activities; inadequate research capacity and resources; and poor harvest and post-harvest systems, made worse by the absence of any organized marketing system. He added that the rain-fed nature of agriculture rendered it vulnerable to the vagaries of the weather. He stressed that LDCs would continue

to require substantial technical assistance from their development partners if those two sets of problems were to be overcome in the long term. He underscored the importance of the Third Global Review Conference on the LDCs, and expressed the hope that the Trade and Development Board would fully support the recommendation to the United Nations General Assembly that it start the preparatory process for convening that Conference.

43. The representative of Morocco said that the main challenges for the LDCs' development efforts appeared to be new developments in the global economic system. The process of globalization and liberalization threatened to accentuate the marginalization of LDCs. These countries' industries were exposed to stronger competition because of their weak supply capacities. Their ability to exploit opportunities and lessen the risk of marginalization would be conditioned by the evolution of the process of globalization and liberalization within the framework of the WTO and by their domestic policy responses.

44. Globalization had important implications for economic policies in LDCs. First, direct control by the Government over new economic activity had become less effective and often increasingly counter-productive. Secondly, globalization intensified competition on international markets. As a consequence, the focus of economic policies had been increasingly shifting away from direct government intervention in markets and participation in production and trade towards the creation of an enabling environment for the private sector and for the efficient operation of the market economy. A key role for the LDCs' Governments and their development partners was to strengthen the economy's supply capacities. A better environment and the provision of public goods such as agricultural extension services should play a role complementary to that of private investments in tackling impediments to the development of competitive industries.

45. The speaker said that significant changes would be required in order to increase the flow of FDI to a meaningful size in areas such as governance, development of an enabling policy environment and sustained policy reforms, and an improved partnership between the public and private sectors.

46. One of the possible responses to the challenges faced by LDCs was enhanced market access to developing export markets. The forthcoming High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development provided an opportunity for all developing countries to make an announcement in that respect. Other possibilities included coordination and cooperation between the relevant international organizations, particularly in the light of the declining trend in ODA and the debt overhang of LDCs.

47. His country favoured a recommendation by the Trade and Development Board to the General Assembly for the convening of the Third Global Review Conference on the LDCs in the year 2000, and the preparatory process should be started as soon as possible.