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Acceleration of development in Africa and the least developed countries

Report of the Secretary-General

I. Introduction

1. At its first session (17-28 May and 15 July 1999), the Preparatory Committee invited the Secretary-General to present an updated report on obstacles facing Africa and the least developed countries (LDCs).[1] The Preparatory Committee also asked the Secretary-General to pay special attention in that report to measures to eliminate those obstacles, to evaluate the degree of marginalization of those countries in terms of the integration of their economies in the global market and to suggest means and mechanisms for commodity diversification in the framework of the industrialization process.

2. Section II of the present report reviews the performance of African countries in general and African LDCs in particular, from the perspective of their capability to attain the developmental objective of reducing poverty by half by the year 2015, a goal endorsed by the World Summit for Social Development. Section III identifies the key structural domestic constraints to the development of those countries, while section IV focuses on the position of Africa and LDCs in the context of globalization and liberalization. Section V examines the prospects for commodity diversification in the light of the current global context and section VI makes recommendations for further action to improve the prospects for long-term sustainable development of the two groups of countries. Section VII summarizes the main issues and highlights the kind of catalytic action needed to overcome the structural constraints identified.

II. Recent performance in Africa and the least developed countries since Copenhagen

3. Since 1995, Africa and LDCs have seen significant improvements in their economic performance compared with the previous decade. The

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rate of growth of the gross domestic product (GDP) of Africa (in real terms) peaked at 4.6 per cent in 1996 and although it remained positive fell to 3.0 per cent in 1997 and 2.8 in 1998 and was estimated at 3.0 per cent in 1999. According to the Economic Commission for Africa (ECA), only three countries grew at levels of 7 per cent or more in 1998, the average growth rate required to reduce poverty by half by the year 2015.

4. As in the case of African countries, GDP growth in LDCs, which had accelerated in the mid-1990s and continues to be positive, also fell. The real average GDP growth rate for LDCs is estimated at 3.7 per cent in 1998, down by 1 per cent from the average growth rate recorded by the group in 1997. This is the third successive decline in the average GDP growth rate for LDCs since the peak of 4.6 per cent recorded in 1995.

5. The decline in African and LDC growth can be attributed, among other things, to the decline in commodity prices of interest to those countries, erratic weather conditions, armed conflicts and instability, the fall in world output owing to the Asian financial crisis and the subsequent financial contagion and accompanying economic crisis. Although the impact of the Asian crisis on Africa and the LDC group was indirect and somewhat limited, the evolution and final resolution of the crisis are likely to influence the short-term growth prospects for those countries. The impact will be felt particularly in such areas as resource flows, especially private capital flows to Asian LDCs, prices of non-fuel commodity exports of interest to Africa and LDCs, as well as Asia’s fledgling trade and investment links with Africa.

6. Overall, there are now increasing signs that the majority of African countries and LDCs are pursuing more appropriate economic policies, which have contributed to reducing underlying macroeconomic imbalances and a better environment for private-sector activity. The implementation of these economic policies has been accompanied by political liberalization and a movement towards participatory forms of government, which has improved the relationship between the State and civil society. Countries pursuing those policies have experienced an improved domestic policy environment and greater economic stability.

7. However, recent economic growth has not been strong or sustained enough to increase per capita income or make an impact on the levels of poverty in the sub-Saharan region. It has been estimated that 44 per cent of Africans as a whole and 51 per cent of those in sub-Saharan Africa live in absolute poverty. A recent report by ECA suggests that the goal of halving poverty by 2015 would require a 4 per cent reduction in the number of people living in poverty each year, either through increased economic growth or through income redistribution. This would require a 7 per cent growth in GDP per year for Africa as a whole until 2015. While there has been some relative improvement in some social indicators, the social situation has worsened owing to conflicts and the human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) pandemic. It is clear that, in addition to improving economic performance, poverty reduction requires particular attention in the social sectors.

III. Obstacles to development in Africa and the least developed countries

8. While recognizing the importance of macroeconomic policies in contributing to the economic performance of Africa and LDCs, it is clear that structural constraints are also critical to the process. The majority of countries have made substantial progress in putting in place the appropriate macroeconomic policies and, while there is considerable room for improvement in this area, it is now time for the region to address long-term impediments to sustainable growth. These impediments include poor governance, low productivity and difficulties in mobilizing resources for development.

A. Governance

9. Overall, governance has improved in Africa and LDCs. With regard to the political aspects of governance, there has been more transparency and openness, greater civil liberty and more political freedom. Since 1995, most countries in Africa and LDCs have held multiparty elections, a number of them for a second time. A relatively vibrant civil society has emerged in many countries, in many cases cooperating with Governments in setting policies and implementing programmes. Despite these improvements, there are still too many instances where the rule of law is not respected, officials and citizens act with impunity, dissent is repressed and the media is tightly controlled.

Critical to the prospects for durable peace, fundamental issues like regional and ethnic inequalities have still not been systematically addressed.

10. Many African Governments have put into place institutions and measures for improving political and administrative accountability and transparency and dealing with the problem of corruption. Indeed, the reform efforts at the national and local levels, in cooperation with civil society organizations, suggest that there is room for optimism. Some countries have even begun to incorporate traditional structures of accountability into modern governance institutions. A number of problems remain in varying degrees in all countries, including unresponsive bureaucracies and excessive regulation. It is also evident that not all countries have demonstrated the necessary political will to ensure the reforms are implemented. Many countries also do not have adequate resources and capacity to develop, strengthen and/or adapt institutions to reflect their values and culture.

11. Continuing conflicts continue to undermine the basic conditions for sustainable social and economic development. In his report on the causes of conflict and the promotion of durable peace and sustainable development in Africa (A/52/871-S/1998/318) presented to the Security Council in April 1998, the Secretary-General emphasized the link between peace and development and noted that the economic and political progress made in the mid-1990s was being threatened by conflict. In 1996, 14 of the 53 African countries were afflicted by armed conflicts, accounting for more than half of all war-related deaths worldwide. However, after a brief period in 1997 when a number of conflicts were resolved, there was a resurgence of conflict in a number of countries in 1998 and 1999. By mid-1999, 17 African countries, including those involved in the Democratic Republic of the Congo, were affected by major as well as low-intensity conflicts. A few of the non-African LDCs are also similarly affected. At 1 January 1999, 6.3 million of the 21.5 million refugees and internally displaced persons worldwide of interest to the Office of the United Nations High Commissioner for Refugees (UNHCR) were from Africa. Those Africans, while in exile, are not in a position to contribute to the development of their respective countries. Furthermore, armed conflict, in addition to contributing to the breakdown of family structures and creating a culture of violence, especially where prolonged, diverts scarce resources away from basic social services, disrupts trade, damages infrastructure, discourages tourism and investment and deepens poverty.

B. Low productivity

12. Beyond the fact that production of goods and services in Africa and LDCs is low, poor productivity is one of the major reasons for the weakness in economic growth in Africa and LDCs. This is evident in agriculture, which is a major foreign exchange earner for most of those countries and employs the majority of the working population. Their overall economic growth therefore depends on the performance of agriculture and commodity exports.

13. Generally speaking, however, the 1990s were characterized by stagnation in productivity for agricultural commodities. Figures on yield for the major LDC agricultural commodities up to 1997 indicate that productivity in respect of key products, with few exceptions, was stagnant from 1990 to 1997. While there was some recovery in yields in 1998, the removal of subsidies and the reduction of public extension services, which resulted from the reforms, negatively affected small producers in the sector. The Food and Agriculture Organization of the United Nations (FAO) notes that the decline in donor support for rural development projects and the reduction of investment in social services contributed to disappointing results in this sector. Those developments had a negative impact on the drive to attain food self-sufficiency, which is critical to poverty reduction.

14. Indeed, despite the fact that Africa is richly endowed with natural resources, it has yet to accrue the benefits of biotechnology. Africa can convert its rich biodiversity and genetic raw materials to processed, value-added goods and in the process improve its competitiveness in international trade. At the same time, genetic engineering could be used to make such traditional crops as maize and sorghum more insect and disease resistant and could help to solve some of the problems in food-deficit countries.

15. So far, reforms in the agricultural sector have for the most part focused on getting prices right. While this approach has been helpful, there is also a need to take into account the various institutional structural constraints, including desertification and recurrent

drought. The United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, particularly in Africa, which came into force in 1995, has made significant progress in promoting better management of land-based natural resources and better preparation for recurrent droughts, but needs to be strengthened as a framework for cooperation. Other structural constraints can be reduced through public investment in rural infrastructure, credit, market information, extension, farmer education and health, as well as through research and development.

16. Information is not available on productivity trends in the oil and mineral sectors, which play a significant role in the export economies of some African and least developed countries. However, output trends, for all their limitations, are a good proxy for productivity trends. With the exception of gold, whose annual output increased by about 15 times between 1986 and 1997, output of other major minerals, especially diamonds, iron and copper was marked by declining trends during the same period. The worst decline was recorded in copper, the output of which in 1997 was only around 40 per cent of that in 1986. This decline in the production of minerals during the 1990s reflects inadequate investment in the mining sector of African countries and LDCs, probably owing to investment policies in the producing countries, issues pertaining to security and political stability and the downward trend in mineral prices. The petroleum sector has also benefited from substantial investments, largely in the production of crude oil. The downstream refining subsector is fraught with serious production bottlenecks.

17. With regard to the manufacturing sector, statistics from the United Nations Industrial Development Organization (UNIDO) show that the manufacturing value added declined almost by half between 1990 and 1995 in sub-Saharan Africa. Industrial growth rates have increased since then in the majority of countries but it represents recovery rather than growth, even assuming a manufacturing value added growth of 4 per cent annually. According to UNIDO, it will still take until 2002 to return to 1991 output levels. The prospects for this level of growth are not encouraging. While the manufacturing value added was estimated to have grown at 5.7 per cent in 1998, it was forecast to grow at 4.1 per cent in 1999 and 2.7 per cent in 2000.

C. Capacity-building

18. Africa and LDCs continue to suffer from a lack of capacity. Key indicators, including education, health, nutrition and sanitation, population issues impact in a fundamental way on capacity-building. According to the United Nations Development Programme (UNDP), in its *1999 Human Development Report*,[2] of the 35 countries that fall in the low human development category, 30 are in Africa and 31 are LDCs. It also notes that the majority of the 16 countries that have suffered reversals in human development since 1990, owing to a combination of the HIV/AIDS pandemic and economic stagnation, are in sub-Saharan Africa. Life expectancy fell in 10 African countries during the period 1975-1997, with more than 10 per cent in 4 countries.

19. Since 1995, the devastating impact of HIV/AIDS has become clearer. Indeed, the recovery of Africa, the continent most affected by the disease, is threatened over the medium to long term by HIV/AIDS. According to the *1999 Human Development Report* report, of the 34 countries hardest hit by the disease, 31 are African or least developed (29 from Africa and 2 from non-African LDCs). The deaths of so many economically active adults, especially those in the professional class, have had and will continue to have a major impact on the human resource base of those countries. For example, life expectancy at birth in southern Africa, which climbed from 44 years in the early 1950s to 59 in the early 1990s, is expected to drop back to 45 sometime between 2005 and 2010. Recent statistics from the Joint United Nations Programme on HIV/AIDS (UNAIDS) show that now, for the first time, women infected by the disease outnumber men and 55 per cent of all the people infected in Africa are women.

20. African children are also under threat. The United Nations Children's Fund (UNICEF) estimates that there will be between 10 million and 14 million AIDS orphans by 2001. These children are the future entrepreneurs and producers of the new century. Fortunately, many Governmetns have now begun to devote the necessary attention and resources to AIDS awareness and prevention; however, these efforts are undermined by lack of and inefficient use of resources.

21. The United Nations has recently launched a major initiative known as the International Partnership against AIDS in Africa, which brings together

representatives from African countries, donor countries of the Organisation for Economic Cooperation and Development (OECD), United Nations agencies, the private sector and civil society. Donors have been requested to devote more official development assistance to combat the HIV/AIDS and the private sector, including foundations, have been asked to help fund prevention and therapy programmes, to address the problem of affordable medicines and to accelerate research for a vaccine. United Nations agencies have been instructed to make AIDS a priority, on a par with peace and security, in their development work in Africa. A five-year programme to reduce HIV infections, particularly among 15 to 24-year olds, by 25 per cent is being launched in May 2000.

22. Other diseases also have major consequences for growth and development in Africa and the LDCs. Malaria continues to plague Africa and some of the other LDCs. According to the World Health Organization (WHO), every day 3,000 children die from malaria in Africa and every year there are 500 million cases among children and adults. Although many do not die, they often suffer permanent damage, which affects their productivity. Re-emerging diseases such as cholera reflect the persistent lack of access to safe water and sanitation, even in urban areas. According to UNICEF, considerable progress has been made since 1997 in some specific areas, including raising poliomyelitis immunization rates, the wider use of vitamin A supplements, the widespread iodization of traded salt and a dramatic reduction of Guinea worm cases. However, as many as one third of young children are underweight for their age and one sixth have low birth weight.

23. With regard to education, the *1999 Human Development Report* reveals that the gross enrolment ratio at the combined first, second and third levels was 44 per cent for sub-Saharan Africa and 37 per cent for LDCs in 1997. This means that less than 50 and 40 per cent of the population of these two categories of countries respectively were enrolled at this level of education. This is clearly inadequate for building human capacity for development. In Africa and LDCs, respectively, women continue to be underrepresented, with only 39 and 32 per cent of females attending the three levels, compared with 49 and 43 per cent for males. The potential positive impact of girls' education on health and productivity is unquestioned.

24. The actual state of skills potential and availability in Africa is lower than the statistics suggest. Although the data are somewhat fragmentary, anecdotal evidence shows that the migration of skilled and educated Africans has been increasing. An ECA study shows that approximately one third of African professionals with university level education were working in Europe and North America in 1987. Other studies estimate that 60,000 professionals left Africa between 1985 and 1990 (at an estimated loss of US$ 1.2 billion), with approximately 20,000 skilled professionals leaving annually since then. This has been mainly as a result of the worsening economic and social situation in the region in early to mid-1990s and an increase in the number of conflicts. Indeed, ECA estimates that, in those countries experiencing prolonged conflict, as many as two thirds of their professional and technical workers have migrated.

25. Clearly, a return to economic growth coupled with a restoration of peace and stability are sine qua non for the retention and return of African professionals to the region. However, even with these basic conditions in place, a variety of measures will have to be put in place, including financial incentives, guaranteed employment with comparable benefits in developed countries, taking into account the differences in the standards of living, and amnesty for those who left for political reasons.

26. Beyond the question of the quality of education, it is necessary to also focus on its content. Today's global economy is driven by rapid technological change and African countries must be able to manipulate technology for their sustainable development. According to UNESCO estimates, Africa has only 20,000 scientists and engineers or 0.36 per cent of the world total, contributes only 0.8 per cent of world scientific publications and its share of patents is almost close to zero. There has also been limited use of computers in the education sector, which is mainly due to lack of resources for their purchase as well as poor telecommunications. World Bank statistics show that, in 1998, there were only 2.32 Internet hosts per 10,000 people in sub-Saharan Africa, compared to 7.65 for Latin America and the Caribbean and 374.65 for high-income countries.

27. An important element of capacity is infrastructure. Africa is extremely disadvantaged in regard to the availability of cheap and reliable transportation and communication, both in terms of

domestic and international links, as well as power, the very elements that are driving globalization and which, at the same time, are critical to the competitiveness of countries and their firms. Furthermore, the development of infrastructure is also important for market development in particular, especially in the agricultural sector, and rural development in general. It is also a critical issue for the landlocked African countries and those LDCs that are far from major markets.

28. The state of basic infrastructure for water and sanitation has declined for sub-Saharan Africa, with only 45 per cent of the population having access to safe water and 37 per cent to sanitation, compared with 84 and 69 per cent, respectively, for the East Asia and Pacific region in 1995. In comparison to a 159 per cent increase in use in South Asia and a 59 per cent increase for Latin America, per capita electricity use declined by 2 per cent in Africa between 1980 and 1995. This has been due to physical destruction as a result of conflicts, neglect as a result of inadequate and irregular maintenance, lack of investment as well as inadequate prioritization given to improving infrastructure.

D. Financing development

29. Despite the reduction in the number of activities carried out by the State in Africa and LDCs, it is still necessary to provide basic social services, infrastructure and other services that are not met by the private sector. In this context, the financing of development remains a critical issue for Africa. According to ECA, to reduce poverty by half by 2015 will require an average real GDP growth rate of between 7 and 8 per cent a year on a sustained basis. For Africa as a whole, this will entail an investment equal to 33 per cent of GDP, to be financed partly by domestic savings and the rest by external inflows. Resources for development come from domestic savings and investment, official development assistance, foreign direct investment (discussed in paras. 50-53 below) and through debt.

30. African countries and LDCs have not been able to mobilize enough resources for their development without relying on external inflows. The current domestic savings rate in Africa is approximately 15 per cent, compared with over 33 per cent in Asia, and official development assistance for the continent averages 9 per cent. This leaves a financing gap of 9 per cent. Public investment in Africa has collapsed to less than 5 per cent of GDP and private investment has not filled the gap, remaining at around 10 per cent. A substantial portion of the gap could be filled by the return of capital to Africa. ECA estimates that Africa has a larger proportion of wealth overseas than any other region (39 per cent, compared with 6 per cent for East Asia before the crisis).

31. Combined with low levels of savings and investment, the heavy debt burden and unsustainable debt service obligations represent a major constraint on the growth potential of African countries and LDCs and limits their ability to address structural weaknesses. Significant debt relief would have a positive impact on their growth prospects. It would help promote investor confidence, as well as release resources for much-needed investment, particularly in infrastructure, human resources development and economic diversification programmes.

32. Since the World Summit for Social Development, the debt of African countries has continued to increase. According to the United Nations Conference on Trade and Development (UNCTAD), by the end of 1998, total African debt as a percentage of GDP had reached 65.5 per cent, marginally higher than in 1997. As a percentage of exports in goods and services, however, it was 303 per cent, a substantial increase from the 1997 ratio of 284 per cent, primarily because of a decline in exports. For this reason, debt service as a percentage of exports of goods and services rose to 30.9 per cent from 21.3 per cent in 1997. The issue of the sustainability of debt is made more difficult by the structure of African debt. Over 90 per cent of African external debt is public and publicly guaranteed. Some 80 per cent is owed to public creditors and 33 per cent is owed to multilateral financial institutions. As much of African debt owed to official creditors is a result of arrears on payments, it is clear that a good part of it is unpayable. Without debt relief, Africa cannot be expected to be able to invest in human and physical infrastructure or to renew its capital stock.

33. In the case of LDCs, their debt stock decreased from $133 billion in 1995 to $127 billion in 1997, with a decrease in the average debt service-to-export ratio from 22 per cent in 1995 to 13 per cent in 1997 as a result of rescheduling. However, even with reduced debt service ratios, many LDCs have failed to meet their debt obligations fully and have accumulated

arrears, the payment of which has had to be rescheduled again.

34. Despite international cooperation in attempting to alleviate their external debt burden, African countries and LDCs continue to suffer from high external indebtedness. Ongoing debt reduction initiatives have not so far significantly affected the debt burden and currently depressed commodity prices can only weaken further their debt-servicing capacity. Only 1 country (Uganda) out of 41 potentially eligible countries has benefited from the Heavily Indebted Poor Countries Debt Initiative by having 20 per cent of its debt reduced. Only four additional countries (Burkina Faso, Côte d'Ivoire, Mali and Mozambique) are currently scheduled to receive actual debt reduction within the next three years.

35. The proposals for debt relief that came out of the summit meeting of the Group of Eight held at Cologne in June 1999, especially shortening the time-frame for the implementation of the Heavily Indebted Poor Countries Debt Initiative, applying less restrictive eligibility criteria, setting a ceiling for the share of fiscal revenue allocated to external debt service and cancelling official development assistance debts, could not, therefore, have come a moment too soon. It is encouraging to note the endorsement of the enhancement framework proposal by the Ministers at the joint session of the Interim and Development Committees of the International Monetary Fund (IMF) and the World Bank at Washington, D.C., in September 1999, which promises to expedite the resolution of the debt problem.

36. However, the debt relief that could be provided under the new framework of the Initiative will still be unlikely to rid Africa of its unsustainable debt burden in magnitudes required for the investment in human and physical infrastructure that is necessary to place the continent back on the road to growth and development on a sustainable basis. Therefore, the Initiative, even in its improved context, cannot be expected to make a major contribution to poverty reduction in line with the goal established by the international community. A longer term solution to the debt problem must be found.

37. Official development assistance to Africa continued to fall from its peak of $23.5 billion in 1994 to $18.7 billion in 1997. In real terms, official development assistance flows to LDCs have fallen by 23 per cent since the beginning of the decade. The average share of aid to LDCs in the gross national product of the Development Assistance Committee countries of OECD fell from 0.09 per cent in 1990 to 0.05 per cent in 1997. Only a third of the Development Assistance Committee countries met the Programme of Action threshold of 0.15 per cent of GNP as official development assistance to LDCs in 1997.

38. Given competing demands on aid resources, especially from the many humanitarian crises in different parts of the world, the future outlook for traditional official development assistance programmes is uncertain. The declining trend can only be reversed if there is a renewed commitment on the part of the international community to accord special priority to the development needs of the world's poorest countries. That a core of donor countries have been steadfast not only in meeting, but also in surpassing, the official development assistance targets contained in the Programme of Action suggests that such a commitment is possible. Furthermore, Germany, Norway and the United Kingdom of Great Britain and Northern Ireland are among the countries that have recently announced new aid policies that include a commitment to increasing their aid budgets. For debt relief and increased official development assistance to have an impact it must truly be additional rather than a substitution of one form of assistance for another.

IV. Globalization and liberalization: marginalization of Africa and the least developed countries

39. The twin phenomena of globalization and liberalization have come to define the global economy. The removal of barriers to trade and investment has led to the rapid growth of international trade and capital flows. This has been accompanied by the global integration of production processes and the harmonization of economic policies enforced by multilateral institutions and regional economic groupings. The new global economy is also characterized by the growing knowledge-intensity of production across all sectors and the widespread diffusion of innovation-based competition. One example of this is electronic commerce, which is expected to grow exponentially worldwide. All developing countries are lagging behind. Africa and LDCs are particularly far behind because they lack the

infrastructure and the skills required to participate effectively in this new type of economic activity.

40. The ability of African countries and LDCs to become more closely integrated into the global economy is now increasingly determined by their competitiveness, that is their ability to expand exports, especially of high-value products, and attract foreign investment. This, in turn, is increasingly determined by their technological capabilities and the speed at which they can use them to adjust to the changes in competitive conditions. So far, however, Africa and LDCs have had to contend with a widening technological gap between them and developed countries. As a result, Africa and LDCs have become marginalized from the centre of global economic activities as reflected in their share of world trade and capital flows.

A. Trade

41. The marginalization of Africa and LDCs is increasingly defined by their very low absolute level of exports and decreasing share in world trade. Africa’s total trade represents 1.5 per cent of international trade, while that of LDCs represents 0.4 per cent. After sluggish growth between 1990 and 1995, when trade increased by 0.6 per cent per annum, the volume of trade expanded significantly in 1996 and 1997 but declined by 1.3 per cent in 1998. Export earnings fell sharply by 16 per cent in 1998, compared with a 2 per cent increase in 1997.

42. Despite the recent growth of exports, Africa’s share of global exports still remains small, declining from 3.2 per cent in 1985 to 2.3 per cent in 1990 and to 1.5 per cent in 1995 (the latest year for which UNCTAD has published data) and 0.4 per cent for LDCs. Moreover, the dominance of agricultural products (mainly primary commodities) as the major source of foreign exchange has rendered the continent’s export-earning capacity highly sensitive to commodity price fluctuations.

43. From 1995 to 1997, three quarters of LDCs derived their export earnings predominantly from merchandise exports and in more than half of these the value of merchandise exports was more than three times the value of services exports. The majority had a highly concentrated merchandise export structure, with one dominant, usually agricultural or mineral, export product accounting for more than half of the total value of exports of goods. At the same time, the share of primary commodities in total world trade is declining. According to UNCTAD, primary commodities accounted for just over 20 per cent of total world trade in the mid-1990s, a decline from over 40 per cent in 1980. Only one country had a merchandise export structure that was dominated by manufactured product in the form of garments. The bulk of LDC merchandise, therefore, is exported with little or no value added. For LDCs as a group, export concentration remained more or less unchanged between 1985 and 1997, a testimony to the general failure of efforts at export diversification in those countries.

44. Indeed, in a few LDCs, a sizeable part of foreign exchange inflows comes not as export earnings but in the form of external “rental” income as remittances from nationals living abroad, income from trust funds, royalties from fishing rights and large foreign expenditure owing to the presence of military bases. Although “rental” activities are accepted and encouraged as a legitimate option for countries that are severely handicapped in their supply capacities (in particular, very small and remote LDCs), it is important for such countries to seek to establish more secure alternative sources of foreign exchange based on productive activities.

45. A number of structural problems continue to hamper the expansion of exports from Africa and LDCs. Higher transport and transaction costs associated with distance from major markets, weak infrastructure and the landlocked status of a number of countries have combined to weaken the competitiveness of exports from both groups of countries. At a fundamental level, two key characteristics of the export trade of African countries and LDCs help to explain the weakness of their exports. First, merchandise trade continues to dominate LDC exports; only a quarter of LDCs derives a greater part of their foreign exchange from exporting services. Second, LDC exports tend to be concentrated, with either one product or a narrow range of products accounting for a substantial share of export earnings.

46. Increased traditional and non-traditional exports are predicated on market access. While the Uruguay Round of multilateral trade negotiations resulted in improvements in market access and security of access for both goods and services and established a dispute

settlement mechanism that provides member countries of the World Trade Organization (WTO) with effective recourse to defend market access rights, nevertheless developing countries, and in particular Africa and LDCs, have not been able to benefit from the expected gains and opportunities arising from the predictability created by the rules-based trading system. Many of those countries are encountering difficulties in implementing agreements and supply constraints continue to hamper their effective participation in the international trading system.

47. Tariff peaks and tariff escalation and agricultural support policies severely constrain the development of the export-oriented growth of many African countries and LDCs. Most favoured nation duties that are applied to textiles, clothing and footwear in some developed country markets remain high and quotas continue to apply. Sanitary and phyto-sanitary measures are too stringent and African countries and LDCs have difficulty in meeting the required standards. While there are obvious opportunities in new market openings for exports of those countries, exporters are now faced with stricter rules on what can be traded and how trade can be promoted. Furthermore, no significant improvements have been made in the generalized system of preferences schemes and African countries have not been able to benefit sufficiently from them. To a significant degree, this is owing to inadequate information about the opportunities arising from generalized system of preferences schemes and the Uruguay Round.

48. For these reasons, African countries and LDCs remain marginal players in world trade and investment. With the establishment of the WTO post-Uruguay Round trading framework, these countries face added challenges and opportunities in their bid to expand trade and investment. The post-Uruguay Round period is expected to bring about the rapid integration of developing countries in world trade than has been the case to date. It is estimated that the WTO arrangements will result in a 1 per cent annual increase in world income over the next decade.

49. However, as a result of the extension to other countries of the benefits of preferences received by those countries after completion of the Uruguay Round and of their poor competitiveness, Africa and LDCs are expected to face some net losses in export earnings. A study by ECA projects that, once the Uruguay Round Agreement is fully implemented in 2005, sub-Saharan countries will lose $569 million per year, equivalent to one tenth of 1 per cent of real income. The loss is not a direct result of the Uruguay Round but comes from improved access to Africa’s main markets from Africa’s main competitors, the low-income countries of East and South-East Asia. On the other hand, the study also shows that the implementation of the Round will accelerate a shift in mainly agricultural exports to Asia.

B. Foreign direct investment

50. African and LDCs can also benefit from the rapid increase in foreign direct investment flows since the beginning of the 1990s. However, as UNCTAD has indicated in its *World Investment Report* for 1999, even while foreign direct investment to Africa increased to a record of $9.4 billion in 1997 and $8.3 billion in 1998, this compares to $165 billion for developing countries as a whole in 1998. Foreign direct investment is also extremely concentrated in a few countries. The inflows of foreign direct investment to the 33 African LDCs increased from 20 per cent of total inflows to Africa to 25 per cent but, at $2.2 billion in 1998, it is still low and like the general trend for Africa as a whole it is also concentrated in a few LDCs. Total foreign direct investment inflows to all LDCs has been increasing, rising by 19 per cent in 1998 over 1997. However, the share of LDCs in inflows into developing countries remains low, at 1.7 per cent, and a disproportionately large share is still channelled into extractive activities in the oil, mining and forestry sectors, with limited backward and forward-linkage effects on those economies.

51. In his 1998 report on the causes of conflict and the promotion of durable peace and sustainable development in Africa (see para. 11 above), the Secretary-General noted that, given the reforms to improve the environment for investment and the high rate of return received by investors, the potential for foreign direct investment remains underutilized in African countries. While there are still problematic areas such as corruption, lack of transparency, the high administrative costs of doing business and access to capital, it is clear that the image of Africa overall has been a major deterrent to investors. This negative image is based on the increasing number of conflicts in the region. While not all countries are affected, the aura of political instability and insecurity surrounds many countries.

52. UNCTAD, along with the International Chamber of Commerce (ICC), the Multilateral Investment Guarantee Agency (MIGA) and UNDP, has undertaken to help bring about a more differentiated picture of Africa by disseminating information on Africa's investment potential through its production of a fact sheet on foreign investment entitled "Focus on the New Africa", which highlights the profitability of foreign direct investment in Africa, the number of home countries from which foreign direct investment flows into Africa as well as the share of foreign direct investment in Africa that goes into non-traditional industries. Similar work is also being done by UNCTAD and ICC for LDCs.

53. Clearly, there are concrete benefits to be gained from liberalization such as increased trade and foreign investment; however, the risks are greater than for developed countries. African countries and LDCs do not have the social safety nets of developed industrialized countries and unemployment and underemployment remain high and will become even higher as more domestic firms collapse under the weight of competition from outside.

C. Regional integration

54. Given the small size of the markets of African countries, broader and deeper regional economic cooperation and integration can become a framework for integrating them into the global economy. The countries that are attracting the most investment are the ones with the largest markets. According to the World Bank, the median African country has a GDP of approximately $2 billion and regional output is equivalent to that of Belgium. Integration will therefore broaden economic space and, if the right enabling environment is present, could help to attract investment and lead to increased trade. In addition, regional integration can also help to promote a more efficient application of scientific research in agriculture and biotechnology in view of Africa's limited skills base.

55. It is now generally accepted that for strategic reasons countries that are not competitive at the international level should first try to build regional competitiveness. If barriers are eliminated, regional trading arrangements can facilitate the growth of more efficient and competitive production structures brought about by the economies of scale and greater competition. This dynamic process can raise productivity and quality to international standards, allowing domestic and regional firms to compete in global export markets.

56. The evidence has shown that foreign direct investment tends to flow to those regional blocs where intraregional trade is increasing rapidly. Indeed, a number of Asian and Pacific LDCs are members of fast-growing regional blocs and have benefited from the spillover in investment from the stronger economies in the early to mid-1990s as they shed labour-intensive industries in favour of producing higher-value products. Similarly, the southern African LDCs have also been benefiting from foreign direct investment from Southern Africa. Depending on the relationship negotiated between host and foreign enterprises, foreign direct investment can enhance the access of local firms to technology, entrepreneurship and market information, which can be important in facilitating their entry into global markets.

57. While Africa has had a long experience of regional integration since the 1960s, the various subregional groupings have not developed the kinds of institutional and infrastructure frameworks that contributed to the reduction of transaction costs, enhance access to regional markets and facilitated increased trade and investment. However, the prospects for success are more propitious than before because the new generation of subregional organizations are now being driven more by economic considerations than by politics. Thus, the second wave of integration, which includes the recently established African Economic Community, is concerned with facilitating the movement of capital and labour, the development and improvement of regional infrastructure to encourage regional trade, technology development and the integration of financial markets and other elements that foster global competitiveness at the regional level.

58. Significant progress is being made by key subregional organizations in Africa. The Economic Community of West African States is close to eliminating all tariff and non-tariff barriers to intraregional trade for products that satisfy its rules of origin. A regional capital market has been established with the creation of the regional stock exchange at Abidjan, and a number of private sector driven regional projects are in the pipeline, including the establishment of a regional airline and a West African coastal shipping line. The Common Market for Eastern and Southern Africa anticipates that a free trade area will

be in place by the end of 2000. Since the launching of the Southern African Development Community (SADC) as an economic community in 1992, considerable progress has been achieved in the coordination of sectoral policies and programmes, including transport, energy, trade and investment. Indeed, because of its progress in creating a free-trade zone, member States of the SADC region have been capitalizing on their location to attract foreign direct investment.

V. Diversification in Africa and the least developed countries

59. While Africa has a rich natural resource endowment, which should give it the comparative advantage in becoming a major producer of industrial raw materials and manufactures, its potential remains largely untapped. In fact, African countries and LDCs are losing market share of traditional community exports. For example, according to FAO, for cocoa, the production share fell from 71.6 per cent in the 1960s to 58.7 per cent in the 1990s while the market share dropped from 78.9 to 64.7 per cent in the same period. For coffee, the production and market shares fell from 25.9 and 28.8 per cent, respectively, in the 1960s to 18.6 and 18.5 per cent in the 1990s. The market share for groundnut and palm oil is even more dramatic, declining from 88.4 and 36.8 per cent, respectively, in the 1960s to 7.6 and 2.6 per cent in the 1990s.

60. Africa is now a net importer of commodities and the prices it receives for its commodity exports continue to fluctuate around a downward trend, severely affecting the terms of trade. The loss of market share and failure to break into the world market for manufactured goods underline the region's vulnerability to the adverse effects of globalization. Furthermore, instability in export earnings combined with the low level of manufacturing industry has been responsible for weak economic growth.

61. In order to reduce dependence on primary commodities as well as to exploit comparative advantage and, at the same time, improve the prospects for sustainable growth, it is critical to add value to primary products by industrial processing, thereby increasing manufacturing's share of GDP. The production and export of such value-added commodities as foodstuffs, wood and furniture, ferro alloys, platinum and aluminium, horticulture are important for boosting output, employment and exports.

62. The diversification of African economies has been at the top of the international agenda since the late 1980s when a Group of Experts chaired by former Prime Minister of Australia, Malcolm Fraser, was commissioned by the Secretary-General to prepare a report on Africa's commodity problems and to make recommendations.[3] Subsequent reports led the General Assembly to adopt resolution 49/142 on 23 December 1994 requesting, *inter alia*: the establishment of national diversification councils by African countries; the establishment of a diversification facility for Africa's commodities to which Governments contributing to the African Development Fund of the African Development Bank were asked to contribute; that high priority be accorded to the consideration of the diversification of African economies and to the coordination of activities of the relevant organizations and programmes of the United Nations system; and that emphasis be placed on the diversification of African economies in bilateral assistance programmes of donor countries. The Agenda for Development, which was adopted by the General Assembly on 20 June 1997 (resolution 51/240, annex), also called for support to the efforts of African countries to diversify their economies.

63. While some activities have been undertaken, including the establishment of a framework for activities in the area of diversification in the Medium-Term Plan of Action for Africa's Economic Recovery which was subsequently incorporated into the United Nations System-wide Special Initiative on Africa, little has occurred in terms of concrete action taken by Africa's development partners to implement the resolutions of the General Assembly and the recommendations of the Secretary-General. To varying degrees, recent initiatives such as the Tokyo Agenda for Action (see A/53/559-S/1998/1015, annex), the Swedish initiative, Partnership with Africa and the United States initiative, Partnership for Economic Growth and Opportunity in Africa, acknowledge the need for the diversification of African economies, particularly their productive base. The Tokyo Agenda calls for the diversification of the domestic private sector, especially in the agro-industrial, mining and manufacturing subsectors, while the Swedish initiative addresses the question of the need for value-added in

production and the United States initiative promotes agribusiness development.

64. Despite the impact of trade liberalization on the viability of domestic enterprises, some African countries have been successful in entering the non-traditional export market. Countries like Kenya and Zimbabwe are significant players in the global market for cut flowers, Madagascar has made inroads in the garment sector and Ghana in the furniture industry. Many other countries are also providing non-traditional products, largely fruits and vegetables, to niche markets in developed countries. These sectors and industries can provide a good base for launching more sophisticated technology-based industries and other specialized products, for which there is increasing global demand.

65. While market access has been a problem for some products, however, the capacity to supply markets has also played an import role in diversification. Even with the lowering of tariffs, the need to meet the demanding tastes and quality requirements of consumers in industrialized and newly industrialized countries means that there is no guarantee that African and LDC exporters will be able to penetrate those markets.

66. 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, which was the outcome of the 1997 High-Level Meeting on Integrated Initiatives for Least Developed Countries’ Trade Development, has attempted to address some supply side constraints. The six core agencies involved, IMF, the International Trade Centre (ITC), UNCTAD/WTO, UNCTAD, UNDP, the World Bank and WTO, have done so by providing technical assistance geared to strengthening export supply capacity (investment, infrastructural development); strengthening trade support services (access to trade finance, business information, use of information technology, adaptation/development of new products, advice on standards, packaging, quality control, marketing and distribution channels); and assistance in the creation of a supportive trade-related regulatory and policy framework.

67. According to a report of the Director-General of WTO on the follow-up to the High-Level Meeting prepared for the Third Ministerial Conference, held at Seattle in 1999,[4] LDCs have expressed frustration about the lack of additional funding for specific projects and the slow and bureaucratic nature of the response to their concerns, most of which result from the difficulties of coordination among the six core agencies, donor countries and the various ministries and government agencies and other domestic stakeholders in the various LDCs. Furthermore, LDCs have suggested that they have not yet concretely benefited from the Framework.

68. The work commodity market has also become more complex. Globalization has resulted in an increasing concentrated in world markets, with large firms becoming even more dominant. There is now a much closer integration of international trade and production through the penetration of large transnationals and distribution companies, such as supermarket chains, into the agricultural supply structures of both developing and developed countries. With deregulation and the disappearance of marketing boards in those African countries and LDCs undergoing structural adjustment programmes, large companies with warehousing and shipping facilities in the producing countries are able to exploit their financial and logistical advantages, even buying the produce directly from the farmer. Meanwhile, the small and medium producers suffer from a disruption in the supply of basis technology, extension services and input to farmers, quality control services, warehousing and transport, risk management, financing and market intelligence.

69. African and LDC producers and exporters can benefit by creating linkages with transnational firms. However, unless they quickly acquire modern business skills, access cheaper finance, acquire the relevant information technologies and develop good logistics in order to compete in the more open but more sophisticated markets, they will be at a disadvantage. For those enterprises that are not yet capable of taking advantage of linkages with developed country firms, there is wide scope for linkages with firms within their subregion or with firms from other countries in the South where the relationship will more likely be one partnership.

70. Tariff peaks and escalation as well as the ban on export subsidies and other trade-related measures affect the prospects for diversification. Although most industrial exports from many LDCs are duty free in some of the major markets, some major sectors, such as textiles, clothing and footwear, sugar and sugar

products, beef and beef products, various fruits and fruit products, face tariff peaks. Furthermore, peak duties are also in place for those products not covered by the generalized system of preferences in some markets. According to FAO, many processed agricultural exports also face tariff escalation, i.e., higher tariffs on products with a higher level of processing. High rates of tariff escalation make it difficult for Africa and LDCs to create competitive industries for their agricultural products and raw materials.

71. The poor performance of the traditional commodity sectors, among other factors, inevitably leads to a slow pace of industrialization on the continent. Here too, structural and institutional weaknesses, both domestic and external, have hampered the continent's industrialization. In 1995, Africa's share in the manufacturing value-added of all developing countries was only 5.5 per cent, a decline from the already low level of around 6.9 per cent in the mid-1980s. The situation is further aggravated by the traditional problems of low rates of capital accumulation, inadequate flows of foreign direct investment and technology transfer and the scarcity of a dynamic indigenous entrepreneurial class.

VI. Measures to overcome marginalization and to promote commodity diversification

72. In order to address the structural weaknesses that undermine their productive capacities and competitiveness, African countries and LDCs will have to continue to maintain a stable macroeconomic environment, improve governance, maintain a transparent and stable legal and regulatory environment that reduces the risks that currently discourage private domestic and foreign investment and end armed conflict. Without these basic conditions in place, the impact of special measures will be very limited.

73. While an enabling environment is being created, a number of additional measures are needed: to encourage and strengthen the role of small and medium enterprises; to upgrade skills and access to technology; to promote commodity diversification; to deepen regional integration and cooperation; to increase and coordinate development assistance; to enhance market access for LDC exports and supply capacity; to provide debt relief; and to mobilize foreign direct investment.

A. Enterprise development

74. African and LDC Governments should support enterprise development and put in place special measures to encourage the upgrade of microenterprises to small and medium industrial enterprises. Focus should be on, *inter alia*: facilitating access to new technology to small and medium enterprises and to small and medium enterprise clusters and improving technological capabilities; providing appropriate training programmes to improve local management skills as well as supporting institutions engaged in enhancing entrepreneurial activities; and promoting a culture of innovation. Additionally, Governments should pursue policies that promote partnering and networking among domestic firms and among those firms and foreign firms and research and development institutions in the rest of the world.

75. African and LDC Governments should also consider special measures for small and medium enterprises to benefit from major infrastructure projects through training and developing appropriate contracting systems, including the division of tenders into small contracts and specifying the use of the kind of equipment that is labour intensive in order to address the issues of capacity-building and employment. However, recognizing the fast-paced nature of changes in the global economy and the limited resources available, in addition to the measures mentioned above, Governments should also define measures that ensure a low-cost and lower risk environment for private sector activity in general, and investment in particular.

B. Technology development and transfer

76. African and LDC Governments should provide a package of incentives to scientists, technologists and entrepreneurs (local and foreign) to encourage them to invest in technology-based enterprises. Special support should also be provided for technology development and diffusion centres designed to help micro and small entrepreneurs improve their products using existing institutions.

77. Donor countries and international development institutions should facilitate the transfer of private as well as public-sponsored/funded technologies. Special consideration should be given to biotechnologies that can help to solve the food security problems of African countries and LDCs. Donors should support the exchange of experiences between and among countries and consider providing additional financial assistance to the International Fund for Technological Development of Africa created in UNESCO.

C. Diversification of commodities and industrialization

78. Those African and LDC Governments that have not done so should quickly put into place a diversification strategy with the support of their development partners. An important element of this programme could be a programme on subcontracting at the national and regional levels, with a focus on industries earmarked for diversification. Governments should also encourage cooperative business networks in horizontal and vertical chain, especially small and medium enterprises, to respond to orders, share information and cooperate on production, design and marketing to deal with the issue of economies of scale. Furthermore, clusters of small and medium enterprises can facilitate the efforts of Governments to foster partnerships for commodity-based diversification between foreign and local firms. African and LDC Governments should benchmark global standards in critical areas such as transportation and telecommunications; and, for each country or subregions, should define concrete and time-bound plans for attaining those standards.

79. To help support national diversification strategies, donor countries should provide financial assistance to the Special Initiative’s programme for the economic diversification of Africa, which is led by UNCTAD. Additional support should be provided to United Nations agencies to enable them to assist countries in Africa and LDCs in increasing their competitiveness in trade. Technical support should be given to those countries that would like to establish national diversification councils that would bring together Government, the private sector and non-governmental organizations to plan national strategies for diversification and would give direction to the operationalization of the strategy.

80. International development partners can assist in providing financial assistance and expertise to develop trade finance institutions and in the creation of national risk insurance facilities. It is important to encourage foreign direct investment in the form of joint ventures with enterprises in more advanced export markets.

81. Taking into account the need for a balance to be achieved in the objectives of food self-sufficiency, price incentives and income security for producers, African and LDC Governments should, with the support of the international community, identify and promote new models within the private sector that can provide those services previously performed by commodity boards. Until the private sector has built up the requisite capacity, new business-oriented government facilities may need to continue to provide these services.

82. African and LDC Governments may wish to consider the establishment of natural resource-based clusters consisting of mutually supportive commodity sector enterprises as these could help increase production, export and diversification. Those countries should also be assisted in their efforts to benefit from the trend towards production differentiation and to establish their own brands.

83. The activities of the Second Account of the Common Fund for Commodities should be expanded and increased to finance research and development, extension services and adaptive research on production and processing aimed particularly at smallholders and small and medium enterprises in Africa and LDCs. To support the rural focus, the capacity of local Governments to support commodity-based development programmes should be upgraded.

84. As a matter of urgency, States members of WTO should address the issue of tariff peaks and tariff escalation in the next round of multilateral trade negotiations with a view to bringing them down to zero level for Africa and LDCs in order to encourage vertical diversification.

D. Regional integration

85. African countries should endeavour to facilitate the role of the private sector in regional integration in becoming a more effective tool for sustainable development through further harmonizing macroeconomic frameworks to facilitate greater

interaction among the various economies; removing all impediments to the greater participation of the private sector in economic activities across borders; and promoting greater private sector involvement in the development and maintenance of infrastructure.

86. African Governments should also consider creating common subregional negotiating mechanisms that could also help to strengthen their voice in global negotiations. They should also seek to rationalize more effectively a number of common areas such as research and development in the areas of biotechnology and equipment procurement and maintenance. The example of corridor development in southern Africa should be replicated in other regions.

87. Donor countries and multilateral financial institutions should play a more active role in promoting regional integration and regional projects through, for example, supporting private participation in infrastructure projects.

E. Official development assistance

88. A number of targets already exists regarding overall development assistance to African countries and LDCs including 0.15 per cent of GNP for official development assistance from developed countries set in 1981 and $30 billion per annum with an increase of 4 per cent every year thereafter set in 1991 in the United Nations New Agenda for the Development of Africa in the 1990s. In the 1998 report of the Secretary-General on Africa (A/52/871-S/1998/318), donor countries were urged to increase the volume of official development assistance; to ensure that at least 50 per cent of aid to Africa was spent in Africa; and to restructure aid to focus on high impact areas, including rural water supplies, basic education and primary health. African and LDC Governments and donors should also reconsider the 20/20 initiative, which calls for an allocation of at least 20 per cent of resources to the social sector. The United Nations also supports the principle of a fund that would guarantee future markets for malaria, tuberculosis and AIDS vaccines and consolidate public and private science partnerships on health initiatives.

89. In addition to focusing on aspects of social infrastructure, donors should also direct assistance to upgrading skills and promoting trade efficiency by the funding of major investments in physical infrastructure, which would help to “crowd in” private investments in Africa and LDCs. Giving carefully targeted support to the rehabilitation and reconstruction of critical infrastructure services in countries emerging from conflicts, especially where private alternatives are not available, should be considered part of post-conflict relief. Donor countries could also assist by providing insurance through their risk agencies and, where they already do, increase its level for infrastructure projects, especially at the regional level, as they would contribute to international competitiveness and intraregional trade. This approach could be complemented by giving taxation allowances for companies operating in LDCs and supporting the development of venture capital funds for projects in LDCs.

90. Donors should also consider untying aid in order to achieve greater effectiveness. Tying aid tends to undermine international competition in procurement, to increase costs and to lead to the installation of inappropriate equipment.

91. International support measures need to be designed and implemented in a manner that complements the domestic programmes and policies of each African country and LDC. In addition, coordination of all the various programmes and initiatives from the bilateral donors, multilateral organizations and regional organizations should be strengthened and enhanced. The work of the United Nations Development Assistance Group, established as part of the most recent reforms, has been effective in the development of mechanisms for increased coordination and collaboration among United Nations agencies at the country level, including the common country assessments, the United Nations Development Assistance Framework and the establishment of inter-agency theme groups. Effective participation by bilateral and other donors in the proposed thematic consultations at the country level, under the chairmanship of the Deputy Secretary-General, would facilitate the implementation of sector programmes that could help to put Governments more firmly in the lead and be more accountable for the use of all public resources, including development assistance.

F. Trade support and market access

92. Developed countries should provide technical assistance to LDCs to train their officials and exporters

in the proper use of generalized system of preferences schemes. This is particularly relevant considering that, according to a recent UNCTAD study, between 1994 and 1997, LDC utilization rate for those schemes was generally low, below 50 per cent in the European Union, the main export market for LDCs. Simplification of those schemes would also greatly encourage their use by LDC exporters.

93. Developed countries should undertake to provide enhanced market access for export products that LDCs currently produce, notably by completely eliminating tariffs and quotas on LDC exports. This is particularly relevant as those products in which LDCs enjoy comparative advantage (especially labour-intensive products), or that offer possible trade diversification for LDCs — such as leather, footwear and vegetable oil — are subject to tariff escalation and tariff peaks. Some countries have undertaken to provide duty free access to the exports of LDCs; other should do the same.

94. Additional support should be provided by donor countries to the six core agencies managing the Integrated Framework for Trade-related Technical Assistance (see para. 66 above) in order to help them better provide technical assistance to strengthen the supply capacity of LDCs. More resources should be allocated by all development partners to African countries and LDCs to assist them in developing their trade negotiating capacities so that they can participate effectively in future trade negotiations, as well as to understand and follow closely developments in WTO and defend their trading interests individually and collectively.

G. Debt relief

95. As recommended in the 1998 report of the Secretary-General on Africa (A/52/871-S/1998/318), all creditors should convert into grants all remaining official bilateral debt of the poorest African countries. Creditors should also consider clearing the entire debt stock of the poorest African countries and LDCs. Special measures should also be put in place to help those countries emerging from conflict to clear their arrears with the Bretton Woods institutions to allow them to benefit from the Heavily Indebted Poor Countries Debt Initiative.

H. Investment

96. African and LDC Governments should continue to improve the environment for investment, addressing in particular issues related to transparency, corruption and simplification of rules and procedures. Governments should utilize infrastructure investments to promote employment and countries emerging from conflict should utilize those infrastructure projects to create employment for ex-combatants.

97. Donor Governments and international development organizations should help to foster confidence in Africa and LDCs by providing the private sector with a complete picture of the two regions and drawing attention to successful countries. Donor Governments should also encourage private sector interest in Africa and LDCs by providing taxation allowances for companies operating in Africa and LDCs and by promoting the development of venture capital funds for projects.

VII. Conclusions

98. African countries and LDCs have seen improvement in their economic performance since the World Summit for Social Development in 1995. The majority of countries have begun to put in place sound macroeconomic policies designed to stimulate growth, encourage investment and improve overall economic efficiency. However, while economic growth has remained positive on average, the rate of growth has not been sustainable because it was based on external factors such as good weather and favourable commodity prices. A resurgence of conflicts as well as the deepening of the AIDS pandemic have also begun to affect negatively the prospects for economic growth. Political reforms have also been made and democratic norms, while still to be consolidated, are now the norm rather than the exception.

99. Despite improvements in economic growth, the rate has not been sustainable or high enough to reduce the unacceptable high rates of poverty. Furthermore, social indicators continue to remain stagnant and, in a few cases, to deteriorate. Some of the key reasons for the lack of sustainable economic development in African countries and LDCs in general and the difficulties in integrating into the global economy stem from their weak productive capacity and competitiveness. First, political and economic

institutions are weak and unpredictable in many countries and accountability and transparency in government actions and the functioning of institutions are not yet well entrenched. Second, the economies of the majority of those countries rely on low productivity traditional sectors, the products of which continue to face stagnant or declining demand. Third, the internal capacity necessary to generate an internally driven development is weak largely because human resources have not been adequately developed, science and technology development and adaptation is low and physical infrastructure, including power, telecommunications and transportation, remains expensive and unreliable.

100. Furthermore, Africa and LDCs have also been unable to mobilize adequate resources for their development. Domestic savings and investment remain low because of the high rates of poverty, prevailing political problems in many countries and capital flight. Significant resources continue to be spent on debt service rather than on strengthening human resources and improving infrastructure. Foreign direct investment, which can supplement domestic resources, is concentrated in only a few countries and sectors.

101. Consequently, African countries and LDCs have become increasingly marginalized in the global economy as evidenced by their declining share of world exports and foreign investment flows. As noted in the present report, this has been a result of the domestic environment of those countries as well as such external factors as market access and the negative image of Africa for investment purposes. African countries and LDCs can accelerate their integration into the global economy by diversifying their economies. However, a number of factors have hampered that process, including the ability to supply the products required, tariff peaks and escalation affecting exports of interest to those countries.

102. In order to address these structural constraints, a number of parallel actions will have to be taken by African and LDC Governments, in partnership with bilateral and multilateral partners, to promote sustainable development of those countries. While all the proposals are important, a few are highlighted because of their catalytic effect. African and LDC Governments should continue to implement sound economic policies in general and to improve the environment for investment in particular, by improving transparency and accountability of government officials and institutions, addressing corruption and simplifying rules and procedures.

103. In addition, African and LDC Governments should also continue to put in place special measures to encourage the development of microenterprises into small industrial enterprises by facilitating access to new technologies and providing training to improve management skills. In addition, Governments should consider special measures to allow small and medium enterprises to benefit from major infrastructure projects, including through the division of tenders into small contracts. To encourage diversification, Governments should also encourage cooperative business networks, especially small and medium enterprises, to share information and cooperate on production, design and marketing. Governments should also provide a package of incentives to scientists, technologists and entrepreneurs to encourage them to invest in technology-based enterprises while, at the same time, facilitating the involvement of the private sector in regional business activities.

104. Donor Governments should support the efforts of Africa and LDCs by giving targeted support to the rehabilitation and reconstruction of critical infrastructure services. The rehabilitation of infrastructure of countries emerging from conflict should be considered part of post-conflict relief. Donor Governments should also consider giving taxation allowances for companies operating in African countries and LDCs and supporting the development of venture capital funds. Official development assistance should also be targeted to high impact areas such as rural water supplies, basic education and primary health. In regard to the latter, support to a millennium vaccine fund to guarantee future markets for malaria, tuberculosis and AIDS vaccines could help to stem the tide of disease in Africa.

105. Developed countries should undertake to eliminate tariff peaks and tariff escalation on the exports of African countries in the millennium round of multilateral trade negotiations and those countries that have not done so should undertake to eliminate all tariffs and quotas from the exports of LDCs. Technical assistance in the use of general system of preferences schemes would also help countries to improve these programmes. Creditor countries should also consider converting into grants all remaining official bilateral debts of the poorest countries and all creditors should

also consider clearing the entire debt stock of the poorest African countries and LDCs.

106. The United Nations will continue to support the efforts of African countries as outlined in the report of the Secretary-General entitled “Development of Africa: implementation of the recommendations in the report of the Secretary-General to the Security Council and the General Assembly, specially the implementation and coordinated follow-up by the United Nations system of initiatives on Africa” (A/54/133-E/1999/79). However, the United Nations views as critical and will continue to advocate strongly for better coordination of bilateral and multilateral initiatives on Africa. The Deputy Secretary-General will continue to ensure that the United Nations system initiatives on Africa are well coordinated in-house through the United Nations Development Assistance Framework and will encourage other partners to ensure that their programmes are designed and implemented in such a way as to complement the domestic programmes and policies of individual countries.

107. Major upcoming international events, including the millennium round of multilateral trade negotiations, the Third United Nations Conference on the Least Developed Countries in 2001 and the final review and appraisal of the United Nations New Agenda for the Development of Africa in the 1990s, give LDCs and their development partners a rare opportunity to evolve a new strategy of development cooperation to benefit Africa and LDCs. This new strategy should be driven by a desire to search for innovative approaches to mobilizing additional official development assistance and private capital flows in order to complement the efforts of LDCs to enhance their productive capacities and competitiveness in a rapidly evolving global context. The ultimate objectives for improved and sustainable development in Africa and LDCs should remain the elimination of poverty and the improvement of the overall conditions of their citizens who are healthy and productive and can contribute to the progress of society and the contribution to the growth and progress of the entire global community.

Notes

[1] *Official Records of the General Assembly, Fifty-fourth Session, Supplement No. 45* (A/54/45), para. 72, decision 1, annex, para. 20.

[2] New York, Oxford University Press for the United Nations Development Programme, 1999.

[3] “Africa’s commodity problems: towards a solution”, UNCTAD/EDM/ATF/1, Geneva, 1990.

[4] WT/MIN(99)/7.