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Ninth meeting of the Intergovernmental
Committee of Experts and Tenth
meeting of the Conference of
Ministers of African Least
Developed Countries

SUBSTANTIVE PREPARATION FOR THE SECOND UNITED NATIONS
CONFERENCE ON LEAST DEVELOPED COUNTRIES

Draft Programme of Action for the LDCs in the 1990s

(A Note by ECA Secretariat)

INTRODUCTION

1. In accordance with the United Nations General Assembly Resolution 42/177 of 11 December 1987, UNCTAD is to convene the Second United Nations Conference on least developed countries scheduled to be held in Paris (France), 3-14 September, 1990. The Conference is to undertake a comprehensive review and appraisal of the implementation of the Substantial New Programme of Action for the 1980s for the least developed countries, and to consider and adopt a new "Programme of Action for the LDCs in the 1990s".

2. The mandate of the Conference as contained in Resolution 42/177 is as follows:

1. To review progress at the country level thus far in the decade.
2. To review progress in international support measures and particularly, in official development assistance.
3. To consider, formulate and adopt appropriate national and international policies and measures for accelerating the development process in the least developed countries during the 1990s.

3. Between 1988 and 1990, UNCTAD in collaboration with some donor governments and other development partners, have organized a number of sector and other issue-focussed seminars, workshops and meetings. In addition to these sessions, two major preparatory meetings were convened by UNCTAD in response to the directives of the General Assembly (Res. 42/177):

- (i) A Donor/Recipient meeting of Governmental Experts of donor countries, bilateral and multilateral financing institutions with representatives of the least developed countries, Geneva, 22-31 March, 1989, and
- (ii) The Seventh session of the Intergovernmental Group on least developed countries ("Preparatory Committee" for the Second United Nations Conference on LDCs), Geneva, 26 March to 6 April, 1990.

4. Prior to the meeting of the "Preparatory Committee", the Bangladesh Government, acting in its capacity as coordinator for the LDCs group, with the technical back-stopping of UNCTAD, organized a meeting of the Ministers of Least Developed Countries, in Dhaka (Bangladesh), 10-12 February, 1990. The objective of the meeting was to review various aspects relating to the Second United Nations Conference on LDCs with a view to establishing a common LDCs position. The result of the meeting was a "Declaration by the

Ministers of least developed countries". This Declaration, in para. 8, is said to have "taken into consideration the suggestions and recommendations contained in the Declaration of the Ministers of African LDCs" 1/

5. The "Preparatory Committee" has prepared a Draft "Programme of Action for the LDCs in the 1990s" which is the main reference document for the Paris Conference. In drawing up the draft programme, the Committee agreed to base its work on two major issue papers: 2/

- (i) Elements for a programme of action for the 1990s for the least developed countries (A note by the UNCTAD Secretariat) - A/CONF.147/PC/5.
- (ii) Declaration by the Ministers of least developed countries - A/CONF.147/PC/6.

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6. In view of the developments leading to the Ministerial meeting in Dhaka (Bangladesh) and the results thereof i.e. a common LDCs position, this paper attempts to reflect only those issues (Bracketed) which have not been resolved in the Draft programme and considered to be of critical importance to the African LDCs. These are:

- (a) Macro-economic Policy Framework and Conditions for financial support for structural adjustment programmes.
- (b) External debt and international debt strategies.
- (c) Commodity issues, in particular, access to industrial markets and compensatory financing for export short-falls.
- (d) Official Development Assistance (ODA) - the issue of target and volumes.

1/ Declaration by the Ministers of least developed countries - A/CONF.147/PC/7. Twenty-one African LDCs participated at the meeting, with eleven delegations headed by a Minister.

2/ The Preparatory Committee also had, for its consideration, submission by the Government of France on "proposals to assist the least developed countries" - A/CONF.147/PC/7.

3/ At the conclusion of the Seventh session of the Intergovernmental Group on LDCs (Preparatory Committee), the chairman of the Conference submitted two texts on the Draft Programme - A/CONF.147/PC/L.6 and A/CONF.147/PC/L.7

A. Macro-Economic Policy Frameworks and Adjustment Programmes

7. The main objective of the Substantial New Programme of Action of introducing necessary structural changes in the LDCs during the 1980s has not been achieved. The economic and social crisis facing the African region in the 1980s, and particularly the LDCs, warranted the adoption of short-term stabilization measures and adjustment programmes to redress chronic internal and external imbalances. This shift in policy direction relegated transformational investment in basic economic infrastructure thereby postponing the fundamental restructuring of the LDCs economies. Adjustment programmes in the 1980s failed to bring about the necessary recovery and transformation of the adjusting LDCs economies in Africa.

8. In the 1990s, 'adjustment' could continue to be a critical factor in the management of the African LDCs economies. The fragility of these economies and their vulnerability to external shocks, however, require a more comprehensive approach to macro-economic management rather than a narrowly-focussed sets of policy instruments dealing with short-term disequilibria. Such an approach should be framed in a continuous process that links short-term stabilization and adjustment measures with long-term development objectives and transformation. The "African Alternative" to Structural Adjustment Programmes provides a comprehensive guideline for the formulation of such macro-economic policy frameworks and reform packages in the 1990s.

9. The draft programme states the following policy guidelines ^{4/} for the design of counter-specific macro-economic policy framework:

- Policies and measures should focus on the basic transformational needs of LDCs and aim at the acceleration of long-term growth and development in I Cs;

- Particular attention needs to be paid to the linkages between the different economic activities, as well as to the interaction of sectoral reform with broader macro-economic objectives. Some degree of selectivity as regards macro-economic instruments needs to be introduced or maintained so as to ensure an efficient allocation of resources among alternative activities. The establishment of efficient markets and the use of price signals to guide resource allocation are important factors;

- It is also an objective of macro-economic policy to establish external, monetary and fiscal stability and wherever this has to be restored, there should be flexibility in the time span of adjustment and the sequencing of reforms. However, early recognition of the need for adjustment and quick action will facilitate a return to long-term growth and stability. The design of structural

^{4/} During the negotiation, no major difficulties arose but in view of the utmost importance of these policy guidelines, they are reflected here in extensio from A/CONF.147/PC/L.6 (See Footnote 3).

adjustment policies should take into account social factors, and development partners should support efforts to protect the poorest and most vulnerable groups consistent with the overall programmes;

- A stable and realistic exchange rate will support macro-economic objectives and may contribute to balance in the external accounts. It can help stimulate a vigorous and competitive export sector when combined with other, appropriate policy initiatives including measures to reduce domestic structural rigidities and to diversify exports, bearing in mind the international supply and demand factors affecting traditional exports;

- There are a number of initiatives and conditions which will encourage necessary investment, whether from domestic or foreign sources. The most important are policies to promote savings through positive real interest rates, and a stable domestic environment including appropriate legal and administrative institutions. It is also essential to have an appropriate system of taxation, a predictable and stable regulatory and institutional setting particularly for the financial sector and an enabling environment for a dynamic private sector. Investment by the public sector in the physical infrastructure and in social services, especially education, is equally important. The appropriate mix of the above will vary according to the circumstances of individual countries, but the importance of mobilizing the maximum investment, efficiently and at remunerative rates of return, should be emphasized;

- Where entrepreneurial capacity and private capital are scarce the public sector will play a significant role in their economies although as these constraints are overcome its significance may diminish. Consequently its efficient management would contribute to both fiscal balance and economic development. The LDCs should adopt measures to secure effective functioning of public enterprises, including where necessary, improved policy mandates, objectives, accounting and institutional procedures, and the opening up to competition;

- The indigenous enterprise sector should be encouraged to play an important role in modernizing LDC economies and achieving national development objectives. Options such as opening up competition to and within the private sector, or co-operatives and gradual privatization will be considered. LDCs will also take measures to create an appropriate legal and institutional framework to encourage entrepreneurs.

- Subsidies and other such measures are useful in some circumstances but should be used after careful examination of other options. When used, it is important that they be carefully targeted, spur growth in specific areas, minimize any consequent distortions and avoid the preparation of inefficient, uncompetitive activities. Their continued need and level should be subject to on-going review;

- Price controls which discourage production and investment should be phased out, while other measures to compensate the poor for undue harm should be considered;

Measures to improve income distribution by removing distortions in the tax system, land reform where appropriate and employment creation are essential complements to sustainable macro-economic policies as they have direct repercussions on the ability and motivation of the population to participate fully in national development endeavours. The provision of basic education, health care and nutrition are critical elements in enabling the disadvantaged and the poor to have the skills, health and knowledge to take advantage of these opportunities and to withstand the effects of natural disasters,

- Performance criteria applied to LDCs by multilateral lending institutions should continue to be adapted to the particular circumstances of these countries and should give due priority to the over-riding policy objective of the LDCs, namely the acceleration of economic growth and long-term development. The programme agreed with multilateral institutions must constitute a coherent strategy for achieving balance and promoting this growth, and

- Performance criteria could embody variables relating to both the external and fiscal balances and inflation rates on the one hand and desirable rates of economic growth and investment on the other. These criteria should reflect explicit assumptions regarding the external environment which affect the ability of the LDC concerned to achieve its goals. Changes in the external environment may render it necessary to review the appropriateness of the policies, time frame or sequencing in which case it is also envisaged development partners would review their external support and, as necessary, provide additional resources. Development partners should bear in mind the possible consequences of their national policies on the international environment and the potential for either rendering more difficult or helping the LDCs in the adjustment process.

Conditions for financial support to Structural Adjustment Programmes

10. In the 1990s, financial support to Structural Adjustment Programme (and basically to macro-economic management) would depend, among others, on these additional conditionalities:

- (i) Whether the recipient country has a 'credible' macro-economic Policy Framework and in the case of adjusting economies, a structural adjustment programme that has the seal of approval of the IMF and the World Bank. This means that although the draft programme recognizes that the LDCs have the primary responsibility for their development, yet bilateral donors and multilateral financing institutions (IMF and World Bank) will continue to play the traditional role of sanctioning development programmes of the LDCs.
- (ii) The Adjusting Economies' eligibility to use IMF and World Bank Resources. This implies a 'Cooperating' country with satisfactory credit rating of the Multilateral Financing Institutions.
- (iii) The human rights record of the concerned country. Major bilateral donors have now explicitly introduced this condition as part of their aid policy in the 1990s.

B. External Debt

11. The external debt stock and debt service obligations of the African LDCs is identified as the major impediment in their economic recovery processes in the 1980s. According to the World Bank, seventeen LDCs in Africa are amongst the heavily indebted countries in the world. In terms of repayment capacities, however, all the 28 LDCs in Africa are debt-distressed. These countries continue to face difficult financial problems which have stifled proper economic management, an indication that debt-relief measures applied so far have had minimal impact.

12. The following constitutes the current positions (mainly divergencies)^{5/} reflected in the Draft Programme:-

- [Many LDCs face serious debt problems, which constitute a major hindrance to their development plans. The debt can also render economic adjustment more difficult by undermining the essential political underpinnings of the commitment to reform].

- [Debt-distressed LDC should be able to benefit from measures for debt reduction related to its individual circumstances. A number of donor countries have responded favourably to Trade and Development Board resolution 165 (S-IX) of 11 March 1978 by cancellation of official development assistance debt. Other donors, which have not yet done so are urged to implement fully the commitments undertaken. However, as the structure of the LDC debt load is rather unique in that most is owed either to (i) multilateral institutions such as the IMF, World Bank and regional development banks or (ii) official export credit agencies, there is also scope for a review of measures by these institutions to respond to this situation. In view of the essential fungibility of all types of debt relief and resource flows, the provision of development assistance and of debt relief should be treated in a common framework.]

- [Serious debt problems of the LDCs call for elaboration and implementation of a comprehensive and action-oriented debt strategy specifically tailored to the individual needs of the LDCs.] [As part of this strategy, measures to write-off all debt and LDCs should be considered. Debt cancellation measures should, inter alia, include, in particular, urgent action to fully implement TDB resolution 165 (S-IX) in order to improve financial situation of LDCs and promote their long-term sustained growth. Resources thus provided should be truly additional to aid allocation to the LDCs, and all LDCs should be eligible for such facilities.]

5/ A bracket indicates differences in approaches among the negotiating parties. (See A/ CONF.147/PC/L.6)

- [The adoption of the Toronto Terms by the Paris Club provided an important element of debt reduction and relief on official export credits. Participants of the Paris Club are invited to consider extending the Toronto Terms to a greater number of LDCs [widening eligibility to cover all LDCs].]

- [Also, it may be possible to review the degree of concessionality and amend the terms so as to provide further reduction in the debt burden, as appropriate.] There should be improvement of the Toronto options, inter alia, by (i) encouraging the maximum use of concessional options by creditor countries, both participants and non-participants at the Paris Club; (ii) significantly enhancing the grant element of the measures; (iii) widening the coverage of consolidation to 100 per cent of Paris Club obligation; (iv) applying multi-year rescheduling; (v) ensuring additionality through closer co-ordination between the Paris Club on the one hand, and the UNDP round table and World Bank Consultative Groups for LDCs on the other.]

- [Possible ways of alleviating the often heavy burden of debt service obligations to the multilateral and regional institutions, while safeguarding the credit worthiness of these institutions, should be urgently studied by them. Such measures could include arrangements for interest-subsidy or refinancing schemes where appropriate, making the terms for past market-rate loans concessional to IDA terms. Such measures could be financed, as is the special trust fund mechanism of the World Bank, by part of the profits earned by creditor institutions and/or new voluntary contributions.]

- [Those LDCs with overdue obligations to multilateral institutions will need adequate financial resources, possibly through support groups, to help clear arrears. [Considerations could be given to allowing access to resources provided that the LDC in arrears concerned establishes reasonable record of compliance with the Fund-monitored adjustment programmes]. Such assistance would help countries re-gain credit worthiness and access to fresh loans, reschedule debts and facilitate flows of ODA.]

- [It is useful to examine ways by which debt reduction measures can be applied to commercial debt of individual LDCs. Greater use could be made of debt buy-backs and of debt conversion schemes. Support for such proposals could be examined by international financial institutions, official and agencies or non-governmental development institutions (debt for nature swaps, debt for development swaps). Use could be made of the World Bank Debt Reduction Facility and similar mechanisms. Commercial creditors should also be encouraged to waive, where possible debt service payments directly in favour of debtor LDCs.]

- [There needs to be a substantial increase in concessional financing, especially in grant form, which should be extended to the LDCs to resume their growth so as to enable them to cope with their debt burden in the long run.]

- [There is also a need for other measures to alleviate the debt-servicing burden of the LDCs, including technical assistance and measures in such areas as commodities and market access.]

13. To ensure adequate recovery in the African LDCs, especially for the reactivation of economic growth during the first half of the 1990s, the Conference of Ministers of African LDCs, in their 'Declaration', are urging official creditors to completely write-off the external debt obligations of the African LDCs. This is the most viable option if growth and development opportunities is not to elude these countries in the 1990s. As for multilateral debt, special mechanisms would need to be put in place that could ease the debt service obligations of the African LDCs in the 1990s.

C. Commodity issues

14. The African LDCs are predominantly mono-culture economies heavily dependent on one or two primary commodities for the bulk of foreign exchange earnings. Actions by the LDCs to diversify their export base must be propped up by increased access of the exports to markets of industrialized countries, particularly those of the OECD economies. The LDCs should be able to contribute increased value-added to their commodity exports through participation in the processing, distribution and marketing of these products. These issues should be adequately covered by the ongoing Uruguay Round of trade negotiations, and through bilateral trade arrangements. The LDCs in Africa, by all counts, are unequal partners in international commodity markets, which fact of inequality deserves special treatment by multilateral and bilateral STABEX schemes, especially the EEC/STABEX and the IMF/CCFF.

15. The following represents the status of the negotiations:

Compensation financing

- [In this connection:

- (i) The various compensatory schemes of IMF including its new Compensatory Contingency Financing Facility (CCFF) scheme, could consider practical measures to facilitate the access of LDCs under terms and conditions that are not excessively burdensome;
- (ii) Possibilities should also be explored to mobilize additional resources to provide more automatic compensation to LDCs export-earnings shortfalls;
- (iii) These could take the form of increasing the availability of financial resources at their disposal and commodity coverage. The non-EEC countries may consider setting up exclusively for the LDCs a scheme similar to STABEX.]

Access to markets

- [Within the framework of the multilateral trade negotiations, special consideration of LDC needs should be given and, to the extent possible, of the following:

- (a) Advanced implementation for LDCs of MFN concessions made by contracting parties in the GATT;
- (b) Greatest possible reduction as soon as possible of tariff and non-tariff barriers on products of actual and/or potential export interest to LDCs;
- (c) Fullest possible liberalisation of trade in textiles and clothing for LDCs including withdrawal of existing restraints and exemption of LDCs from any new restraints not in accordance with GATT disciplines;
- (d) Examination of possible modalities for special treatment for the LDCs for tropical products of special interest to them;
- (e) Special consideration in the application of strengthened GATT disciplines and codes;
- (f) The time scale required by the LDCs to implement the inclusion within the GATT of multilateral rules in new areas such as services, investment and intellectual property.]

OR

- [Within the framework of the multilateral trade negotiations, special consideration of LDC needs, and the following proposals, should be given:

- (a) Elimination of all tariffs and non-tariff barriers on products of actual and/or potential export interest to LDCs [including tropical, agricultural and natural resource-based products as well as marine resources];
- (b) Advanced implementation in favour of the LDCs of all MFN concessions made by contracting parties in the GATT;
- (c) Exemption from the safeguard clause, from product withdrawals and graduation as well as from quotas and ceilings;
- (d) Long-term guaranteed maintenance of GSP commitments;

- (e) Application of flexible rules of origin and facilities for LDCs' participation in trade fairs, establishment of import promotion offices by donor countries and increasing technical assistance;
- (f) Increasing attention needs also to be given to restrictive business practices with a view to accommodating the interests of the LDCs;
- (g) Exemption of LDCs from any agreements/arrangements resulting from the negotiations in TRIPS and TRIM so that they do not prevent the LDCs from adopting measures and policies in those areas which would assist their economic development and provide for improved access to, and ensure effective transfer of technology. Special consideration in the application of strengthened GATT disciplines and codes and in the inclusion within the GATT of new areas including services;
- (h) Withdrawal of existing restraints on exports of textiles and clothing against the LDCs, and exemption of LDCs from any new restraints;
- (i) Special treatment for the LDCs in the case of tropical and other products of special interest to them].

- [There exists scope for greater utilization and improvement of GSP schemes by expanding the coverage to include all LDCs, increasing the range of products or tariff concessions, providing for special flexibility or deregulations in the field of rules of origin, exemption from quotas or ceilings and providing greater guarantees or stability in the maintenance of GSP systems. LDCs should make efforts to utilize more fully existing GSP systems. GSP systems are often quite complex and developed countries are urged to make further efforts to simplify procedures and assist LDCs to take advantage of the GSPs. In many cases, however, LDCs may find it difficult to fully exploit GSP opportunities because of their weak and narrow economies. This underscores the need for parallel progress in institution building, the development of the private sector, and development partner assistance to help in export promotion and diversification.]

D. Official Development Assistance (ODA)

16. The LDCs in Africa are the most aid-dependent group among developing countries. Official Development Assistance (ODA) constitutes a significant proportion of the African LDCs fiscal budgets. In 1988, eleven LDCs in Africa received ODA equivalent to between 10 and 20 per cent of their GNP, another thirteen of them equivalent to more than 20 per cent of GNP and only four received between 5 to 10 per cent. This is a reflection of the over reliance of these countries on ODA flows which finances between 50 and 100 per cent of their capital budgets.

17. The Draft programme provides the following positions on selected issues as it relates to external resource flows:-

Official flows

- External financial support to complement domestic efforts should be both sufficient in terms of volume and efficient in terms of allocation according to LDCs' individual development needs and priorities. To help meet the LDCs' external capital requirements for accelerated growth and development, donors should endeavour to [double ODA to LDCs in the next five years as compared to current levels aiming to reach 0.20 per cent of their GNP by the end of the 1990s] OR [reaffirm the 0.15 per cent target, set a five year timetable to achieve it, and seek to exceed this measure] as some have already done OR [provide sufficient aid in accordance with individual LDC needs in support of appropriate domestic policies bearing in mind the need for enhancing the absorption capacity, the need to reduce aid dependence and to broaden the donor base].

Private flows

- [Development partners of LDCs should also continue to provide emergency assistance to LDCs afflicted by food shortages, natural calamities and other emergencies. In observing the International Decade for Natural Disaster Reduction (IDNDR), the international community should give priority attention to solution of problems caused by natural disasters in the LDCs.]

- [The assistance provided to the least developed countries for programmes for environmental protection should as much as possible be additional].

Conclusion

18. The four broad areas identified above are the major developmental problems that needs to be tackled by the African LDCs development partnership. Due to the inconclusiveness of the negotiations so far, this note has attempted to seek the position of the Conference of Ministers of African LDCs on these issues as a contribution to the final preparations for the Paris Conference.