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**EMERGING ISSUES AND DEVELOPMENTS AT THE REGIONAL LEVEL:
LEAST DEVELOPED, LANDLOCKED AND ISLAND DEVELOPING COUNTRIES**

(Item 6 (f) of the provisional agenda)

**REPORT OF THE SPECIAL BODY ON LEAST DEVELOPED AND LANDLOCKED
DEVELOPING COUNTRIES ON ITS FOURTH SESSION**

Note by the secretariat

SUMMARY

The Special Body on Least Developed and Landlocked Developing Countries considered the issues of effective utilization of development assistance and multi-agency integrated initiatives for the development of exports.

The Special Body emphasized the continued need for external assistance. It noted that official development assistance financed a significant portion of public investment in least developed and landlocked developing countries. Besides, statistical evidence suggested a positive link between aid and economic growth in those countries. It noted, however, that despite the efforts of least developed and landlocked developing countries a significant portion of external aid remained unutilized in those countries; hence, the pressing need for improved and effective utilization of aid.

A better utilization of aid would require action by both recipient countries and donors in a spirit of genuine partnership. The Special Body adopted a number of recommendations that could overcome impediments to effective utilization of aid. Those related to, *inter alia*, aid planning, human resources and institutional development, decentralization, integration of aid projects into the budget, aid conditionalities, coordination among donors, financing counterpart funds and recurrent costs, aid modalities and involvement of non-governmental organizations as well as the private sector.

The Special Body noted with concern that, while the share of developing countries exports in world trade had increased, that for least developed countries had continued to decrease. Moreover, five years after the conclusion of the Uruguay Round agreements, least developed countries continued to experience great difficulties in capitalizing on the benefits from participation in the international trading system. The Special Body held the view, therefore, that the Integrated Framework represented an important expression of a commitment for coordinated and integrated efforts to facilitate the meaningful participation of those countries in the international trading system. The secretariat was requested to continue to provide support for the least developed countries to advance the process in a manner that would benefit those countries. The secretariat was requested to accord high priority to the provision of focused technical assistance to developing countries seeking accession to the World Trade Organization (WTO) and to enhancing capabilities of trade negotiators, policy makers and analysts in its training programme being organized jointly with WTO.

The Special Body also reviewed the activities implemented for the benefit of least developed and landlocked developing countries under the programme of work, 1998-1999. It noted that, while there would be no subprogramme exclusively on least developed and landlocked developing countries in the biennium 2000-2001, the activities for the benefit of those countries would continue to be given high priority in the all substantive subprogrammes of the secretariat.

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I. MATTERS CALLING FOR ACTION BY THE COMMISSION OR BROUGHT TO ITS ATTENTION

A. Effective utilization of development assistance

1. The least developed and landlocked developing countries of the ESCAP region are faced with formidable challenges in their efforts to achieve sustainable economic development. These include geographic or topological constraints, capacity limitations, their vulnerability to natural disasters which can devastate the entire economy as well as to the impact of global warming, their small economic size, narrow export base and low level of domestic savings, and the high costs of the provision of economic and social infrastructure. These challenges point to the need for the international community to continue to accord high priority to assisting the least developed and landlocked developing countries.

2. A positive link between aid and growth in least developed and landlocked developing countries further strengthens the case for external assistance to these countries. However, despite efforts by these countries, a sizeable portion of external aid commitment to least developed and landlocked developing countries remains unutilized. Thus, the Special Body on Least Developed and Landlocked Developing Countries recognized the urgent need for those countries to use aid flows more effectively. It held the view that better utilization of aid would require action by both recipients and donors. A close partnership between them was essential for overcoming the impediments to more effective utilization of aid.

3. The Special Body reviewed the recommendations contained in the secretariat document E/ESCAP/SB/LDC(4)/1 and Corr. 1 and endorsed them. The Special Body held the view that, although many initiatives in consonance with those recommendations were already under way, the following deserve to be highlighted and brought to the attention of the Commission for its endorsement in order to encourage more vigorous efforts at national, regional and global levels.

1. Actions by recipient countries

4. *Priorities and aid planning.* The national governments of the least developed and landlocked developing countries need to prioritize aid-funded projects clearly and explicitly in line with their short-, medium- and long-term development strategies and programmes well in advance of negotiations with donors. In order to ensure donor commitment to those priorities, the strategies of domestic aid planning should be pragmatic, taking into account available domestic resources and based upon realistic projections about the use of foreign aid. A system of monitoring and evaluation should also be put in place. Furthermore, aid planning should not change its focus too frequently and efforts should be made to avoid duplication of aid projects. In addition, governments should not, under pressure, conclude aid agreements or agree to conditionalities which they did not consider acceptable and were therefore unlikely to be implemented.

5. *Human resources and institutional development.* Since competent skilled personnel and high-quality economic management and institutional efficiency were the key elements for effective utilization

of aid, as a priority, technical assistance should be directed to human resources development and institution-building and strengthening within the government. Recipient governments should also establish a merit-based administration and promote a cadre of experienced bureaucrats/ technocrats with professional and managerial experience in aid management, project preparation and implementation, based on the nature of development projects. However, those human resource constraints were sometimes aggravated by the imperatives of downsizing governments under structural reform programmes. Such programmes should therefore take into account the need to maintain an adequate level of human resources in governments.

6. *Good governance.* Good governance was also a key element in the development of any country. The quality of aid management and the responsibilities that that imposed on the administrative machinery must be viewed as an important element of good governance. Improving the effectiveness of external assistance required political commitment and consensus among the stakeholders in a country on many economic and social issues, including the maintenance of security and the rule of law. The accountability and transparency of government should be promoted to help to address the problems affecting the effective utilization of aid. Besides, broader problems such as political instability, civil unrest and corruption needed to be addressed.

7. *Decentralization.* Devolution of responsibilities and broad-based participation at the local community and provincial levels might facilitate the process of implementation and monitoring of aid projects. That could help to relieve the burden of aid administration at the central level and improve the quality of project proposals and their execution and evaluation. Local authorities could also be given the authority to approve projects below an agreed threshold. Decentralization, however, would require more active coordination by the central government and capacity-building and strengthening at local level, with implications for both human and financial resources.

8. *Involvement of non-governmental organizations (NGOs).* The role of NGOs in the implementation of some of the aid-funded projects could be useful as aid through that channel could often be more effective in reaching the targeted groups. Recipient governments, however, needed to have clear policies to define their relationships with NGOs, both local and international, and establish a focal point for relations with those organizations. The focal point could also foster an ongoing dialogue between the government offices managing aid and the NGOs.

9. *Integration of aid projects into the budget process.* Owing to the local currency cost, as well as recurring expenditure implications, aid-funded projects should be fully integrated into the national budget process. In that regard, the integration of aid projects into rolling development budgets, as well as a classification system to funnel aid through a single unified budget, could be useful. Least developed and landlocked developing countries could also seek technical assistance from the United Nations Conference on Trade and Development and the United Nations Development Programme in that respect. That would help to increase transparency and give a clearer picture of the fiscal implications of aid-

funded projects.

2. Actions by donors

10. *Criteria for aid eligibility.* In order to determine eligibility for external aid, donors should also take into account indicators such as the level of poverty and economic and geographical vulnerability, in addition to the level of per capita income or growth rate of recipient countries.

11. *User-friendly aid policies.* Once the recipient governments had formulated national priorities, donors should respect such goals and strategies. There were often cost overruns and long delays in completing negotiations, resulting from rigid administrative rules, lags between commitments and disbursements as a result of budget problems, and complex procurement rules and conditionalities, as well as tied aid and export credits. There were also varied and complex requirements by donors for project preparation, finalization, monitoring and evaluation. Given the limited human resources and institutional capacities in the least developed and landlocked developing countries, donors should re-evaluate their aid practices to make them more amenable to the recipients.

12. *Donor support for capacity-building.* Aid was often reduced in response to the perceived low absorptive capacity of recipient countries. Rather than reducing aid, donors should be encouraged to take measures to improve the recipient's absorptive capability through support for human resources development, and institution-building and strengthening on an ongoing basis, taking into account the fact that some turnover of personnel trained in aid administration and implementation of aid financed projects was inevitable.

13. *Coordination among donors.* Although some coordination existed among donors, it should be made more effective and streamlined. Increased coordination and sharing of information among donors, both multilateral and bilateral, about the situation in a least developed or landlocked developing country could help in reducing demands on their recipient partner and the number of missions received by that country.

14. *Aid conditionalities.* (a) Programme versus project aid: some donors appeared to be expressing preference for dialogues on the recipient country's development strategies before considering specific projects. However, some recipients had expressed concern that that approach might require donor consent not only for the portion of projects funded with aid but for overall government policy and programmes for the entire sector or the economy. Moreover, the demands imposed by different donors were not always mutually consistent. The donors should therefore review their policies with a view to arriving at mutually acceptable conditionalities; (b) grants versus loans: in view of the limited capability of the least developed countries to service and repay loans, donors should consider extending a significant portion of their assistance in the form of grants; (c) tied versus untied aid: since untying of aid might lead to a decline in costs, donors should continue their efforts either to untie aid or to make the prices of the tied aid commodities competitive.

15. *Counterpart funds and recurrent costs.* While recipient countries were in general responsible for counterpart funds and recurrent costs, donors should consider making special provision to meet those costs in specific cases.

3. Coordination between recipient countries and donors

16. *Partnership.* Efforts to use aid effectively were dependent on genuine partnership between recipient countries and donors. That promoted ownership by the recipients and led to a strong commitment, which in turn facilitated speedy execution of projects. Donors should, furthermore, respect the social and cultural sensitivities of recipient countries.

17. *Aid coordination.* Effective aid utilization required donors and recipient countries to make concerted efforts to improve arrangements for aid coordination and to minimize conflicting objectives, flaws in project design and deviations from project implementation plans. Furthermore, better coordination was necessary to avoid polarization of donor emphasis on selected sectors.

18. *Venue of aid group meeting.* Holding aid group meetings of the donors in the country under review should be encouraged, as appropriate. That would not only help to raise awareness about donor concerns among the public but it might also increase understanding of the aid process among a larger number of government officials and public representatives. It could further enhance the understanding of donor partners of the problems and constraints facing the development efforts of a least developed or landlocked developing country.

19. *Aid modalities.* The task of aid planning and improving aid utilization performance was quite challenging, so both recipients and donors needed to work together, particularly in designing standard criteria, rules and procedures with respect to project selection, procurement, monitoring and reimbursement.

20. *Improved database.* The donors and recipient countries should collaborate in improving the collection, analysis and dissemination of relevant data to facilitate better project formulation and effective implementation.

21. *Achieving self-reliance.* National governments, in collaboration with the donors, might aim at progressively reducing aid dependency and increasing reliance on domestic resources, both financial and human.

22. *Private sector participation.* There should be concerted efforts by the donors and the recipient countries to bring in both the domestic and the foreign private sector in the execution of development projects.

B. Multi-agency integrated initiatives for the development of exports

23. The Meeting considered documents E/ESCAP/SB/LDC(4)/2 and Corr.1 and endorsed the recommendations contained therein.

24. As a collaborating agency in the Integrated Framework for Trade-related Technical Assistance, including for Human and Institutional Capacity-building, to Support Least Developed Countries in their Trade and Trade-related Activities and as a regional arm of the United Nations, ESCAP should continue to provide support for the least developed countries to advance the process and to facilitate the timely organization of roundtable/consultative group meetings in a manner that would benefit those countries.

25. ESCAP should also continue to play an advocacy and promotional role to assist least developed and landlocked developing countries in the World Trade Organization (WTO) to maintain open trade regimes, to promote their more effective participation in WTO, especially to secure more effective implementation of the special and differential treatment provisions, as well as in the assessment of the Comprehensive and Integrated WTO Plan of Action for the Least Developed Countries.

26. ESCAP should continue to accord high priority to the provision of focused technical assistance to least developed countries seeking accession to WTO in terms of both the process of accession and the implications thereof.

27. In the implementation of the joint training programme with WTO, ESCAP should accord due priority to enhancing capacities of trade negotiators, policy makers and trade analysts in the least developed and landlocked developing countries.

28. Major trading partners of least developed countries should implement additional preferential market access provisions for their exports, especially where tariff peaks or tariff escalation problems persisted, either under bound most-favoured-nation rates or under expanded product coverage of preferential trading schemes.

29. Special attention should be paid to the problems of least developed and landlocked countries, many of which were geographically disadvantaged, with particular emphasis on addressing supply-side constraints for increasing international competitiveness of their exports, as well as in the improvement of market access. In that context, special attention should also be paid to developing export opportunities in goods and services, including through the use of information technology, in particular by addressing non-tariff issues. In providing technical assistance to least developed countries and landlocked developing countries, technical cooperation among developing countries (TCDC) and tripartite

cooperation among donors, recipient countries and concerned multilateral agencies could be effective modalities and should therefore be utilized more extensively.

C. Implementation of the programme of work, 1998-1999

30. During the deliberations on item 6 of the agenda, the Special Body had before it the document entitled Implementation of the programme of work, 1998-1999 (E/ESCAP/SB/LDC(4)/3). The Special Body noted with appreciation the various activities implemented for the least developed and landlocked developing countries under the programme of work, 1998-1999. The Special Body also noted that, while there would be no subprogramme exclusively on least developed and landlocked developing countries in the biennium 2000-2001, the activities for the benefit of those countries would continue to be given high priority in the implementation of all the substantive subprogrammes of the secretariat.

II. PROCEEDINGS OF THE SPECIAL BODY AT ITS FOURTH SESSION

31. During its deliberations on items 4 and 5 of the agenda, the Special Body had before it the following documents: Effective utilization of development assistance (E/ESCAP/SB/LDC(4)/1 and Corr.1) and Multi-agency integrated initiatives for the development of exports (E/ESCAP/SB/LDC(4)/2 and Corr.1). It commended the secretariat on those documents, which provided it with a solid basis for its deliberations, and on the excellent preparations for the conduct of the meeting.

A. Effective utilization of development assistance

32. The Special Body noted that there was a continued need for external assistance to least developed and landlocked developing countries. Owing to limited domestic savings and private financial inflows, official development assistance financed a significant portion of public investment in least developed and landlocked developing countries. The statistical evidence also suggested a positive link between aid and economic growth in those countries. While expressing appreciation to the donors, the Special Body noted with concern that the decrease in assistance from official sources could thus unduly affect the economic prospects of those countries.

33. Development assistance to least developed and landlocked developing countries should take into consideration the economic and social constraints within those countries. The limited absorptive capacity of aid in those countries resulted from the limited infrastructure, inadequate financial and human resources, and weak institutions. In view of those constraints, capacity-building and strengthening through human resources development, institution-building and strengthening within governments, and improved administrative and managerial capability were deemed essential and required external assistance.

34. It was suggested that, in assessing the impact of aid, it was necessary to determine the net financial flows actually available to the recipient countries, taking into account total debt burden and debt servicing, and other forms of reverse flows. It was also suggested that transaction costs to both donors and recipients should be taken into account when the modalities for channelling aid were established.

35. A number of developing countries noted their technical and economic cooperation programmes to least developed and landlocked developing countries, and stated that they were committed to strengthening assistance to those countries. In view of the constraints faced by least developed and landlocked developing countries in external aid management, the developing countries offered to share their experiences in aid administration and coordination with the least developed and landlocked developing countries.

B. Multi-agency integrated initiatives for the development of exports

36. The Special Body considered documents E/ESCAP/SB/LDC(4)/2 and Corr.1 and noted with concern that, while the share of developing countries exports in world trade had increased over time, that for least developed countries had continued to decrease. The need for a critical analysis of the export performance of least developed countries over the past two decades focusing on market access problems and supply-side constraints that impeded effective utilization of market access opportunities was underlined.

37. The Special Body also expressed concern that, five years after the conclusion of the Uruguay Round agreements, least developed countries continued to experience great difficulties in implementing their Uruguay Round commitments and in capitalizing fully on the benefits that they were expected to derive from their participation in the international trading system. Compliance with WTO agreements or accession to WTO placed a considerable burden on the limited institutional and human capacities of least developed countries. The need for continuing technical assistance was therefore underscored.

38. The Special Body noted with appreciation that issues on least developed countries had received attention in various international trade forums in recent years. It held the view that the Integrated Framework for trade-related technical assistance for least developed countries represented an important expression of a commitment for coordinated and integrated efforts among donors and recipient countries alike to facilitate the meaningful participation of least developed countries in the international trading system. The focus of the Integrated Framework on country-specific activities and on involving recipient countries in all stages of programme formulation was particularly underlined.

39. The Special Body expressed appreciation of the work of the secretariat in advancing the Integrated Framework process. It also noted with appreciation the offer of some countries to share their trade-related development experience, including through the TCDC modality, which could be

supplemented through forms of tripartite cooperation.

40. The Special Body acknowledged that continuous efforts would be required by least developed and landlocked developing countries to increase their export competitiveness, and assistance was requested in, *inter alia*, strengthening support services for export development, in particular infrastructure capacities, quality management programmes, and identifying new products, including services for export development in countries with a limited resource base.

41. The Special Body took note of a view expressed that the merits of trade liberalization should be seen in relation to the overall objective of human development and poverty reduction. That required sound public policies promoting macroeconomic stability, foreign direct investment flows, backward linkages and protection of the environment and labour force.

42. The Special Body welcomed the offer of the United Nations Development Programme to work closely with ESCAP on the trade-related technical assistance proposals contained in document E/ESCAP/SB/LDC(4)/2 and Corr.1.

III. ORGANIZATION OF THE SESSION

A. Opening of the session

43. The fourth session of the Special Body on Least Developed and Landlocked Developing Countries was held in Bangkok on 20 and 21 April 1999.

44. In his opening address, the Executive Secretary noted that, under the current climate of budgetary stringency in most donor countries, any noticeable increase in aid flows in the near future was unlikely, underscoring the need for renewed focus on how to enhance the quality and effectiveness of the assistance that least developed countries received. The agenda item on effective utilization of external assistance would therefore enable both recipient country governments and donors to review trends in external aid flows to least developed countries in the Asian and Pacific region, to identify constraints and problems in the policies and institutional mechanisms for aid administration, and to consider some recommendations on more effective use of aid.

45. Referring to the multi-agency integrated initiatives for the development of exports, the Executive Secretary noted that least developed countries continued to experience great difficulties in capitalizing on the benefits from the international trading system. At the same time, increasingly complex challenges and growing uncertainties had heightened the need for the more effective participation of the developing countries in WTO. The Executive Secretary noted that there was a compelling case for proactive negotiations and agenda-setting in future negotiations by developing countries, and that ESCAP accorded high priority to training programmes and assisting least developed countries in their accession to WTO.

46. The Executive Secretary stressed that the Special Body had been established as a platform to call

attention to the special needs of the least developed and landlocked developing countries and to solicit support from other members of the Commission. As decided during the fifty-fourth session of the Commission, the Special Body, at its fifth session in early 2001, would therefore consider the regional review of the implementation of the Programme of Action for the Least Developed Countries for the 1990s. That regional review would be undertaken in preparation for the third United Nations conference on least developed countries, which was expected to be held during the first half of that year.

B. Attendance

47. The session was attended by representatives from the following members and associate members of the Commission: Bangladesh, Bhutan, Cambodia, China, France, India, Kazakhstan, Kiribati, Lao People's Democratic Republic, Maldives, Marshall Islands, Micronesia, Mongolia, Nepal, Pakistan, Samoa, Solomon Islands, Thailand, Tuvalu and Vanuatu.

48. Representatives of the Asian Development Bank, the Food and Agriculture Organization of the United Nations, the International Monetary Fund, the United Nations Conference on Trade and Development and the United Nations Development Programme also attended the session.

C. Election of officers

49. The Meeting elected Donald Kudu, Solomon Islands, Chairperson, Suhel Ahmed Choudhury, Bangladesh, and Bountheuang Mounlasy, Lao People's Democratic Republic, Vice-Chairpersons and Noumea Simi, Samoa, Rapporteur.

D. Agenda

50. The Meeting adopted the following agenda:

1. Opening of the session.
2. Election of officers.
3. Adoption of the agenda.
4. Effective utilization of development assistance.
5. Multi-agency integrated initiatives for the development of exports.
6. Implementation of the programme of work, 1998-1999.
7. Other matters.
8. Adoption of the report.

E. Adoption of the report

51. The Special Body adopted its report on 21 April 1999.