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Agenda item 5

DRAFT REPORT OF SESSIONAL COMMITTEE II

Rapporteur: Ms. Johanna Karanko (Finland)

Speakers:

France (on behalf of the European Union)
Sudan
Madagascar
Mauritania
Gabon
Bangladesh
China
Switzerland
Japan
Morocco
Norway
Organization of African Unity

Note for delegations

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

Requests for amendments to statements of individual delegations should be communicated by **Wednesday, 25 October 2000, at the latest** to:

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1. The representative of **France**, speaking on behalf of the **European Union (EU),** welcomed the preparation of an annual report on UNCTAD’s activities regarding Africa but suggested that it refer more specifically to the outcomes of those activities. The main sectoral issues were covered by programmes which were of great interest to the African countries. In the area of international trade, the EU attached particular importance to the Joint Integrated Technical Assistance Programme for Selected Least Developed and Other African Countries (JITAP). This programme was a good example of what inter-agency cooperation could achieve, although there were a number of implementation problems, and the EU was looking forward to the results of the current evaluation of the programme. The activities covered a wide range of areas and came close to exhausting UNCTAD’s areas of competence. This might lead to a certain dispersion of activities, but the requests by the beneficiaries would indicate which of these activities were the best and most useful ones.

2. Experience over the past 20 years in both sub-Saharan and North Africa with respect to external financing from official sources, mainly in the form of aid, and the sharp decline in private capital inflows differed from the experience in other regions. The low level of private inflows, which was the result of decisions of individual agents, was particularly regrettable in the light of the role of the private sector as an engine for development. Africa's financing needs were considerable, and unfortunately could not be covered by domestic savings. The solution put forward in the report by the UNCTAD secretariat entitled *Capital Flows and Growth in Africa* appeared bold and somewhat paradoxical as it was based on the idea that a doubling of aid inflows would eventually allow the beneficiaries to maintain an annual rate of growth of 6 to 7 per cent without their requiring further aid. Aside from the problem of funding a doubling of official development assistance (ODA) to Africa in the context of reduced budgetary spending by the donor countries, the scenario appeared risky for several reasons. It was based on an econometric model which was not explained in the document. Moreover, the usefulness of such a model would lie in a quantitative illustration of real-life experience, but the reality was that sub-Saharan Africa had not been able to achieve more rapid growth despite massive aid inflows over the past 40 years. It had always been difficult to make efficient use of additional financial resources, as shown also by the difficulties faced by fuel-exporting countries during periods of strong growth in oil rents. In addition, it was important to take into account the fact that economic growth depended on numerous exogenous factors. For example, growth in commodity-producing countries greatly

depended on conditions in world markets and on commodity prices, which were subject to volatility and secular decline; and difficult climatic conditions added another element of uncertainty. Finally, given the diversity among African countries, it was difficult to adopt, as the report had done, a uniform approach to the entire continent.

3. There was no doubt that, in order to accelerate development, the debt problem had to be addressed. An increase in investment was needed, which required a higher level of domestic savings and, where the latter proved insufficient, foreign direct investment. Not only was it necessary to attract the latter, but also it was imperative to prevent the flight of capital. This should be achieved through incentives, rather than constraints, by offering attractive domestic investment opportunities in an environment shaped by good governance, and respect for human rights and democracy. An adequate level of ODA was an absolute necessity for the African countries and the EU was ready to assume its responsibilities in this regard. However, the proposal put forward by the UNCTAD secretariat was not the best solution for Africa.

4. The representative of **Sudan** said that Africa was increasingly marginalized owing to the fast pace of the globalization process, particularly in finance, trade and technology. If the region was to integrate into the world economy, bold and serious initiatives had to be taken by the international community, especially the industrialized countries, to address the problems of declining resource flows, insufficient investment, external debt and market access. It was unfortunate that Africa had entered the twenty-first century with nearly 300 million people living in extreme and abject poverty. The scandal of poverty remained entrenched in most parts of the continent, and epidemics such as HIV/AIDS and malaria were still rampant. The terms of trade, especially of commodity-dependent countries, continued to deteriorate. Foreign direct investment flows were concentrated in very few countries with relatively high levels of economic growth. Africa still needed external financial support to overcome poverty. An increase in official development assistance (ODA) flows to Africa would result in a rise in domestic savings, thus attracting investments which would eventually lead to sustained economic growth. Therefore, in order to reduce aid dependence in the long run, ODA had to be increased in the short run. It was also necessary to accelerate the integration into the multilateral trading system of the African countries still negotiating their accession to the WTO.

5. The representative of **Madagascar** said that 30 years independence and despite sincere efforts by their Governments, growth in most African countries was still too low. In order to reduce poverty more foreign capital had to be attracted. For Madagascar and other countries, agriculture remained an important source of income and a potential source of growth, but it was difficult to develop this sector without adequate investment. Substantial resources were drained by the debt problem and by the reconstruction of infrastructures damaged by natural catastrophes. The latter, together with the deterioration of the terms of trade, commodity price fluctuations and lack of access to new technologies, explained the low level of foreign direct investment inflow. The international community now seemed to be aware of this serious situation, but so far it had not responded appropriately to the new challenges. A division of the world's population into rich and poor had to be avoided if world peace was to be preserved. The rich countries should help the poor ones to solve their external debt problems and reverse the decline in official capital flows. Also, additional efforts were necessary in order to help Africa integrate into the multilateral trading system and to give African products free access to export markets. Such action must be accompanied at the national level by good governance and correct development policies. Economic analyses had shown that Africa could achieve excellent performances when sufficient resources were made available.

6. The representative of **Mauritania** said that in the previous decade results in poverty reduction had not been satisfying, particularly for Africa. Trade liberalization alone could not be the solution to African problems. Economic progress in the region depended on a number of other factors as well. Most countries exported only a single commodity, and the diversification of the production base was crucial for reducing vulnerability to fluctuations in commodity prices. Given the low level of domestic savings, an increase in the inflow of foreign direct investment could contribute to an acceleration of development. Although UNCTAD's research had shown that investment in Africa had a high rate of return, foreign direct investment was still insufficient, and official development assistance had also fallen to a very low level. Moreover, external debt service was absorbing a large part of export revenues. Progress under the HIPC Initiative was therefore very important. Some African countries had recently recorded faster growth, but for the region as a whole growth rates had to double if poverty was to be reduced by half by 2015. For most African countries this was impossible without additional external assistance. While the main responsibility for

mobilizing resources for development lay with the African countries themselves, they could not do without the solidarity of the international community. This solidarity must include debt reduction, an increase in official aid, higher private capital flows, control of commodity price fluctuations, diversification of production capacities, elimination of barriers to African exports, strengthening of African institutional capacities and easier access to new technologies.

7. The representative of **Gabon** said that development in most countries in sub-Saharan Africa was constrained by their external debt burden, structural adjustment programmes, the decline in external aid and epidemics. Despite an increasingly favourable investment climate, African countries still did not receive sufficient private capital inflows to bridge the resource gap. Foreign direct investment went mainly into the primary sector, particularly mining and minerals exploitation. Middle-Income African countries were in a difficult situation because their development needs were largely neglected by the international community. Furthermore, many of the oil-exporting countries, which had recently benefited from higher oil prices, had experienced a serious economic downturn only a few years before, some of those in Africa having registered negative growth rates in 1995 and 1997. More generally, gross domestic product should not be taken as the only measure of development, the Human Development Index being another important indicator.

8. The representative of **Bangladesh** said that short-term prescriptions were inadequate to solve the problems of economic development. In contrast, it was worth pursuing programmes such as the United Nations New Agenda for the Development of Africa in the 1990s. The international community must address the causes of poverty in Africa and other developing regions within a global institutional framework because sectoral and partial approaches were insufficient to reduce poverty on a large scale. Foreign capital inflows were an important element in any development strategy, but it was essential that developing countries receive the right type of private capital inflow. A blind rush for foreign investment had often generated disappointing results. The inflow of official development assistance (ODA), which had been declining in recent years, had to be increased in order to address the systemic weaknesses in Africa and elsewhere. The developed countries should revise current strategies and bring their ODA up to the levels previously agreed in United Nations forums. Moreover, it was time for creditors to take a courageous step and write off all the debt of all

least developed countries. Bilateral debt was relatively easy to cancel, and France had set a good example when it forgave the entire debt of the Central American countries affected by hurricane Mitch in 1999. The problem of debt owed to multilateral financial institutions was more difficult to solve since it required an international consensus. But this consensus appeared to have been reached now, and action could therefore follow. The Heavily Indebted Poor Countries (HIPC) Initiative had a number of shortcomings. Its approach was too bureaucratic, and many least developed countries found it difficult to fulfil its requirements for debt relief. It was necessary to attach clear and positive conditionalities to this relief, such as a commitment to economic reform, transparency and democracy, and greater social investment. The World Trade Organization, which regulated global trade in all its forms, was an example for an international institutional framework that should also be aimed at for better regulation of the financial sector.

9. The representative of **China** said that the process of globalization increased the marginalization of Africa. One of the main obstacles to the region's development was the lack of financial resources. Slow growth, in turn, limited the countries' capacities to mobilize sufficient domestic savings and attract foreign direct investment. Therefore, official international assistance was indispensable for accelerating growth and development in many African countries. It was to be hoped that the developed donor countries would effectively increase their aid to Africa in accordance with the targets set in the New Agenda for the Development in Africa in the 1990s. The heavy external debt burden was another major cause of Africa's capital shortfall. It not only blocked Africa's economic development but also caused severe social problems. The major developed creditor nations and international financial institutions should speedily honour their debt relief commitments. Additional efforts were necessary in order to accelerate, and find more effective means of, debt relief for the heavily indebted poor countries. China not only had a long record of technical cooperation with Africa, but also had announced at a recent ministerial conference on Chinese–African cooperation that it would reduce the debt owed by the heavily indebted poor countries and least developed countries in Africa by 10 billion rinminbi. As a contribution to achieving the targets set in the New Agenda for the Development of Africa in the 1990s, China would also increase grants and interest-free loans to Africa and set up special funds to encourage Chinese enterprises to invest there and promote human resources development.

10. The representative of **Switzerland** said that the report by the UNCTAD secretariat entitled *Capital Flows and Growth in Africa*, with its call for a substantial increase in ODA, went against the current trend of tighter constraints on public expenditure in the developed countries. It also went against the strategies for development in Africa advocated by the World Bank. Moreover, it neglected previous experience with official aid for Africa, which had not generated the results that donors had hoped for. The replacement of official flows by private flows would not follow automatically, contrary to what the report seemed to suggest. For that to happen, a sound institutional and policy framework had to be in place in the developing countries, and an economic climate had to be created that was more favourable to investment, both domestic and foreign. So far, these conditions had not been fulfilled in all the countries concerned. The external debt problem constituted a threat to medium-term economic development in most sub-Saharan countries. Switzerland strongly supported the HIPC Initiative. International efforts to reduce the debt overhang should be further reinforced and the process of granting debt relief accelerated. Trade liberalization would help African economies to increase their productivity and reinforce their competitiveness. Regional integration could play an important role in this respect.

11. The representative of **Japan** said that although many countries in sub-Saharan Africa had pursued structural adjustment programmes in the 1980s, most had been left behind in the process of economic globalization. Since the early 1990s, civil war, ethnic strife, terrorism and massive refugee exoduses had undermined peace and stability in Africa. As a consequence, poverty was still widespread, and 40 per cent of the African population had a per capita income of less than one dollar per day. Alleviating poverty in Africa and integrating the region into the global economy were major challenges for the international community. Efforts to meet these challenges must be based on two principles: ownership by African countries to enhance their potential for growth and to take an initiative for their own development; and partnership with the international community to support the efforts of African countries. Japan’s support focused on strengthening coordination among donors, enhancing regional cooperation within Africa and promoting South–South cooperation, in particular between Asia and Africa. Japan had been extending assistance through both bilateral and multilateral channels. Japanese official development assistance flows to Africa had amounted to US$ 950 million in 1998, and the Japanese contributions to the African Development Bank and the African Development Fund were among the highest. However,

African countries had to make efforts themselves in order to increase domestic savings and to attract private external financing, including from more advanced developing countries. In order to do so, a solid financial system was required. Since 1998, Japan had implemented the programmes and projects adopted at the second Tokyo International Conference on African Development (TICAD II) at national, regional and international levels. As part of new follow-up activities, a ministerial meeting was envisaged for 2001, with the aim of reviewing the approaches to be adopted for African development, before the possible organization of TICAD III.

12. The representative of **Morocco** said that the economic situation in Africa was deeply worrying, as growth rates in many countries were too low to satisfy the needs of their people. The resource gap had to be addressed by concrete measures, but the problems were not only of a financial nature. The situation required a global approach. In order to enable the African economies to solve their complex problems of development, there was also a need for strengthening their productive capacities, for more liberal access for their exports to the markets of the developed countries, for better access to new information technologies, and for technical assistance with regard to their accession to the World Trade Organization and the implementation of trade agreements.

13. The representative of **Norway** said that African Governments had to continue to strengthen their efforts aimed at improving the welfare of their countries. The fight against corruption and the provision of investment incentives should be in the forefront. Political stability and the absence of conflict were also important elements to attract foreign investors and foster sustainable development. There was an urgent need to bridge the resource gap of many developing economies, but UNCTAD's report entitled *Capital Flows and Growth in Africa* underestimated the potential role of sources of finance other than foreign aid. While official development assistance was certainly needed, it was necessary to focus more on the role of the private sector. Many avenues could be explored to make foreign direct investment a motor for growth. In order to accelerate the development of the private sector and increase domestic savings an adequate national policy framework had to be put in place. External financing, such as ODA, should complement efforts at the national level, but it was not a magic solution. However, the current level of total ODA was unacceptably low, and it was imperative that all developed countries honour their commitments. Initiatives to alleviate the

unsustainable debt burden through mechanisms such as the Enhanced HIPC Initiative would also contribute to reducing the resource gap in many African countries. The liberalization of trade and finance needed to be tempered by the development of capable and supportive supervisory institutions. In the absence of such institutions, trade shocks might have undesirable consequences and the recurrence of financial crises could not be ruled out.

14. The representative of the **Organization of African Unity** (OAU) said that the findings of the UNCTAD secretariat's study entitled *Capital Flows and Growth in Africa* were consistent with those of the *Economic Report on Africa, 1999*, prepared by the United Nations Economic Commission for Africa. That report concluded that for African countries to be able to attain the target of reducing poverty by half by 2015, set by the World Social Summit in Copenhagen, an average annual gross domestic product (GDP) growth rate of around 7 per cent and an investment rate of around 33 per cent of GDP were required. With a current average domestic savings rate of 15 per cent of GDP and official development assistance (ODA) inflows in the order of 9 per cent of GDP, there remained a resource gap of 9 per cent. Thus, a doubling of ODA flows was required. A study that was in progress at the OAU showed that in the 1990s most African countries had achieved favourable macroeconomic fundamentals thanks to the economic reforms of the 1980s and early 1990s. However, little progress had been achieved in terms of diversification and growth because the financial flows required in order to support the improved policy environment had not been forthcoming. This was paradoxical because the new policy context was ideal for official assistance to achieve maximum effectiveness. Conditions were now right in most countries for official assistance to make a major difference in addressing the well-known structural and supply-side bottlenecks in the region. The level of official flows had to be increased if African countries were to take advantage of improved market access conditions, as now provided by the United States and the European Union for a number of developing countries. Without an initial big push from official sources of finance, meaningful progress in poverty reduction could hardly be expected. Also, capacity building for human resource development, infrastructure and production was critical to diversification efforts in Africa.

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Speaker:

Chairperson

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1. In her opening remarks, the **Chairperson** said that consideration of the item before the meeting was indeed timely. After three decades of stagnation and decline the peoples of Africa were entitled to aspire to a new start in the twenty-first century, one that would set them on the path to growth and prosperity. Of the 48 least developed countries in the world, 33 were in Africa. Over the past decade efforts had been made by Africa and the international community to address the problems facing the continent. However, the many initiatives and programmes put in place had not achieved the expected results. In consequence, African countries were now endeavouring to identify where those initiatives and programmes had gone wrong and why, and to draw lessons from the success achieved in other regions. Studies showed the crucial role played by finance in the process of development, and identified the lack of adequate financing and the debt overhang in many African countries as the principal factors preventing their economies from improving on a sustainable basis.

2. She hoped that the Committee's deliberations would shed more light on some of the challenges facing Africa and on practical ways to address them. Among the questions that needed to be considered were how Africa could generate adequate levels of domestic resources for investment and growth, and why official development assistance was falling sharply at a time when African countries' policies were clearly moving towards more efficient use of those resources.