UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/CONF.191/IPC/12
14 July 2000

Original: ENGLISH

Intergovernmental Preparatory Committee for the Third United Nations Conference on the Least Developed Countries
First session
New York, 24 July 2000
Item 3 of the provisional agenda

THE THIRD UNITED NATIONS CONFERENCE ON THE LEAST DEVELOPED COUNTRIES

First Meeting of the Intergovernmental Preparatory Committee

New York, 24-28 July 2000

Sustainable Development of the Least Developed Countries and their Beneficial Integration into the Global Economy: Past Performance, Challenges and the Way Forward

Prepared by the UNCTAD secretariat

GE.00-51583

Contents

Context

1. In its resolution 52/187, the United Nations General Assembly decided to convene the Third United Nations Conference on the Least Developed Countries (LDC-III) at a high level in the year 2001 to assess the results of the Programme of Action for the Least Developed Countries for the 1990s at the country level; to review the implementation of international support measures, particularly in the areas of official development assistance, debt, investment and trade; and to consider the formulation and adoption of appropriate national and international policies and measures for the sustainable development of the least developed countries (LDCs) and their progressive integration into the world economy. In the same resolution, the General Assembly decided to convene an Intergovernmental Preparatory Committee (IGPC) to prepare for the Conference and three expert-level preparatory meetings, two in Africa, one of which would include the Americas, and one in Asia and the Pacific.

2. In its resolution 53/182, the General Assembly welcomed and accepted the generous offer of the European Union to host the Third United Nations Conference on the Least Developed Countries. The General Assembly also designated the Secretary-General of UNCTAD as the Secretary-General of the Conference and requested him in that capacity to make the necessary preparations for the Conference. The General Assembly further decided to convene the Conference in the first semester of the year 2001 for a duration of seven days, at a venue and time to be determined by the Secretary-General of the Conference, in consultation with the European Union. The Conference is to be held from 14 to 20 May, 2001, on the premises of the European Parliament in Brussels.

3. In its resolution, 54/235, the General Assembly decided that the meeting of the Intergovernmental Preparatory Committee (IGPC) will be held in New York in two parts, in the third quarter of 2000 and the first quarter of 2001, for five working days each. The first meeting of the IGPC is scheduled to be held in New York during the period 24-28 July 2000.

4. This Note is intended to facilitate consideration by the IGPC of substantive issues related to the preparatory process for the Conference. It provides a brief background to developments in the LDCs in the 1990s in some key areas, and raises a number of questions concerning each of these areas with a view to facilitating discussion of related policy options, strategies and measures during the current decade. It also outlines a broad framework for possible elements to be included in the new Programme of Action. It is hoped that the exchange of views envisaged will provide guidance for preparing the new Programme of Action for the LDCs.

I. Issues for a new Programme of Action based on the assessment of progress in the implementation of the Programme of Action for the LDCs for the 1990s

5. In September 1990, the Second United Nations Conference on the Least Developed Countries adopted the Paris Declaration and the Programme of Action for the Least Developed Countries for the 1990s. The prime objective of the Programme of Action was to arrest the further deterioration in the LDCs' socio-economic situation, to reactivate and accelerate growth and development in these countries and, in the process, to set them on the path of sustained growth and development. The Programme of Action outlines a number of principles which should constitute the basis for action for the LDCs and for their development partners, including international organizations, financial institutions and development funds, to help a fundamental growth-oriented transformation of the LDCs' economies. Concerned non-governmental organizations, including in particular indigenous NGOs, were also requested to participate in the Programme of Action for the development of LDCs. These principles implied the acceptance of a partnership which depended on mutually reinforcing action, with each country contributing to the common objective of bringing about sustained growth in LDCs. While the LDCs have the primary responsibility for their development, each development partner was to contribute fully to the common objective, in the light of its capacities and weight in the world economy. The Programme also sought primarily to provide an efficient operational framework, and identified areas in which the LDCs, their development partners and international organizations need to take urgent and concrete action, based on the principles, policies and commitments contained in the Programme of Action.

6. In considering elements for a new Programme of Action for the current decade, it would be important to review the implementation of macroeconomic and sectoral policies in LDCs as well as that of international support measures in the context of the relevant provisions in the Programme of Action for the 1990s, and in that light to deliberate on a range of questions that should provide guidance as regards the overall orientation and broad elements of a new programme.

A. Main developments during the 1990s and their impact on the implementation of the Programme of Action

7. Development remained elusive for a significant number of LDCs during the 1990s. Since the adoption of the Programme of Action in 1990, there have been major developments at both the domestic and global levels, with significant implications for the development prospects of LDCs.

8. At the domestic level, these have included: diminishing capacity in macroeconomic policy design and management, political and civil strife in several LDCs with spillover effects to neighbouring countries, a generally disappointing performance by the agricultural and rural sectors during the 1990s; and a lack of appropriate legal and institutional frameworks to respond to the challenges of globalization and liberalization. Despite these difficulties, as many as one-third of the LDCs managed to achieve positive per capita income gains during the decade.

9. At the global level, developments such as the acceleration of globalization and liberalization, the continuous decline in ODA flows and the high levels of LDCs' external indebtedness, posed major challenges to realizing the objectives of the Programme of Action. However, a few donors continued to meet or even surpassed the 0.20 per cent target of ODA for LDCs, while some others improved their aid performance later in the decade. The launching of the Heavily Indebted Poor Countries (HIPC) initiative also raised expectations on the debt front.

10. Although globalization remains potentially a powerful and dynamic force for growth and development, for the LDCs it poses a serious risk of further marginalization because they lack the means to tap its potential and minimize its risks. The LDCs face capacity limitations to take advantage of market opening opportunities, and to access information, skills, technology and capital, which the process of globalization - helped by the advances in information and communications technology - has generated. Beset with serious structural problems, a small and undiversified supply capacity, poor infrastructure, weak institutions and low levels of private and public sector investment, LDCs are finding it increasingly difficult to cope with the challenges of globalization. This was recognized by participants at UNCTAD X, the outcome of which states that "policies must take into account the effects of globalization on basic development requirements, particularly of the least developed countries that are most vulnerable to shocks emanating from the forces of globalization".[1]

11. Internal and external factors apart, the development of LDCs has also been limited by their continued vulnerability to natural disasters, which cause heavy losses of human life and property. Where natural disasters have occurred, efforts to provide assistance have often been concentrated on immediate disaster relief without fully addressing the requirements of long-term development, including disaster preparedness and prevention measures.

Questions

- What are the experiences of LDCs in coping with the challenges of globalization and liberalization? What are the relevance and implications of these experiences for future policies and priorities?
- What are the essential requirements necessary for enabling LDCs to benefit from globalization and successfully integrate in the global economy and international trading system?
- While a significant number of LDCs suffered socioeconomic regress and political instability in the 1990s, the experiences of some other LDCs have demonstrated that peace can be restored, that State capacities can be improved and that institutional, economic and social infrastructures can be rebuilt even after a prolonged and devastating civil war. What lessons can be learned in terms of future policy orientations from the experiences of countries that have been caught in socio-economic regress as well as those that have successfully emerged from serious domestic conflicts? What are the main reasons for the success of the latter group of countries? What have been the main shortcomings in national and international actions and how can they be addressed?

---

[1] UNCTAD X, Plan of Action (TD/386).

B. National level: policies, measures and sectoral performance

Macroeconomic policy framework

12. The Programme of Action for the 1990s articulated a macroeconomic policy framework with the objective of creating a favourable environment and constituting a basis for sustained economic growth and the long-term development of the economy. Such a framework, it stressed, should provide the basis from which to overcome the structural bottlenecks of the LDCs, lead ultimately to their transformation and contribute to the eradication of poverty. It also underlined that the pursuit of such policies would be greatly assisted by the efforts of the international community to encourage an international economic environment conducive to such change and the provision of adequate external support.

13. The Programme of Action provides policy guidelines on a broad front, emphasizing the importance of a growth-oriented macro-economic policy framework to reconcile the requirements of a long-term development strategy with the need to establish macro-economic balance. It states that a growth oriented macro-economic framework should be consistent yet have room for flexibility as regards the types of instruments to be used and the manner of their application, taking into account changing circumstances and the structural rigidities of a particular economy. The policy package was to be adapted to the specific problems and needs of individual LDCs and the resource parameters. The Programme of Action emphasizes that particular attention needs to be paid to the linkages between the different economic activities, as well as to the interaction of sectoral reform with broader macro-economic objectives.

14. Most LDCs embarked on adjustment and reform policies in the late 1980s and throughout the 1990s with the aim of creating a domestic economic environment conducive to sustained and sustainable development. Such reform efforts placed emphasis on macroeconomic stability, a reduced role for the State, greater reliance on market forces and a rapid opening up to international competition as the key to unlocking growth potential. Greater macroeconomic stability and removal of large price distortions in key areas have, no doubt, made an important contribution to economic recovery in some countries. It appears that for some countries, these policies have contributed, with varying degrees of success, to the attainment of a modicum of macroeconomic stability and a generation of modest improvement in economic performance.

15. Overall, however, the existing economic structure in LDCs as a group failed to generate the growth and export earnings needed to maintain and expand investment and imports, which in turn impeded structural change and economic growth. Export concentration - and therefore vulnerability - has increased during the 1990s for 10 out of 22 countries where data are available. While world output and trade have been increasing during the 1990s, the LDCs' share of world trade has remained almost unchanged at a minuscule 0.4 per cent. As of 1998, LDCs represented four-fifths of the group of countries in the low human development index category in the UNDP Human Development Report.

16. Financial liberalization has often been undertaken without ensuring the preconditions for its success, such as a high degree of price stability and fiscal discipline, sound financial institutions and corporate finance, depth in financial markets and effective prudential regulations. The results in many cases have been high and unstable interest rates, widespread insolvency, and a rapid accumulation of public domestic debt and fiscal instability.

17. Policy reforms in many LDCs during the 1990s have not always taken into account structural constraints and institutional weaknesses that inhibit effective functioning of markets and impede a positive supply response to private initiatives. Nor have these reforms taken adequate account of external conditions, particularly with regard to external financial flows and external indebtedness, and external trade. While improved macroeconomic stability and removal of large price distortions in certain key areas have undoubtedly made important contributions to the improvement of the overall policy environment and economic recovery in some LDCs, hardly any LDC has been successful in completing reform programmes with a return to sustained growth. Thus, policies that aimed at getting prices "right" in conditions of inadequacy or the absence of more important agents and institutions of a modern market economy, have not produced the expected outcome in terms of growth and investment. Supply side, structural constraints and institutional weaknesses prevent incentives from being translated into a vigorous supply response through new investment for the expansion and rationalization of productive capacities.

18. In the light of the experiences of LDCs with adjustment and other reforms over the last decade or more, there is a growing recognition that, to be successful, macroeconomic and sectoral policies would need to give adequate attention to structural and institutional constraints, as well as to complementarity between States and markets. Many of the policy axes under the Programme of Action still appear relevant. Such policies would need to focus adequately on capital accumulation, which in turn needs to be linked to trade, so as to enhance productive capacity, efficiency and competitiveness. Macroeconomic stability, increasing reliance on market forces and opening up to external competition would need to continue as important policy objectives of LDCs, but these should be pursued within the context of national-level economic, social and institutional realities of each LDC. The successful experiences of a number of developing countries in implementing policies tailored to their particular requirements and circumstances could be very useful in this regard. Moreover, acknowledging market failures should not imply that reforms of government institutions are not an important issue: institution building is urgently needed if governments in LDCs are to assume their full developmental role. An effective civil service and meaningful involvement of different actors in the society in the design and implementation of policies will remain important factors in ensuring success. Finally, it is also being underscored that a supportive, external environment, particularly adequate support by development partners, would continue to be an essential component of successful policies and measures in improving overall and sectoral performance.

Questions

- Despite shortcomings, policy reforms in the past decade or so have contributed, in certain areas, to macroeconomic stability and improved economic performance. What are the main factors that have contributed to such outcomes?
- What are the major structural and institutional requirements for the successful use of incentives by private agents? Which are the most efficient and least inequitable policies and instruments to generate such incentives and to ensure that they result in vigorous supply responses?
- If both market failures and governments failures were to be addressed by policy reforms, what are the most effective ways of tackling these problems in a balanced manner? In doing so, what policy options are there to maximize the impact of macroeconomic measures on both economic and social development objectives?

- What are the best ways and means for the governments to diffuse a sense of national purpose by bringing together different social, political and ethnic groups around a broad-based national development agenda.
- What are the main lessons to be drawn from experiences relating to the efficacy of national actions and the adequacy and effectiveness of international support for conflict resolution?

Domestic resource mobilization

19. The paucity of resources, both domestic and external, to finance the enhancement of productive capacities is one of the most critical constraints on the development of LDCs. In the Programme of Action, the LDCs were expected to implement a number of policies that enhance the mobilization and effective use of domestic savings. These policies include developing an appropriate network of financial institutions and incentives to encourage private savings, insuring an optimal allocation of resources and strengthening the management of public expenditure, implementing a monetary policy conducive to price stability and confidence, and broadening the tax base without discouraging savings and investment. These policies, combined with a stable domestic environment and appropriate legal and administrative institutions, were expected to promote domestic savings, reduce capital flight and encourage the repatriation of flight capital. The majority of LDCs have striven, as part of their policy reforms, to create a pro- savings and investment climate. Inasmuch as greater and better utilization of existing resources would lead to increasing output and income, such utilization could also provide a basis for higher rates of domestic savings and investment.

Gross domestic savings

20. During the second half of the 1990s, the general trend in gross domestic savings (GDS) in LDCs has shown signs of appreciable recovery from the levels of the first half of the decade. From an annual average of 6.9 per cent of GDP between 1990 and 1995, GDS rates have risen to 9.1 per cent between 1995 and 1998. The number of LDCs recording negative savings dropped from 17, of the 42 LDCs for which data are available, in 1990-1994, to 11 in 1996 and 9 in 1997. Despite this positive trend, however, the levels of savings in LDCs as a whole are still low by any standard compared to the levels in other developing regions and countries. The general explanation for this state of affairs is, of course, the low per capita incomes, which are the major determinants of personal savings. It might also be said that debt-servicing obligations undermine national capacity to mobilize domestic savings, insofar as debt servicing deprives the least developed economies of potentially investible resources.

21. During 1996-1997, of the 38 LDCs for which figures are available, nine recorded negative gross domestic savings, ranging from -0.3 to -31 per cent of GDP, and only four were able to mobilize savings in excess of 15 per cent of their GDP. The most impressive were Equatorial Guinea and Bhutan, which recorded average domestic savings rates of 56.3 per cent and 33.3 per cent of GDP, respectively. An additional seven LDCs recorded GDS rates of between 10 and 15 per cent of GDP. The majority of the least developed countries were able to record savings ranging from only 0 to 10 per cent of GDP. A few individual countries, notably Burundi, Chad, Guinea Bissau, Mozambique and Yemen, were able to make the transition from negative to positive savings rates between 1990 and 1997.

22. There are a number of LDCs for which remittances from nationals working abroad constitute a sizeable pool of investible resources to augment domestic savings. Between 1990 and 1997, workers' remittances to the 22 LDCs for which figures are available amounted to $22.5 billion, or 11.7 per cent of their total export earnings and 4.2 per cent of their combined GDP. The largest amounts go to Bangladesh, Burkina Faso, Cape Verde, the Comoros, Eritrea, Kiribati, Mali, Nepal, Samoa and Yemen.

23. In some LDCs, nationals working abroad have brought in significant amounts of foreign exchange. Enhanced liberalization of trade in services within the WTO framework, in particular through the fourth mode of supply (movement of natural persons) under the General Agreement on Trade in Services (GATS), has the potential to boost the investible resources available to LDCs.

Gross domestic investment

24. Poor investment performance has been an important aspect of the economic records of LDCs as a whole during the 1990s. As elsewhere, private investment in LDCs requires complementary public investment in physical infrastructure, as well as institutional, developmental, and human capacity building. Public investment has borne the brunt of the adjustment impact in most LDCs, while private investment has not stepped in to bridge the gap.

25. LDCs as a group have recorded somewhat higher levels of domestic investment during the 1990s than during the 1980s. The weighted average annual gross domestic investment (GDI) as a percentage of GDP rose from 14.9 per cent for the period 1990-1994 to 18.5 per cent in 1996. However, it fell slightly the following year or two, to 18 per cent in 1997 and 17.6 per cent in 1998. This GDI trend in LDCs seems to have resulted from a generally favourable investment climate which, at least in part, is arguably a function of the reform policies pursued by the majority of LDCs since the 1980s. The considerable degree of macroeconomic stability that has been engendered in many LDCs, combined with specific measures to create incentives for domestic as well as foreign investors, may have begun to bear fruit. However, at less than 25 per cent, which is the average for developing countries as a whole, the average GDI-to-GDP ratio for LDCs is rather modest. It means that, as a whole, these countries continue to experience very low levels of capitalization, which can only perpetuate their least developed status.

26. The emphasis on mobilizing domestic savings towards investment should be given its due priority and the local potential should be exploited to the maximum. Those policies should be supplemented by similar policies to attract and encourage FDI. Thus, national efforts at liberalization should increasingly be complemented by facilitation and protection efforts at the international level.

Questions

- To what extent have the economic reforms pursued by most of the LDCs have contributed to the upturn in real GDP per capita growth rates from the middle of the decade, encouraged reductions in government consumption and improved the climate for private savings, especially through the liberalization of interest rates and the reform of the financial sector?

- What would constitute a good policy approach to ensure the greatest complementarity between private and public investment? What are the sequencing patterns that will obtain maximum results? What are the implications of such approaches for the size and implementation of public investment expenditures? What are the lessons to be drawn from the experiences of developing countries that have been able to attain a successful mix of private and public investment?
- What could be the main elements of a financial sector policy that would mobilize domestic savings, stimulate investment and meet the needs of small- and medium-sized enterprises? What are the most beneficial linkages that can be built between LDCs' domestic financial sector and the international financial sector, while minimizing consequences of external financial disturbances?
- What policy lessons can be derived from the experience of other developing countries in using micro-finance for credit and equity to micro enterprises and SMEs?
- What is the scope for increasing domestic savings in LDCs given the low incomes and large informal sectors? How is it possible to escape from the low-level economic trap (vicious circle) in which low incomes lead to low savings and these in turn lead to low incomes?

Agriculture

27. The agricultural sector lies at the centre of the LDC economies. It accounts for a large share of GDP (between 30 to 60 per cent for about two-thirds of the LDCs), employs a large proportion of the labour force (between 40 and 90 per cent for most LDCs), represents a major source of foreign exchange (between 25 and 95 per cent for three-quarters of the LDCs), supplies the bulk of their basic food and provides subsistence and income for large rural populations. Thus, significant progress in promoting economic growth, reducing poverty and enhancing food security cannot be achieved in most of these countries without developing more fully the potential productive capacity of the agricultural sector and its contribution to overall economic development.

28. Notwithstanding its importance, however, agricultural production in the LDCs remains largely underdeveloped - both for the domestic market and for export. The sector has been plagued by numerous problems contributing to its inefficiency and stagnant growth. These include traditional production relations, rudimentary technology and insecure land tenure arrangements within a context of low and unreliable rainfall, particularly in African LDCs, are inadequate macroeconomic policy framework, a paucity of credit, inadequate public investment in rural, physical and social infrastructure and weaknesses in institutional infrastructure. The share of agriculture in development aid declined from a peak of 36 per cent in 1986 to 13 per cent in 1995.

29. Although agricultural growth in LDCs improved slightly during 1995-98, it barely exceeded population growth and remained below the average for developing countries. In addition, the incidence of food insecurity in the LDCs continued to be high. Between 1979 and 1997, the percentage of undernourished persons in the total population remained unchanged, at around 38 per cent, while the absolute number of undernourished is estimated to have increased by 74 million. For the rest of the developing countries, by contrast, this incidence fell from 28 to 15 per cent during the same period.

30. In world agricultural markets, LDCs have continued to be marginalised. Their combined share of agricultural exports declined from about 5 per cent of total world agricultural exports in the early 1970s to just around one per cent in 1996-98. They continued to export a limited range of primary commodities which are highly vulnerable to instability in demand and prices. With the growing integration of markets due to globalization and liberalization, LDC economies have to struggle in a more fiercely competitive external trading environment. Their inability to compete on world markets, as well as in their home markets, is also reflected in their rising food import bills.

31. Despite these challenges, most of the LDCs have enormous unexploited potential in agriculture. They have great scope for more effective use of resources and for increasing productivity. What is needed is a major effort by these countries, with the support of the international community, to exploit their agricultural potential to the full, as well as strengthen their competitiveness and supply capabilities, and thus be able to take full advantage of trading opportunities in the evolving multilateral trading environment. Building farming capacity, attracting new investment and promoting innovation, as well as providing infrastructure, farm inputs, extension services to adopt pest and disease-resistant higher-yielding varieties and better farming practices, marketing advice and structured commodity finance are critical factors in this process.

32. During the 1990s, several LDCs implemented domestic policy reforms to reduce the policy bias against agriculture. The common objectives of these reforms[2] are to: (i) enhance productivity; (ii) raise the levels of domestic production of basic food commodities to exploit their full potential; (iii) improve the quality and standards of products; and (iv) diversify production and exports by promoting the development of new crops and the processing of primary products. However, despite such reforms, there remains a large unfinished policy agenda that requires the attention of both LDCs and their development partners. This would, in particular, be required to address the structural and supply constraints which are at the heart of the weak supply response. Moreover, it is important to support LDCs' efforts to generate the investments needed to achieve LDCs' developmental objectives in agriculture, including the target of reducing the number of under-nourished people by 2015. The weak supply response has been caused by a number of structural and supply constraints. Price-based reforms have not succeeded in engendering a supply response as they have not effectively tackled key structural constraints or improved the terms of trade of agricultural producers as intended.

33. Given the importance of the agriculture sector for poverty reduction and economic growth in LDCs, current initiatives to provide financial assistance to LDCs through targeted debt relief and other financial assistance could in part be channelled to support efforts to develop the sustainable agricultural potential of LDCs, in particular by strengthening research and development and extension services, ensuring availability of essential inputs and of structured commodity finance, and providing marketing assistance.

Questions

- Which agricultural sector reforms have been effective in increasing productivity and yield in LDCs? Have such reforms succeeded in changing the terms of trade in favour of agriculture? And if not, what are the factors inhibiting this?

---

[2] See FAO, “National agricultural development strategies towards 2010”, for a number of the LDCs.

- At the international level, what policies and measures could be taken to ensure that the ongoing processes of globalization and liberalization make a positive contribution to realizing and strengthening the domestic agricultural productive capacity of LDCs?
- Given the strong link between agricultural development and food security, is the international regulatory framework governing agricultural production and trade adequate to contribute effectively to developing the agricultural sector of LDCs?
- What types of changes are required, in particular in the area of tariff barriers and non-tariff measures, to improve access to the markets of the developed countries for agricultural exports from LDCs?
- Given that LDCs experienced a sharp increase in their cereal import bills during the period 1995-1999 owing to a rise in the unit cost of imported cereals as a result of such factors as reduced food aid and concessional exports, how best can the Marrakesh Decision on Measures Concerning the Possible Negative Effects of the Reform Process on the LDCs and Net-Food-Importing Developing Countries be operationalized?
- How to improve the supply capacities and competitiveness of the LDCs' agricultural sector? What are the main elements for a focused strategy to achieve this objective?

Manufacturing

34. The Programme of Action viewed the development of an industrial base as one of the key aspects of LDCs' efforts to produce essential goods and services to meet the needs of their people, generate employment, enhance the domestic value added and overcome the difficulties inherent in the monoculture of their economies.

35. A major characteristic of the manufacturing sector in LDCs is its very narrow base. Two primarily consumer-oriented subsectors, i.e. food processing and textiles and clothing, provide the major share of the manufacturing value added (MVA). These two subsectors together account for about two-thirds of their combined MVA. The MVA itself accounts for less than 11 per cent of the combined GDP of LDCs compared with nearly 23 per cent in developing countries as a whole. The LDCs' share in the MVA of all developing countries was only 1.3 per cent. Some 14 LDCs have maintained positive per capita MVA growth during the 1990s, while as many as 16 LDCs experienced negative MVA growth on average during that period. According to a report by UNIDO[3], since 1980 sub-Saharan Africa's share of global MVA – excluding South Africa – has barely changed from 0.37 per cent in 1980 and 0.40 per cent in 1990 to an estimated 0.38 per cent in 2000. The figures for the 33 LDCs in the region will be significantly lower as manufacturing activity in sub-Saharan Africa is highly skewed, with seven economies, none of them being an LDC, accounting for two-thirds of the total.

36. The salient constraints faced by the LDCs' manufacturing sector can be categorized in three broad groups, namely, market-related constraints, structural and endowment-related constraints, and country-specific constraints, including the high cost of inputs due to high tariffs, susceptibility to natural calamities, transit and transport-related constraints, and the remoteness of island LDCs from external markets.

[3] UNIDO, African Industry 2000: The Challenge of Going Global (ID/407).

37. The experience of the more successful LDCs as well as of other developing countries that have created a competitive manufacturing base points to the importance of policies and measures, both functional and selective, to overcome the above constraints. The international community can play an important role in supporting LDCs' efforts to overcome such constraints by providing increased financial and technical assistance.

38. The UNIDO report cited above makes a strong case for an agriculture demand – led industrialization and strategy for Africa, including African LDCs, as these countries not only have comparative advantages in several agro-based industries but such industries are relatively labour-intensive and also use fairly simple technology. In that context the report mentions three main links between agricultural and industrial growth:

- Manufacturing output rises as larger volumes of farm production are processed, and as the value-added element increases.
- Farm demand for manufactured inputs - fertilizers, chemicals, pesticides, implements, fuel, vehicles and building materials - increases domestic demand.
- There is a high income elasticity of demand for manufactured goods. Increased agricultural output generates consumer demand for manufactures as a result of increased employment, productivity and real wages.

39. A number of LDCs, namely, Bangladesh, Benin, Lesotho and, to a lesser extent, Haiti and Lao PDR, managed to achieve substantial increases in the share of manufactures or processed goods in their total exports between 1985 and 1997. The major manufactured items were garments in the case of Bangladesh, Haiti, Lesotho and Lao PDR, and cotton yarn in the case of Benin. For example, Bangladesh, which has benefited from the Multi-Fibre Arrangement (MFA), in less than 15 years has been able to develop, almost from a standstill, a clothing industry which has come to account for about 70 per cent of its foreign currency earnings; by comparison, jute now accounts for only 8 per cent of the country's foreign currency earnings, down from around 50 per cent in the 1970s. However, there are growing concerns about the ability of the industry to compete effectively in a more liberalized international market after the phasing out of the MFA, which must be completed by 1 January 2005.

Questions

- What options do the LDCs have to pursue a competitive industrialization strategy in the context of globalization and liberalization?
- What type of industrial measures will be needed, including in the area of enterprise development, research and development, technology upgrading, access to new export markets and the global value chain, etc.?
- The development of a competitive industrial sector would depend critically on complementary support by an efficient services sector. What policies and actions could be taken to maximize such complementarity?
- What scope exists for selective and gradual liberalization with a view to removing any bias against production and export of manufacturing items?

Mining

40. The oil and mining sectors play a significant role in the export economies of 25 LDCs. With the exception of gold, the annual output of which increased about fifteen-fold between 1986 and 1997, output of other major minerals for which data are available was marked by declining trends during the same period.

41. Output of copper declined progressively between 1989 and 1997. In the Democratic Republic of the Congo, the decline was dramatic as production in 1997 was down to only 13 per cent of its 1991 level while in Zambia it was down to 80 per cent. Production of diamonds in six African LDCs was characterized, during the period 1990 to 1997, by fluctuations, but the volumes attained in 1990 and 1991 were never equalled in the subsequent period. However, as in the case of gold, output data for diamonds are unreliable as indicators of production at the country level because of smuggling. Furthermore, the diamond industry has recently been under intense pressure from Governments and NGOs who are keen to prevent the use of the proceeds of diamond sale to buy weapons and prolong civil strife and conflicts. For example, the Security Council imposed an embargo on diamonds mined by the revolutionary united front in Sierra Leone and UNITA in Angola.

42. The declines in the production of minerals for which data are available during the 1990s, reflect, in large measure, inadequate investments in the LDC mining sector due to a combination of factors, including lack of diversity of capital sources; the impact of present and past policies on investors' perception of business prospects; civil strife and political instability; and the volatility of mineral prices. However, because of positive changes in the investment climate, owing mainly to the reform of mining and the foreign investment legislation implemented in many LDCs, investors have recently shown increasing interest in the LDC mining sector, and mineral output is likely to rise from the end of the gestation period of recent investments.

43. The overall trend in the production of crude oil and associated products in five African and two Asian LDCs showed a steady rise throughout the period 1986–1998. The total volume produced in 1998 was three times the output of 1986. The oil sector has absorbed a substantial share of the FDI to African LDCs. An example is the 1050 km pipeline, to carry oil from Chad to the Atlantic Ocean coast, which is estimated to cost about $3.7 billion. The World Bank will provide loans amounting to US $200 million to the Governments of Chad and Cameroon, while the rest of the coast of the pipeline will be borne by the oil companies involved in the joint venture. Similarly, in Sudan, FDI has mainly provided the financing for the exploration of oil and the construction of a pipeline, estimated at about $1.5 billion.

44. It is important to note that it would be necessary for the mining sector to be integrated into the national economy if the multiplier effects of the sector on the entire economy are to be optimized. Essential inputs into the mining sector could be sourced locally, and forward linkages to this sector could be developed through the establishment of value-added activities, provided such activities do not compromise the competitiveness of the industry.

Questions

- How can LDCs improve productivity and increase output and export earnings from the mining sectors?

- How can the export revenue and government income from exploitation of oil and mineral resources best be utilized to ensure the eventual establishment of a broader based economy in the LDCs?
- In several LDCs, changes in mining and foreign investment legislation have increased initial interest in exploration and investment on the part of international mining companies. However, problems that have arisen in the implementation of reforms have later led to diminished investor interest. How can the international community assist in the efficient implementation of such reforms?
- Artisanal mining, particularly of gold and precious stones, is a widespread activity in many LDCs. How can the international community assist LDCs in raising the productivity of artisanal mining, enhancing its contribution to poverty alleviation in rural areas, eliminating conflicts with large-scale mining operations and reducing the environmental and social problems associated with this activity?
- How are the negative environmental impacts of oil and mineral production to be minimized in LDCs, and how can the collective commitment of major international companies to good environmental management contribute to this objective?

Transport and communications

45. Lack of progress in establishing the necessary physical infrastructure in LDCs continues to be a major handicap to providing the required services to support the expansion of the production base and the commercial sector in these countries. The insufficiency of the physical infrastructure, particularly in the case of road transport and communications, is more evident in land-locked and island LDCs. Road density in most LDCs remains much lower than in many developing countries. Despite efforts to expand the road network in many LDCs, the lack of financing for effective maintenance has led to a rapid deterioration of a significant part of the existing road infrastructure. Growth performance in the rail transport sector in most LDCs has been even more sluggish, and the problem is compounded by lack of equipment and poor management. Inadequate communications systems in LDCs are a major bottleneck to providing required services in other sectors of the economy, particularly the commercial sector.

46. LDCs, and in particular the land-locked and small island States, continue to suffer from excessive transport costs. High import transport costs inflate the consumer prices of imported goods and high transport costs on exports undermine their competitiveness in foreign markets and are thus a serious barrier to trade. Non-physical barriers to trade are also a great source of inefficiency and drain of resources in LDCs.

47. A rough measure of import transport costs is provided by balance-of-payment statistics which show the freight costs were approximately 4.0 per cent of c.i.f. import values of developed economies, and 7.2 per cent of the c.i.f. import value of developing countries. The average in West Africa was 12.89 per cent, and in East Africa 13.8 per cent, while in the case of individual land-locked developing countries the percentage rises to a high of 21.6 per cent for Burkina Faso, 29.57 per cent for Mali, 39.4 per cent for Malawi and 29.9 per cent for Rwanda. On the export market, in 1997, land-locked developing countries spent approximately 17.7 per cent of their export earnings for payment of transport services, while the average for all developing countries stood at about 8.7 per cent.

48. Over the last 10 years, many LDCs have taken steps to improve their national transport networks, but major programmes in construction or rehabilitation of infrastructure were achieved only where external financing was made available. For example, thanks to bilateral and multilateral assistance, the pace of road building in Nepal, which stagnated in the 1980s, accelerated in the 1990s. Similarly, in Southern Africa, with the support of the donor community, infrastructure development, as well as measures designed to overcome non-physical barriers in terms of modernizing and strengthening institutional, regulatory and managerial systems, have made significant progress thereby contributing to increase efficiency and lower costs of transport.

Questions

- Although transport is the key to creating a dynamic investment-export nexus in the LDCs, transport systems are weakened by lack of investment. What are the options (public/private) for LDCs to finance transport infrastructure?
- There is a strong consensus that a regional approach is particularly desirable for addressing the transport problems of LDCs, notably those which are land-locked. What factors have contributed to effective regional transport cooperation?
- One of the most promising innovations in Africa regarding regional transport cooperation based on the best use of existing capacities has been the corridor development approach. What have been the essential factors in the promotion of corridor development systems?

Exports, supply capacity and competitiveness

49. The LDCs’ poor performance in world trade continues to constrain the contribution of trade to their economies. It also heightens the dangers of further marginalization as the benefits of globalization bypass them. Although LDCs constitute about 10.4 per cent of world population (1998), their share in world exports is a mere 0.4 per cent and in world imports 0.6 per cent, which reflect their small share in global output. These shares represent declines of more than 40 per cent since 1980, and testify to the increasing marginalization of LDCs. The total value of their exports in 1998 amounted to $ 23.4 billion, which represented only 1.5 per cent of the merchandise exports of all developing countries and less than one-half of Australia's exports. In the same year, only four LDCs – Angola, Bangladesh, Myanmar and Yemen – had exports in excess of $1 billion.

50. There are two distinct characteristics in the pattern of LDCs’ exports. First, merchandise trade continues to dominate exports; three-quarters of LDCs derive their export earnings predominantly from merchandise exports (1995-1997), 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 export product, usually agricultural or mineral accounting for more than half the total value of exports of goods. Secondly, LDCs’ exports tend to be concentrated, with either one product or a particular range of products, accounting for a substantial share of the export earnings. Among the 12 LDCs where exports of services dominated during the 1990s, 8 had a highly concentrated service export structure, with one dominant international service accounting for more than half the value of total exports of services in 1995-1997. Most of these LDCs are small, mainly island States, that have benefited from specializing in producing tradeable services, especially tourism and/or international transport.

51. Underlying the LDCs' poor performance in world trade are their weak productive capacity and lack of competitiveness which result from a whole host of structural and other supply-side constraints and market access difficulties. These have been extensively analysed in The Least Developed Countries 1999 Report. In both these areas, a number of important initiatives have been launched and proposals made, which will be discussed later in this document.

52. Moreover, most enterprises in LDCs are in the rudimentary stages of development and have scant resources, as well as a weak technological base and skills. Even enterprises in the export-oriented sectors, which normally tend to be competitive because of exposure to international markets, are generally underdeveloped. The origin of the modern enterprise sector in LDCs goes back to the import substitution period of industialization when many large-scale and capital-intensive enterprises were set up, often with the direct involvement of multinational corporations (MNCs), to manufacture consumer goods such as textiles, food products, beverages and leather products that were previously imported. Very few enterprises in these countries are engaged in the production of intermediate and capital goods. There are, however, a large number of locally-owned micro- and informal sector enterprises, which utilize simple and traditional technologies. These enterprises constitute the bulk of the private sector and are the main sources of supply for local demand for basic goods and services. They are also the main source of employment and income for the urban poor. With the decline of the modern sector in recent years, the latter group of enterprises have emerged as important components of the domestic enterprise sector and possible sources of future growth. There is substantial scope for devising national and international policies to support both small and large enterprises in LDCs and to create a vibrant enterprise sector which would enable LDCs to diversify their exports and foster their closer integration into the world economic system.

Questions

- What autonomy do the LDCs have in pursuing trade policies that meet their specific requirements including, for example, a gradual approach to trade liberalization? Is there a case for infant industry protection and industrial policies to promote learning and develop entrepreneurial, managerial, technical, and other related skills, particularly in traditional sectors, as well as in emerging sectors such as information and communications technology? What other measures are needed to promote competitive export product and service development, including in the areas of building skills and technological capacity, an efficient transportation and communications system, and minimization of transaction costs?
- A supportive trade policy and the creation of conducive and stable macro-economic conditions in the LDCs would be necessary to overcome supply-side constraints and sustain the competitiveness of productive capacity in specific sectors. What are the main ingredients of this environment? What lessons can be borrowed from success stories in other LDCs or other developing countries?

Social services delivery

53. The Programme of Action recognized that the goal of strengthening the human capital base in LDCs requires particular emphasis in three crucial policy areas: reducing population growth rates, improving health and sanitation and enhancing education and training. A

number of recent global conferences have advanced consensus on policies and actions in these areas, and have called for special measures for LDCs.

54. During the last two decades, a number of LDCs, particularly those in Africa, experienced reversals in the advances made in the social sectors due to the economic and financial difficulties they faced. As part of the reform programmes, governments were compelled to institute difficult economic adjustments and recovery measures, with the burden of these measures falling disproportionately on the social sectors. This led to the erosion of the extensive health service and education networks. In certain LDCs, civil strifes and political instability adversely affected social sectors, including social service delivery. As many as 32 LDCs were classified in 1997 in the low category of human development, as defined by UNDP.

55. The underlying weakness of the social services in a number of LDCs is that they were established or instituted on the availability of external loans and grants rather than on the basis of strong, vibrant and growing domestic production and economic base. Cost-sharing and cost recovery in social services in LDCs is constrained by the low income level and the lack of awareness among the people who look to the Government for free delivery of social services. Community participation is very limited, as regards the implementation as well as the operation and maintenance of social service budgets.

56. A number of important proposals to improve the social services delivery are included in the reports of the Regional Expert-level Preparatory Meetings for LDC-III. These include increasing public expenditure for the provision of social services through mobilization of internal and external resources, intersectoral budget reallocation, improving the efficiency of social sector investment, adopting different approaches in the respective sectors for cost-sharing and cost-recovery mechanisms, pursuing equity in the distribution of opportunities and social services, and facilitating the involvement of the private sector and non-governmental organizations in delivering social services in both urban and rural areas.

57. Nevertheless, a number of LDCs have made some progress over the last three decades. For the 43 LDCs for which historical Human Development Indices (HDIs) were provided in the Human Development Report 1999[4] (HDR), 32 were classified in the low category of human development, i.e. their HDI was below 0.5. LDCs constituted 32 of the 35 countries with the lowest ranking according to the HDI; those concerned were predominantly in Africa (26).

Population policies

58. The total population of the 48 LDCs, which amounted to approximately 614 million in 1998, is projected to increase to 844 million by the year 2015. (The population growth rate in LDCs, estimated at 2.2 per cent between 1997 and 2015, is twice the rate of the total world population.)

59. Despite some diversity, there are, with certain notable exceptions, some features typical to LDC demography. Their population growth rates are generally higher than those prevailing on average in developing countries, and while many developing countries have reduced their population growth rates, those in LDCs are accelerating. The economic incentives for large

[4] UNDP, *Human Development Report, 1999*.

families are undermined by the low status of women, low levels of educational attainment, especially among women, high infant mortality rates and lack of access to, and information about, family planning services. As a consequence, most LDCs are still in the early stages of demographic transition.

60. A number of LDCs have been expanding family planning services in recent years. The total fertility rate for the LDCs as a group declined from 6.7 during the period 1970-75 to 4.9 during the period 1995-2000.[5] In Bangladesh, the contraceptive prevalence rate rose by 49 per cent between 1990 and 1999, compared with only 3 per cent in 1970. As a result, the total fertility rate has fallen from 7 births per woman during the period 1970-75 to 3.1 during the period 1995-2000. Two other Asian LDCs, Myanmar and Nepal, have also experienced major reductions in total fertility rates since 1970. A number of African LDCs have introduced national population policies.

61. The under-five mortality rate in LDCs declined from 282 deaths per 1000 live births in 1960 to 167 deaths in 1998. The most likely reason for the overall reduction in child mortality is the increased immunization against major childhood diseases.

62. At the 1994 International Conference on Population and Development, the international community committed itself to quantitative goals in three areas that are mutually supportive and of critical importance to the achievements of other population and development objectives: education, reduction of the mortality rates among infants, children and mothers, and universal access to family planning and reproductive health services. LDCs should be a prime focus of the international community in its efforts to reach these goals. A critical element in this respect is the funding of population policies and programmes, which must be sustained and insulated from short-term budgetary pressures if they are to be effective.

Education and literacy

63. The Programme of Action called for the formulation of strategies to improve education and training, with particular emphasis on attaining universal primary education, and combating illiteracy especially among women. Although there was a considerable expansion of education during the last three decades, as manifested in the substantial increases in primary- and secondary-school enrolment ratios and adult literacy, overall educational levels were low. In 1997, only 60 per cent of the relevant age group were enrolled in primary schools in LDCs, while net secondary-school enrolments averaged only 31 per cent. The enrolment ratios for girls were significantly worse than for boys; net primary- and secondary-school enrolment ratios for girls averaged 58 and 12 per cent, respectively in the 1990s. (UNDP estimates that a yearly contribution of 1 % of the wealth of the 200 richest people in the world could provide universal access to primary education for all ($7-8 billion). About one-half of all adults in LDCs are illiterate, as compared to one-third in developing countries as a whole and one per cent in developed countries.

Health and sanitation

64. Poor health and sanitation services, and the lack of safe drinking water supplies (43 per cent of the LDC population have no access to safe drinking water) are major causes of preventable diseases such as malaria, measles, acute respiratory infections, diahorreal

---

5 UNDP, *Human Development Report, 2000*, table 19, p.223.

infections and neo-natal tetanus resulting in high mortality rates in LDCs. Maternal and infant health is also undermined by frequent pregnancies. HIV/AIDS has become a major cause of death over the course of the last decade in LDCs in Central and Southern Africa. Africa has 24.5 million of the total 34.3 million people living with the virus. The HIV-infected adult population of 16 countries in sub-Saharan Africa has reached or exceeded 10 per cent of the total population. The cost of the HIV/AIDS epidemic is not only to be seen in terms of human mortality, but also through its effects on societies and economies. Armed conflicts are yet another threat to health in LDCs in several regions. Refugees driven from their homes by civil wars have been especially vulnerable to a host of infectious diseases.

65. Only 26 per cent of births in LDCs were attended by trained health personnel during the 1990s, compared with 54 per cent in developing countries as a whole and 99 per cent in developed countries. One in ten children in LDCs dies before her/his first birthday, compared with six per 1000 in developed countries. Moreover, about 40 per cent of all children under five are under-weight or suffering from stunted growth. Life expectancy at birth in 1998 in LDCs was 51.9 years whereas average life expectancy in all developing countries is 64.7 years and in OECD countries 76.4 years.[6]

66. The main message of the WHO *World Health Report 2000* is that the health and wellbeing of the people around the world depend critically on the performance of the health systems that serve them. In LDCs, the lack of infrastructure and trained personnel to deliver health services, the widespread poverty and malnutrition that exist in many of those countries and their inadequate financial resources have undermined the health of their populations. To assess overall population health and thus to judge how well the objective of good health is being achieved, WHO chose to use the measure of disability-adjusted life expectancy (DALE). The WHO Report provides estimates of DALE for all countries. While at one extreme DALE is estimated to equal or exceed 70 years in 24 countries, at the other extreme there are 32 countries, among them 26 LDCs, where DALE is estimated to be less than 40 years. Many of these are countries characterized by major epidemics, for example, HIV/AIDS, which is now a poor people's epidemic. (According to UNDP, a loss of 17 years in life expectancy is projected for 9 countries in Africa, 4 among them being LDCs, with an HIV prevalence of 10 per cent or more, down to 47 years by 2010, back to the life expectancy of the 1960s.) The WHO Report also classifies countries by the state of their health-care system. While some LDCs rank surprisingly higher than a number of other developing countries, the majority are at the lower end of the scale.

Questions

- What are the principal constraints faced by the LDCs in implementing the agreed recommendations of the Programme of Action for the 1990s on social services and the outcome of major global conferences with regard to social development? What lessons can be learned from the experiences of countries that have been able to make some progress in this regard?
- How can a social sector financing system be designed so as to ensure that funds allocated by the Government and those collected from user fees are used efficiently?
- What are the best ways to identify and protect vulnerable groups who are unable to pay? and how should the gender issues be dealt with in the delivery of social services?

---

[6] UNDP, *Human Development Report, 2000, op.cit.*

- What are the most effective ways to deal with the issue of user charges particularly users who are opposed to such charges and are unwilling to pay?
- What are the relative roles to be played by the Governments and non-governmental institutions in the development of physical facilities and their subsequent operations? and
- What is an appropriate procurement and distribution system of inputs for social sectors services?

Gender and development in LDCs

67. The Programme of Action called upon LDCs to take appropriate measures to fully mobilize and involve women both as agents and beneficiaries of the development process. It called for strengthening women's role in development, *inter alia*, through better access to health care, including voluntary family planning, education and training, and rural credit. LDCs were invited to ratify and implement all UN conventions against all forms of discrimination towards women.

68. Mainstreaming a gender perspective into all areas of social development was established as a global strategy for promoting gender equality in the Beijing Platform of Action. The Special Session of the General Assembly, Women 2000: Gender Equality, Development and Peace for the 21st Century (Beijing+5)[7], reaffirmed that in order to promote gender equality, the gender perspective has to be mainstreamed into national policies and programmes. Moreover, the Special Session highlighted the need for building national capacities to integrate the gender perspective into national policies and planning.

69. In his report to the Special Session of the General Assembly «Women 2000 : Gender Equality, Development and Peace» (Beijing+5), the Secretary-General of the United Nations stated that effective mainstreaming requires strong political commitment to the promotion of gender equality, in particular through the development of accountability mechanisms. The allocation of sufficient resources for mainstreaming, including, where necessary, additional financial and human resources, is important for the implementation of the strategy. Mainstreaming requires attention to gender equality to be made explicit throughout processes and documents. The attention to gender equality should be coherent and sustained. The mainstreaming strategy is not limited to the social sectors or to some ‘soft’ components of programmes and projects where women’s contributions and needs are well established. It applies to all types of interventions - for example, economic policies and programmes, infrastructure development, urban development, poverty eradication, promotion of human rights and good governance, and at all levels – advocacy, analysis, policy development, legislation, and planning, implementation and monitoring of projects and programmes. Mainstreaming also recognizes that achieving gender equality is not only about providing assistance to women and incorporating women into existing structures, but also requires transformative change.[8]

70. One of the main challenges facing LDCs is their inability to mainstream women adequately as full agents and beneficiaries of development. Practically in all LDCs, half of the

---

[7] *Further actions and initiatives to implement the Beijing Declaration and the Platform for Action*, 10 June 2000. Unedited final outcome document as adopted by the plenary of the special session of the General Assembly entitled “Women 2000: gender equality, development and peace for the twenty-first century”.

[8] Review and Appraisal of the Implementation of the Beijing Platform for Action: Report of the Secretary General (E/CN.6/2000/PC/2)

population is not fully integrated into the development process and does not enjoy rights and access to resources commensurate with its contribution and potential.

71. Despite the measures being taken to enhance their role in development, women in the LDCs, more so than elsewhere, still lag behind their male counterparts in all areas of social and economic development. They face particular problems related to gender discrimination, such as limited access to productive resources, restricted education and training opportunities, poor health status, and low representation in strategic decision-making positions, as well as having to bear a high dependency burden: the more so as deepening poverty is felt more acutely by women-headed households which are on the increase for a variety of reasons, such as, HIV/AIDS, poverty and political instability. In addition, prevalent attitudes regarding women's abilities and their proper socio-economic role, and women's own lack of knowledge about their rights, have kept them away from mainstream development. The lack of follow-up of decisions and internationally agreed recommendations aiming at the advancement of the status of women continues to be one of the major causes of the poor prevailing situation.

72. The outcome document of the Beijing+5General Assembly session outlines selected aspects of particular concern to the least developed countries, strengthening the original Platform for Action decided upon the IV World Conference on Women in 1995. It requests that the major reasons why men and women may be affected differently by the process of job creation and retrenchment associated with economic transition and structural transformation of the economy, including globalization, be analyzed. In the area of poverty, it emphasizes gender equality as a decisive factor for eradicating poverty, particularly in relation to the feminization of poverty and women's empowerment as a central strategy. It proposes the need for an assessment of the links between macro-economic policy and gender equality and stresses the importance of women's equal participation in decision-making about macro-economic policy; emphasizes the right of women to equal access and control over critical economic resources, including land, property, the right to inheritance, access to credit and housing; and adds the element of introducing gender analysis into public budgets, in the review of structural adjustment policies and in debt cancellation or debt relief. With regard to women in power and decision-making, the outcome document places strong emphasis on strategies for increasing participation in decision-making by the use of quotas and by encouraging the nomination of women for election to parliament and other legislative bodies through political parties. The outcome document paid particular attention to health issues, including HIV/AIDS.

73. As part of the preparatory process for LDC-III, the Conference Secretariat is planning to organize, prior to the Second Meeting of the IGPC, a meeting on mainstreaming the gender perspective in country-level programmes of action. The meeting will take stock of the country experiences, examine both successes and difficulties and evaluate national capacity limitations in mainstreaming gender in development in LDCs.

Questions

- Are the goals of gender equality and advancement of women being pursued as a priority in LDCs in relation to other public policy goals?
- What were the areas in which mainstreaming a gender perspective has been more successful?

- Has the issue of gender equality and advancement of women received increased attention in government policies, public perceptions, the media, and academic institutions during the 1990s?
- How far have the implementation of structural adjustment programmes and globalization of markets affected women in LDCs?
- What structures and mechanisms were put in place to institutionalize the follow-up to, and implementation of, the Beijing Platform for Action?
- Have international support measures supported the efforts of LDCs on the implementation of the Beijing Platform for Action? If not, how could such measures complement the efforts of LDCs?
- How far has the debt burden diminished resource mobilization towards gender mainstreaming in LDCs?
- How effective have NGOs been in advancing gender-related policies in LDCs?

Environment

74. Several LDCs face significant environmental problems, such as inadequate sanitation facilities, water pollution, land degradation, drought and desertification (recently in the Horn of Africa), floods (for example, the devastating floods in Mozambique earlier this year), cyclones, deforestation and loss of biodiversity. Most of these problems are closely related to poverty and population pressure, as well as market and policy failures, including inadequate institutional structures for natural resource management and environmental planning. Social and political instability has also contributed to environmental degradation in many LDCs. In fact, cause and effect relationships of poverty and environmental degradation are very complex in LDCs.

75. In most island LDCs, environmental problems relate to the global warming phenomenon which has severe implications in the short run (for example, coral bleaching) as well as in the long run (sea-level rise). Maldives and the low-lying island LDCs of the Pacific are the most acute cases of this type.

76. In many LDCs, the most severe environmental problems are found in rural areas, where the majority of the population lives and works. Of the environmental impacts here, land degradation is the most severe. Land degradation has two components: loss of vegetation and soil degradation. These two components can be mutually reinforcing, though their relative importance varies, in any given location depending on the agro-climatic conditions, population pressure, and economic and institutional factors there.

77. Scarcity of water, which is due to desertification and lack of proper water management, is equally important. Impact of human-induced climate change brought about by greenhouse gases will be felt more severely by LDCs. The rise in sea level, loss of forested areas and the problem of environmental refugees are severe threats to the development prospects of LDCs.

78. The scale of the environmental problems in many LDCs demands LDC-specific environmental policies to complement more general policies. It is crucial to identify what the local communities may be able to do themselves, what they can do with external assistance and what the government has to do. The level of commitment to dealing with the

environmental problems within the LDCs themselves is important for the potential role of the international community.

79. Several LDCs have already acknowledged the need to integrate environmental considerations into their economic policies and poverty alleviation programmes. They have established National Environmental Management Programmes (NEMPs) or similar plans to strengthen institutions, monitor and enhance environmental quality, provide environmental education and raise public awareness.

80. A number of LDCs have experienced losses owing to insufficient capacities to deal with environmental and health-related requirements in international markets, for example in the fisheries sector. LDCs should therefore be assisted in building infrastructure and supply capacities to meet environmental and health-related requirements and to take advantage of niche markets for environmentally preferable products.

Questions

- What measures in terms of education, awareness and capacity-building would be required to improve the precarious health conditions in LDCs which are directly related to environmental degradation?
- To what extent can ODA and other sources of public aid contribute to the alleviation of poverty, which is the root cause of environmental degradation? How can projects be developed, in particular at the grass-roots level, to address poverty and environmental degradation simultaneously?
- To what extent have LDCs benefited from enabling measures aimed at facilitating their participation in multilateral environmental agreements (MEAs)? Why have only a few LDCs so far benefited from the global environmental facility? How can LDCs be best assisted in the formulation of projects and the implementation of measures at the national level?
- What are the impacts of climate change on LDCs and what mechanisms are needed to mitigate such impacts?
- How can LDCs be assisted in their efforts to secure an adequate water supply and improve water resource management?
- How far have the current environmental deliberations addressed the environmental preoccupations and priorities of LDCs?
- What is the best systemic framework within which the development of LDCs in general, and agricultural production in particular, can be enhanced without leading to widespread environmental damage?
- What are the environmental implications of different industrial sectors of interest to LDCs, and what policies can be implemented to reduce potential negative effects?
- How can the UNEP-UNCTAD Task Force on Capacity Building on Trade, Environment and Development assist LDCs in addressing trade-related environmental concerns and environment-related trade concerns?

C. International support measures

81. In the Paris Declaration, the development partners of LDCs undertook to make adequate resources available in support of LDCs' development policies and efforts, to improve the quality of such assistance and to match it more closely to needs. The international community and the developed countries in particular, committed themselves to a significant and substantial increase in the aggregate level of external support to LDCs. The Programme of Action adopted a menu of Official Development Assistance (ODA) targets for the LDCs. It also acknowledged that in view of the magnitude of the LDCs' development needs and their limited capacity to generate an investible surplus, the volume, timeliness and terms of external financial resources will be critical and should correspond to the LDCs' immediate, short-term and long-term development needs.

Official development assistance

82. LDCs have traditionally relied on ODA flows for a large part of their development finance. In a number of LDCs, ODA accounts for up to 70 per cent of the development budgets and 40 per cent of the recurrent budgets. In 1997, ODA receipts accounted for more than 10 per cent of GNP in 29 LDCs. In the light of low and unstable export earnings, limited access to private financial flows, small domestic savings and the serious debt problems experienced by these countries, ODA remains a critical source of their development finance.

83. One of the reasons for the LDCs' poor performance in the implementation of the Programme of Action in the 1990s has been the declining resource flows to these countries. ODA has shrunk by 23 per cent since the beginning of the decade and the outlook for its recovery to previous levels is uncertain. Total ODA contributions from OECD donor countries allocated to LDCs fell by 29 per cent in dollar terms between 1990 and 1997. Although the Programme of Action set a target of 0.15 per cent of donors' GNP as ODA to LDCs, this ratio remained at 0.05 per cent in 1998, as compared to 0.09 per cent in 1990. In 1998, only four DAC members (Denmark (0.32%), Netherlands (0.21%), Norway (0.35%) and Sweden (0.20%)) have maintained their aid programmes, and continued to meet or surpass the special 0.20 per cent ODA target set in the Programme of Action. In terms of GNP share of their aid to LDCs, Belgium, Denmark, Italy, Luxembourg and the United Kingdom improved their performance in 1998. In terms of nominal volume of ODA, Japan was the most important donor to LDCs in 1998 (with a contribution of over $1.5 billion), followed by the United States, Germany and France, each contributing more than $ 1 billion ODA to the LDCs. In 1998, ODA to LDCs/GNP ratio contracted in 10 out of 21 DAC member countries, and only five countries met the special targets for aid to LDCs set in the Programme of Action as compared to seven countries which met this target in 1997. Disbursements to LDCs in real terms are now believed to be at their lowest levels in 20 years, while per capita ODA stood at $22 in 1998, the lowest in 25 years. The persistent decline in the ODA/GNP ratio contrasts sharply with the impressive increase of per capita GNP in donor countries. As stated above, given that ODA remains a predominant source of development finance, the downward trends are bound to have serious adverse effects on economic growth and poverty alleviation in LDCs.

84. The impact of ODA was not only limited in its effectiveness by the declining volume witnessed over the decade, but also by its quality, coordination and management. Participants at the Regional Experts-level Preparatory Meetings pointed to the many conditionalities

attached to aid which adversely affected its disbursement and use. Participants recalled that the Programme of Action elaborated a number of measures to be undertaken by development partners and recipient country authorities to enhance the effectiveness of aid. Many of these still remain valid. Participants also noted that the effectiveness and impact of aid would be enhanced if accompanied by concrete action to address leakages such as terms-of-trade losses, debt servicing, and capital flight, while concentrating resources on critical bottlenecks. According to some studies, aid effectiveness could be improved by at least 25 per cent if aid was to be untied.

85. The role of ODA in leveraging private finance has become more prominent than before. The international community can contribute to LDCs’ efforts to improve their investment performance by helping to mobilize private finance for investment projects in these countries, particularly in various infrastructure sectors.

Questions

- Granted that concessional aid flows have been closely linked to stable macro-economic policy environments, what explains the ever-shrinking ODA flows to LDCs even at a time when the macro-economic policy framework in a number of LDCs has been improving?
- Are donors suffering from the "aid fatigue syndrome" or does the reason for the declining trend in ODA lies elsewhere? What steps can the development partners take to enhance public awareness of and support for development cooperation?
- How can ODA to LDCs be improved together with its impact on overall resource mobilization: (i) in times of a fiscal and growth boom in developed countries? (ii) by mobilizing domestic resources? (iii) by promoting FDI, including investment expansion through ploughing back retained earnings?
- How can the effectiveness of development aid be improved? Does the untying of aid contribute to aid effectiveness? What are the costs of tied aid, especially in terms of increased import costs, and how can these be reduced?
- Are the present mechanisms for resource mobilization to finance development effective, and do they provide predictability as regards the availability of resources?
- To what extent is development aid being diverted to emergency assistance and debt relief?
- How effective is technical cooperation, including in the context of the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (Integrated Framework), in addressing critical capacity bottlenecks in LDCs and how could it be improved?

External debt and debt relief initiatives

86. High levels of debt and debt servicing continue to drain the limited resources of the LDCs despite the various debt relief initiatives undertaken by the donor community during the past decade. The LDCs' external debt burden amounts to 90 per cent of their combined GDP. The outstanding external debt of LDCs as a group increased substantially in 1998. It is estimated that by the end of 1998 the total debt stock of these countries as a group amounted to $ 150.4 billion - an increase of more than $7.5 billion over the amount of outstanding debt at the end of 1997. A large part of this increase is accounted for by a rise in outstanding obligations to multilateral institutions, which grew by $ 4.1 billion. Outstanding long-term

bilateral debt increased by $ 2.2 billion. The debt-servicing capacity of the LDCs deteriorated critically in 1998, as their earnings from exports of goods and services declined by over 10 per cent or $ 4.3 billion from $ 40.4 billion in 1997 to $ 36.2 billion in 1998, following three years of successive export growth. The level of debt, worsening as arrears accumulate due to the deteriorating debt-servicing capacity, highlights its unsustainable nature and the urgency of addressing the excessive debt burden of the LDCs. Comprehensive debt relief would release much needed scarce resources, which would boost investment in human and social development, and these would in turn improve the prospects for private capital flows.

87. The Heavily Indebted Poor Countries (HIPC) Initiative is so far the first major decisive step by the international community to address the debt problems of the poorest countries as a holistic approach. There are 29 LDCs included in the HIPC. Eligibility for debt relief under the HIPC is linked to fulfilment of reform commitments and poverty reduction strategy implementation based on national Poverty Reduction Strategy Papers (PRSP). Four LDCs (Mauritania, Mozambique, United Republic of Tanzania and Uganda) have already been declared eligible for additional debt relief under the modified eligibility criteria of the Enhanced HIPC Initiative. These four countries are estimated to receive some $ 10.5 billion, in nominal terms, in additional debt relief under HIPC on top of traditional relief mechanisms. In present value terms, the debt reduction obtained for these four countries ranges from 40 per cent (in the case of Uganda) to 70 per cent (in the case of Mozambique) of outstanding debt. Three other LDCs – Benin, Burkina Faso and Mali – had reached a decision point under the original framework, and their relief needs are to be assessed under the enhanced framework. There are 29 LDCs in HIPC category. Among these 15 LDCs are in the group of frontrunner HIPCs and have hopes of bringing down their external indebtedness to sustainable levels within the next few years.

88. Slow progress and underfunding are the two main problems facing the Initiative. Although the Initiative is moving forward, it is not doing so at a speed matching expectations, in spite of the recent improvements to the scheme. Eligible countries – even those that have a long track record of economic policy reforms and an early elaboration of national poverty reduction strategies - have to wait for years for the full delivery of debt relief under the scheme. At the June 1999 Cologne Summit, commitments were announced for “faster, broader and deeper” debt relief and enlarged cancellation of ODA debts, leading to the adoption of the framework for enhanced HIPC relief later in that year. Since then, a number of major donors have announced full cancellation of debt under the scheme extending this debt relief to non-ODA claims for eligible HIPC as recently committed by the G-7 Finance Ministers and Central Bank Governors in Washington.

89. The Declaration of the second HIPC Ministerial Meeting adopted in Geneva on 7 June 2000 put forward a number of suggestions for further improvement of the Enhanced HIPC Initiative. These suggestions for improvement cover the eligibility criteria, contributions to HIPC financing, and new financing needs, and stress stability, predictability of financing commitments and additionality of resources. On PRSP, the Ministers agreed that the process raises expectations among all sectors of society and that these expectations have to be managed. In this context they pointed out that it is important that donor resources are available early to meet some of these expectations.

90. The external debt situation of the LDCs remains precarious, as long as their prospects for export diversification and growth are uncertain, ODA continues to recede, their access to non-ODA finance remains limited and they continue to carry a debt overhang. Some of the

LDCs may be able to achieve a sustainable debt position and exit HIPC over the next few years, but a speeding-up of the implementation of the scheme, and additional policy measures for those not likely to benefit in the immediate future, including non-HIPC LDCs, are required to ensure that LDCs emerge from the heavy heritage of debt, thus allowing the resources to support economic and social development and poverty reduction.

Questions

- What lessons can be drawn from the external debt relief strategies of the 1990s? How adequate is the HIPC Initiative in resolving the problem from the point of view of LDCs? This relates to criteria in which countries are included, as well as the importance of non-Paris Club debt for LDCs. With the transformation of ESAFs into PRGFs (Poverty Reduction and Growth Facility), what are the implications of linking debt relief to poverty reduction? Is it possible to achieve poverty reduction simply through national measures? With attention being focused on the debt problem of HIPCs, there is the risk that donors will offset debt relief by cutting net flows. How can additionality of contributions be assured and programme aid maintained?
- What are the most effective ways to ensure that future flows do not result in an unpayable debt burden?

Foreign direct investment

91. FDI can be a powerful instrument for enhancing local productive and technological capabilities. However, the contribution of FDI in LDCs remains low. For LDCs as a group, FDI flows correspond to about 14 per cent of their ODA receipts (1997) and 1.5 per cent of FDI to developing countries. In part, this is due to the structural characteristics of the LDCs' economies, where financial markets are underdeveloped, information available to potential investors is imperfect and the risks in longer-term investments are high. Most FDI flows to LDCs are concentrated in extractive industries (oil and mining industry) and generally in the exploitation of natural resources constituting a significant share of primary exports.

92. There are considerable disparities between regions and between individual LDCs in terms of FDI flows. Between 1980 and 1997, a significant geographical redistribution of FDI took place among LDCs at both the interregional and intraregional levels. In 1997, African LDCs still received the highest proportion of total FDI stocks of all least developed countries, but this proportion was significantly lower than in 1980 (65 per cent vs. 85 per cent). Yet, the share of African LDCs in total FDI in Africa increased by five percentage points to 17 per cent over the same period. Meanwhile, the share of Asian LDCs in overall FDI stocks in LDCs grew from 8 per cent to 31 per cent, although on average, the share of Asian LDCs in total FDI stocks in Asia remained under 1 per cent. The share of the five Pacific island LDCs in total FDI stocks for all LDCs hovered at around 3 per cent throughout this period. In 1997, the Pacific island LDCs boasted the highest FDI per capita - $57 - compared with $32 for African LDCs and $22 for Asian LDCs.

93. It has been observed that the recent relative increases of FDI inflows to African LDCs have been resource-seeking rather than market-seeking. Private capital flows have represented only a marginal source of funds for the financial requirements of the LDCs. The weak economic fundamentals in many of them and the high risk perceptions keep the size of these flows too small to offset the gap left by low levels and declining shares of ODA.

94. Since the LDCs' markets are weak and operate imperfectly, there is also a justification for public intervention to support and encourage private investors. Careful targeting of FDI to potentially competitive local industries can complement and enhance local capabilities. Public agencies and industry clubs/business associations in the FDI home and host countries can play a key role in supporting private investment in those situations.

95. In most of the LDCs, financial markets are underdeveloped, information available to potential investors is imperfect and the risks attached to longer-term investment are high. The multilateral agencies can play an important role in guaranteeing some of the non-commercial risks of foreign investors by directly mobilizing private capital, providing advice and technical assistance on project development, and disseminating information to potential investors and lenders. In this respect, investment guides that are being prepared for LDCs by the UNCTAD secretariat should help to highlight the FDI potential in those countries. The International Finance Corporation (of the World Bank group), the Multilateral Investment Guarantee Agency, the regional development banks and bilateral donors have a challenging opportunity to evolve special support packages for the LDCs and thus make an important contribution in this area.

Questions

- What can LDCs do to improve foreign private capital inflows?
- What support could be given to LDCs by the international community to evolve strategies for attracting FDI into key sectors, especially agriculture? What home country measures could be undertaken by the developed countries to promote FDI flows to the LDCs?
- What are the national policy implications of the fact that economic reforms are not a sufficient condition for attracting such flows? What international policy measures are necessary to correct market failures in international capital markets? To what extent are private capital flows a substitute for ODA given their different developmental effects? How can ODA and FDI be made more complementary?
- Are existing investment incentive regimes in LDCs sufficient to attract FDI? Do they compensate for shortcomings in other factors which negatively affect the investment environment?
- What recommendation for policy changes could be considered by the home countries and their corporate sector to channel FDI to the LDCs' high priority sectors?

Market access

96. It is in recognition of the critical role played by trade in the LDCs' development efforts that the Programme of Action underlined the vital importance for all countries to contribute in developing a more open, credible and durable multilateral trading system. The Programme of Action further underscored the importance of the system for improving market access as an effective way to promote the growth and development of LDCs. In this connection, the Programme called for specific action, including duty-free, quota-free treament of the LDCs' exports, and the adoption of simplified and more flexible rules of origin.

97. At UNCTAD X, Member States agreed that "Market access conditions for agricultural and industrial products of export interest to LDCs should be improved on as broad and liberal a basis as possible, and urgent consideration should be given to the proposal for a possible

commitment by developed countries to grant duty-free and quota-free market access for essentially all exports originating in LDCs and other proposals to maximize market access for LDCs. Consideration should also be given to proposals for developing countries to contribute to improve market access for LDCs' exports".

98. While a number of initiatives and measures for improving market access for products of export interest to the LDCs have been taken by the LDCs' trading partners, they have often been on a bilateral and autonomous basis and frequently apply stringent conditions for access in respect of the so-called “sensitive products.” The major weakness of most of these preferential arrangements has been the lack of predictability and security in the market access conditions provided. With the exception of the Lomé Convention and the GSTP whose market access conditions were negotiated and contractual in nature, and thus predictable, all the others, including the GSP, were unilateral, autonomous and non-contractual and, by definition, unpredictable. The first multilateral initiative to seek a negotiated multilateral approach to the issue is currently under way in the WTO.

99. The LDCs, for their part, have stressed that their meaningful and beneficial integration into the global economy and the multilateral trading system requires concrete action by they themselves as well as by their development partners in order to tackle both the supply and demand-side constraints affecting their trade performance. This action includes, *inter alia*, the development of physical and institutional infrastructure and human resources development, providing flexibility in the use of appropriate policy instruments to strengthen the competitiveness of sectors of strategic importance for the development of their trade, unencumbered and improved market access, including duty- and quota-free, access for all products of export interest to the LDCs and simplified rules of origin which impact on both supply capacities and import demand conditions.[9]

100. LDCs are actively engaged with their trading partners in the WTO in pursuing efforts to secure bound, quota and duty-free market access for all their export products which, they believe, will provide the significant and predictable trade environment in global markets necessary to inspire investor confidence and hence boost investment in their countries. The underlying objective of the LDCs in these negotiations is to seek to do away with tariff (peaks and escalation) and non-tariff barriers. These affect the exports in which they often have the greatest competitive advantage and from which they thus derive the greatest trade gains. These exports offer prospects for diversification, but are considered “sensitive” under existing market access conditions for LDCs, be they multilateral or placed under various preferential schemes such as the EU/ACP Lomé Convention and the recent United States Trade and Development Act of 2000.

101. The Uruguay Round Agreements have to a certain extent responded to some of the above-mentioned concerns through special provisions in favour of the LDCs including the Ministerial Decision on Measures in favour of Least Developed Countries adopted at Marrakesh in 1994. However, the LDCs' experience in the implementation of the Uruguay Round Agreements has revealed a number of difficulties, including the inability to comply with notification requirements and to meet transitional period deadlines, and, above all, their serious capacity limitations for taking advantage of the Special and Differential Treament provisions in the Agreements. The LDCs have thus underlined that while there are benefits to

---

[9] Reports of the Regional Expert Meetings for LDCs in preparation for LDC-III and the Challenge of Integrating LDCs into the Multilateral Trading System: Coordinating Workshop for Senior Advisers to Ministers of Trade in LDCs in preparation for the third WTO Ministerial Conference.

be derived from a rule-based multilateral trading system, in terms of transparency, non-discrimination and improving their competitiveness, they have also experienced concerns about the imbalances and asymmetries in the WTO Agreements. In this context they identified the following constraints: shortage of skilled personnel, complexity of WTO rules and working structures, a lack of awareness of the rules and full information on them, an inability to upgrade domestic regulations, a weak institutional infrastructure and the high cost of maintaining missions in Geneva.[10] Although a number of trade–related technical cooperation initiatives have been undertaken by the international organizations in an endeavour to alleviate these constraints, including through the Joint ITC/UNCTAD/WTO Integrated Technical Assistance Programme in Selected Least Developed and other African Countries (JITAP) and the Integrated Framework, the full benefit and potential of these initiatives have not reached most of the LDCs mainly owing to the resource constraints faced by the organizations in question. Trade-related technical assistance for capacity-building for trade has had limited impact and is not accessible to most LDCs due to the meagre resources available and more particularly the uncertainty of funding. The bulk of trade-related technical assistance carried out by the six core agencies involved in the implementation of the Integrated Framework today is funded from extra-budgetary resources.

102. It has been recognized that, through the implementation of unilateral trade liberalization measures, LDCs have made significant contributions to the multilateral trading system. There is therefore a need to reflect this recognition in ongoing efforts towards further trade liberalization in the context of the WTO.

103. Participation by the LDCs in regional trade arrangements also contributes to their gradual integration into the global economy as they offer an opportunity for “learning to compete” in a more challenging global market environment. During the Regional Experts Meetings LDCs therefore underlined the importance of the multilateral trade rules governing regional trading arrangements to be supportive of greater flexibility for LDCs to adjust gradually to more competitive trade regimes.

104. It is to be noted that out of the 48 LDCs, 19 still remain outside the multilateral system of trade rules under the WTO. Seven of these have applied to accede to the WTO. Facilitating the accession process for these countries should be seen as a logical step in integrating them into the global economy. All efforts should therefore be made to ensure that admission procedures are simplified while the level of commitments required from them should not be higher than those applicable to LDCs that are already members of the WTO.

Questions

- What are the requirements for a creative multilateral approach to improve market access conditions for LDCs which would be contractual while at the same time respecting the rule-based, non-discriminatory multilateral character of the trading system?
- In order not to defeat the very purpose of improved market access or nullify the benefits expected from the removal of market access barriers for LDCs' exports, LDCs would expect the policies, including trade-related measures of their trading partners and international financial institutions and the rules of the multilateral trading system(e.g. debt relief measures, application of non-tariff, monetary and fiscal policy measures, etc.) to give positive signals supporting and encouraging efforts to build and expand supply

[10] *Ibid.*

capacities. How this policy coherence could be improved should be a subject for serious consideration. How will it be possible to increase the synergies between international support measures for LDCs in the areas of debt relief, aid and international trade regimes?

- How can resources for trade-related technical assistance be made more predictable - through funding from the regular budgets of these agencies, mainstreaming programmes for capacity building for trade in overall national development programmes or through regularly replenishable donor trust funds?
- The quality and effectiveness of trade-related technical assistance for capacity-building for trade depend on a well-articulated trade policy as an integral part of the overall macro-economic policy framework. Trade policy is also an essential part of the investment policy regime. Is this an area where emphasis should be directed to the many LDCs which have not yet defined a national trade policy?

D. Conclusions

105. In undertaking the Mid-term Global Review of the Implementation of the Programme of Action, the 1995 High-level Meeting concluded that "In sum, therefore, requisite progress has not been made in most LDCs during the first half of the 1990s in realizing the overall objective of the Programme of Action, although some progress has been recorded in a number of LDCs as a result of the implementation of appropriate policies. Furthermore, the ongoing processes of economic globalization and liberalization are likely to have profound consequences for the future development of the LDCs. These processes, which offer great opportunities for growth and development, also entails risks of instability and marginalization. LDCs as a whole have made limited progress in overcoming structural constraints, infrastructural insufficiencies, debt overhang, promoting and diversifying the enterprise and export sectors, attracting foreign investment and creating a sufficient technological base. In this context, most of the LDCs will face globalization and liberalization from the situation of a constrained environment".

106. This assessment has been generally reiterated in the annual reviews of progress in the implementation of the Programme of Action by the General Assembly, the UNCTAD Trade and Development Board and ministerial and expert-level meetings of LDCs.

107. Of course, the overall bleak picture described above should not mask the progress achieved by a number of individual LDCs in various fields during the 1990s. The notable success story was Botswana, which was the only country to graduate in 1994 from the LDC category since its establishment in 1971. Four other LDCs: Cape Verde, Maldives, Samoa and Vanuatu, have achieved significant progress in their socioeconomic development and have thus become borderline cases for possible graduation. This is an eloquent testimony to the relevance of the principle of shared responsibility and strengthened partnership underlying the Programme of Action and the effective of implementation of conducive macroeconomic policies by LDCs and a supportive external environment. Intensified efforts by LDCs and their development partners should hopefully lead to more LDCs graduating from the list by the end of the decade.

II. Implementation Framework: Issues based on the experience derived from arrangements for implementation, follow-up and monitoring of the Programme of Action

108. The Programme of Action emphasized that effective follow-up and monitoring mechanisms should support the development efforts of the LDCs and are a key to the successful implementation of the Programme.

A. Lessons from country-level implementation

109. Three lessons that have emerged in the framework for implementation, follow-up and monitoring of the Programme of Action for the 1990s will need to be examined in the context of the formulation of a new Programme of Action. These, as indicated in the LDCs 1999 Report relate to: i) recognition of the specific circumstances of each LDC and the need to base a global programme of action on country-level assessments of constraints, opportunities and potentials; ii) the need to spell out more clearly the implementation framework and institutional mechanism for monitoring, co-ordination and evaluation; and iii) the changed role of the State in the design and implementation of policy reforms and economic development programmes, including the increasing role of non-State actors in the context of a globalizing world economy.

110. As part of the preparations for the last two United Nations Conferences on LDCs, the LDCs prepared country memorandums on their socio-economic performance and their external financing requirements, including debt relief and trade issues, which served as the basis for assessment of the socio-economic situation of the LDCs and provided inputs to policies and measures, including international support measures, negotiated in both Conferences. One shortcoming of this process was that it was not carried forward beyond the Conferences in order to translate the global programmes of action into action programmes at the country level. This gap made the implementation of the global targets agreed in the Programme of Action difficult to relate to country-level situations. It also made resource mobilization difficult, since the elements of the Programme of Action had not been specified at country and sectoral levels. In the context of LDC-III, it is important that the ongoing country-level preparatory processes are not terminated with the conclusion of the Conference, but are utilized to translate the new Programme of Action into country-level action programmes for each LDC.

Questions

- To what extent were the policies and actions contained in the Programme of Action integrated into national policies and actions in LDCs? How can the lessons learned in this regard be used to improve the interface between the new Programme of Action and development policy-making at the national level?
- What may be the most effective ways to translate the outcome of the Conference into country-level action programmes?
- To what extent have donors used the Programme of Action for the 1990s as a framework for development co-operation? What steps need to be taken to ensure that the new Programme of Action is regarded by them as an effective development co-operation framework for the current decade?

- How could it best be ensured that the various actors in the society, including non-governmental organizations, business, women and the poor, are involved in such an exercise?
- How should the multilateral organizations and bilateral and non-governmental donors be involved in this process?
- What kind of financial and technical support would be needed by LDCs in this regard?

B. Lessons from Programme Review and Monitoring

At the national level

111. A strengthened country-review process was considered the principal means of establishing a policy dialogue and coordinating the aid efforts of development partners with the development programmes of the LDCs, as well as mobilizing the required resources for their implementation. LDCs were considered to have the primary responsibility for the formulation and effective implementation of national policies and priorities for their growth and development. Mechanisms such as the UNDP round-tables and World Bank consultative groups were regarded as constituting the backbone of the process to translate the principles and commitments of the Programme of Action into concrete measures at the national level. An effective country review process was seen as requiring an effective economic and technical capacity to carry out the necessary policy development and coordination.

112. The LDCs 1999 Report showed that, for a variety of reasons, round-table meetings and consultative groups at the country level (which are a proxy indicator of success in policy dialogue between governments and donors, and in coordination and resource mobilization) did not cover all LDCs, were not organized on a systematic basis, did not always succeed in mobilizing adequate financing, and did not adequately address LDCs' debt. In fact, these meetings were not directly linked to the Programme of Action for which they were supposed to be the "backbone". UNDP has undertaken an evaluation of the contribution of the Round-Table Mechanism (RTM) to policy reform, resource mobilization, and the management of development cooperation and coordination. The evaluation noted that there was an active and productive interest in pre-round table and round-table activities. This interest has not, however, been matched by subsequent actions. There has been weak follow-up and little monitoring on evaluation of policy and programme implementation on resource commitments. High staff turnover in country management and local donor representation has resulted in a loss of continuity and informed follow-up. This situation has led to a failure to capitalize on experience with the round-table functions for future aid coordination activities.

113. Similarly, the World Bank has undertaken a review of aid coordination. The overarching conclusion of the November 1999 draft review, expected to be issued in final form in July 2000, is that the development community has been well served by the Bank's support for aid coordination, but much remains to be done to achieve the longstanding goal of country leadership of the process. The review calls for revising the Bank's operational policy. It stresses the need for new statements of operational policy, updated Bank procedures, and examples of good practices, fully aligned with the principles of the Comprehensive Development Framework (CDF). The review recommends that each Bank country team or department that supports a Consultative Group (or similar mechanism) should work with the government and other development partners to formulate a strategy to help the country assume leadership in managing and coordinating aid resources. Factors such as capacity and

commitment will need to be taken into account to develop an appropriate strategy and timeframe for each country. Each strategy should demonstrate how the Bank and other partners will:

- Help the government to strengthen its aid management and coordination capacity.
- Reach a partnership agreement with donors that delineates mutual responsibility and distinct accountabilities.
- Design agreed coordination principles and procedures (such as adhering to country-led efforts to bring about greater coherence and selectivity in the application of aid resources).
- Present a plan for carrying out joint monitoring and evaluation missions with other donors, in order to reduce the aid delivery costs that impede country leadership.

114. The review stresses the importance of monitoring, both to report on progress and to identify constraints to achieving that progress. It recommends that the Bank should develop a limited number of indicators to benchmark and monitor the progress of recipient countries towards assuming a leadership role in managing and coordinating the use of aid resources.

At the regional level

115. At the regional level, the Economic Commission for Africa (ECA) and the Economic and Social Commission for Asia and the Pacific (ESCAP) have undertaken regular reviews of progress in the implementation of the Programme of Action, but have not been able to organize regional cluster meetings as called for in the Programme of Action in order to improve and strengthen existing cooperation arrangements at the regional and subregional levels. In the case of African LDCs, the regional-level review was weakened to some extent by the abolition, as part of the restructuring of the ECA, of the Group of Experts on African LDCs and the Conference of Ministers of African LDCs.

At the global level

116. At the global level, regular reviews of progress in the implementation of the Programme of Action were undertaken by the General Assembly, UNCTAD Conferences and the UNCTAD Trade and Development Board. The High-level Meeting on the Mid-term Global Review of the Implementation of the Programme of Action was organized in 1995. These meetings have been instrumental in increasing the "visibility" of LDCs and in focusing the attention of the international community on their plight. One positive outcome of such focusing was the convening by the WTO of the High-Level Meeting on Integrated Initiatives for the Least Developed Countries' Trade Development in 1997. The Meeting adopted the Integrated Framework and provided an opportunity for LDCs' trading partners to announce new and additional market access offers.

117. One of the weakest links in the implementation mechanism has been the lack of organization of sectoral reviews by organizations and agencies as called for in General Assembly resolution 45/206.

Questions

- To what extent can the lack of progress in the implementation of the Programme of Action for the 1990s be attributed to inadequacies in the monitoring and follow-up mechanisms, or deficiencies in the elements of the Programme?
- How effective have round-table and consultative group meetings at country-level been in translating the global objectives of the Programme of Action into country level targets and action plans? How effective have such mechanisms been in mobilizing resources? Why were these meetings not linked to the Programme of Action for which they were supposed to be the backbone?
- How can the linkage between the global programme of action and country-level programmes of action be established in order to effectively monitor fulfilment of global commitments? Is the monitoring of implementation performance possible without this operational linkage?
- How could follow-up and monitoring of implementation of the new Programme be improved based on the experience of the 1990s?
- What was the role of organizations and agencies of the UN systems, international financial institutions and international organizations in the implementation of the Programme of Action? Have the objectives and priorities of the Programme of Action featured in the work programmes of these organizations?
- Were the LDCs accorded the required priority in the global conferences held in the 1990s? What was the link, if any, between the Programme of Action and the outcomes of these global conferences?
- How can the United Nations Regional Commissions play a more active role in the implementation and monitoring of the new Programme of Action? What are the mechanisms for undertaking such a proactive role? What are the resource implications?
- The Programme of Action recommended the development of a structure within individual LDCs to improve their role in aid coordination, with the local coordinating group at the apex, supported by sectoral, subsectoral and implementation-related groups established in LDCs? What lessons can be drawn from the experiences of LDCs in this respect?
- Have linkages been established, at country level, with national and foreign NGOs working in the country to draw on the experience and insights of NGOs?

III. Broad elements for a renewed development partnership for 2001-2010

118. The need for a new orientation and policy direction to address the multifaceted challenges of marginalization in the global economy facing LDCs and to enhance their integration was highlighted by the Secretary-General of the United Nations in his address to UNCTAD X when he asked "What can we do collectively to enable the LDCs to take their place on the upward escalator of world growth? Could the time be ripe for a global new deal for these countries?" The Secretary-General of UNCTAD and Secretary-General of LDC-III Mr. Rubens Ricupero stated that "Left to itself, globalization will not narrow the gap between rich and poor; on the contrary, that gap will only continue to widen. This makes it even more urgent to address the LDCs' problems comprehensively… The international community will

ultimately be judged by the way it treats those countries, its most vulnerable members." It has been stated above that the new Programme of Action, which will include priorities for the decade for LDCs, would need to be flexible enough to accommodate unexpected developments in the global economy and to meet the challenges of LDCs in the next century. Most importantly, there is a need to spell out goals and objectives clearly, as well as to make specific resource commitments and identify clear benchmarks by which to assess whether the goals have been attained at specific time periods.

119. An analysis of past performance has shed light on the most critical constraints on the effective realization of the goals and objectives of the Programme of Action. On this basis, the preparatory process for the Conference needs to identify a new set of priorities for the decade for the sustainable development of LDCs and their progressive and beneficial integration into the global economy.

120. The following proposals could be considered as a broad framework for providing a basis for elements to be included in a new Programme of Action by LDCs themselves as well as by their development partners:

A. LDCs for their part could consider the following:

- Policy and institutional reforms to create a sound socio-economic and political environment to transform the social and productive basis for development into one in which sustainable, equitable and gender-balanced development can take place. Such a policy should also help to reduce or arrest budgetary and/or balance of payments deficits, improve the efficiency of utilization of resources, promote mobilization of domestic resources and enhance the contribution of important sectors of the LDCs' economies to GDP.
- Policies and measures to develop, expand and transform their economic base and to build and strengthen linkages between productive, service and infrastructural sectors.
- Effective environmental conservation practices preceded or accompanied by effective income-generating programmes which meet the basic needs of the populations, adopt more environment-friendly production processes and acquire the necessary technology and resources for this purpose.
- Investment in outward-oriented enterprises and in the adoption of coherent policies which ensure efficiency, profitability and global competitiveness.
- Concrete policies and measures to improve the effectiveness of ODA in enhancing the productive capacities of their economies and to overcome the fatigue and even cynicism that have come to be associated with ODA.
- Human resource development, including greater coverage for and improved management of social services delivery, including primary education and health care, as well as the improvement of their quality.
- Measures to fully mobilize and involve women as both agents and beneficiaries of the development process.

B. LDCs' development partners could consider the following:

- Those who have yet to do so, committing themselves to honour the longstanding (1981) undertaking to allocate 0.15 per cent of their GNP as ODA to LDCs and more donors moving towards the 0.20 per cent target.
- Fast, deep and broader debt relief.
- A broad-based consensus to provide bound, duty-free and quota-free access to all products originating from LDCs.
- New and more effective home-country mechanisms and institutional arrangements for enhancing FDI and other capital flows to LDCs.
- Support to enterprise development programmes in LDCs through, in addition to improved market access, measures aimed at improving access to finance, technology and technological upgrading.
- Effective mechanisms for dealing with volatility in the prices of commodity exports from LDCs.
- Workable mechanisms and institutional arrangements for disaster prevention, preparedness and mitigation.
- Support for LDCs' efforts to integrate environmental policies and concerns into their national development plans and to encourage the transfer of technologies and knowledge to enhance policy formulation, based on national conditions and priorities.
- Support for projects/programmes of a regional and sub-regional character to be identified in the regional round-table meetings to be organized during the Conference.
- Concrete commitments to finance country-level programmes of action.
- Financial and technical support to improve transit transport systems.
- Significant financial and technical assistance to support efforts aimed at conflict resolution, as well as the rehabilitation of productive capacity in infrastructure, the rebuilding of social and economic State institutions and revival of the economy.

121. In the Overview of *The Least Developed Countries 1999 Report*, the Secretary-General of UNCTAD and Secretary-General of LDC-III made a number of proposals for policies to improve productive capacities and competitiveness in LDCs which relate to a number of proposals made above. The transformation envisaged will create linkages between industry and agriculture, and thus engender efficient and diversified production and exports and increase the manufacturing value added of LDC export trade. LDCs and their development partners need to focus attention and resources on those areas that will enhance the internal linkages and therefore the integration of LDC economic sectors. These are set out in the annex to this document. Policy emphasis will, of course, vary for different LDCs in order to reflect the specific characteristics of each of them, such as their level of development, static and dynamic comparative advantages and physical or geographical constraints.

Annex

Policies to improve productive capacities and competitiveness in LDCs

1. Issues of productive capacity relate to the structural weaknesses in LDCs such as weak management capacity, weak institutional development, low levels of technology and lack of technological capacity, as well as inefficient transportation, communication and customs procedures which undermine trade efficiency. In addition to pricing issues, these factors also play a large part in the non-competitiveness of much of LDCs' domestic and export trade. While structural adjustment programmes that have been implemented by several LDCs since the early 1980s have addressed the price factors more or less successfully, these programmes have had a limited impact in addressing the structural weaknesses in LDCs.

2. The magnitude of the development problematique confronting LDCs has to be analysed within a context in which certain specific policy instruments, such as the infant industry protection and fiscal incentives employed by the newly industrializing economies of South-East Asia, fall foul of WTO disciplines, or can only be deployed under specified and restricted circumstances. The policy issues for enhancing productive capacities and promoting competitiveness in LDCs are analysed from cross-sectoral and sectoral analytical perspectives. The broad developmental strategy for LDCs is identified as one that reorients the incentive structure in favour of the tradeables sector in order to produce more efficiently for domestic and external markets in response to ever-increasing competition in global markets.

3. Following from this, it is argued that macroeconomic policies have to be defined within a long-term framework with a view to attaining macroeconomic stability, enhancing the external orientation of the economy and boosting export diversification. A complementary set of macro-level policies is necessary to create an enabling environment for human resources development, the development of technological capability, and the strengthening of the institutional framework and physical infrastructure to support the enhancement of productive capacities and competitiveness. Policies to promote trade efficiency have to be designed and implemented in collaboration with three main players, namely, the Government, service providers and traders. In view of the paucity of medium-sized enterprises, a coherent programme to support the growth of enterprises, from micro to small and from small to medium-sized, is required to develop the critical mass of domestic enterprises in the middle range.

4. Moreover, LDCs need to implement sectoral policies if the static and dynamic comparative advantages of the various sectors are to be translated into a diversified export base and increases in the production and export of value-added goods and services.

(i) Agriculture and fisheries

5. The policies recommended for agriculture are underscored by two main arguments. First, despite the slow growth in world import demand and the secular decline in real prices associated with primary commodity production, LDCs could increase their foreign exchange earnings from these products through productivity improvements and greater competitiveness in agriculture. Second, LDCs have to intensify export diversification programmes with a view to enhancing and stabilizing their earnings from trade. They could exploit the strong

world demand in niche products such as fish and fish products, some fresh and processed fruits, vegetables and nuts, spices and other horticultural products.

6. To attain these objectives, LDCs have to pursue a multi-pronged agricultural development strategy to diversify their production within the context of existing opportunities and long-term comparative costs. This strategy would include the use of appropriate irrigation technologies to complement rainfed agriculture, intensified research into soil and water resources, institutional and market reforms for the supply of agricultural inputs and outputs and the eradication of infrastructural bottlenecks to support efficient agricultural production. To improve their competitiveness in agriculture, LDCs will need to find innovative ways of extending credit to farmers, especially smallholders, improve rural facilities and address gender bias visible in access to land, financial resources, agricultural inputs and extension services.

7. In the case of forestry and fisheries, LDCs need to institute mechanisms for monitoring resource levels in order to guard against over-exploitation and associated ecological stress. It would be appropriate to initiate studies that would inform policy-makers on appropriate environmental protection measures.

8. Many agricultural activities, particularly in horticulture and fisheries, would benefit from technical support from development partners in order to meet sanitary and phytosanitary requirements of export markets, provided the developed countries apply such measures in a transparent and consistent manner.

(ii) Mining

9. Mining policy in LDCs has to be pursued at two different but interrelated levels: one relating to large-scale, capital-intensive mining operations, mostly State or foreign-owned; and one relating to small-scale and artisanal mining activities, which have persisted in several LDCs that have mining potential.

10. With regard to the first set of policies, Governments have to provide clear policy guidelines, supported by the necessary legislation and services to stimulate private sector interest in mining. Among other things, this would include developing the State’s capacity to implement regulatory and promotional functions, undertaking geological mapping and maintaining an updated database on mineral resources, and providing an adequate physical infrastructure to facilitate the development of the mining sector. Linked to the overall policy of developing technological capability, the Government could facilitate access to simple, modern and environmentally sensitive technologies, provide mineral laboratories and promote the establishment and development of professional and industrial mining associations.

11. The second set of policies, directed at the artisanal and small-scale mining subsector, should aim to enhance its productive capacity and competitiveness, as well as to protect the livelihoods of the large population groups dependent on activities in this sector. This would require a more transparent licensing procedure for artisanal miners and mineral dealers, accompanied by the strict enforcement of a new code of conduct in mining and mineral processing designed to eliminate fraudulent practices and to limit environmental degradation.

12. Donor assistance would be invaluable in helping LDC Governments to design and implement technical assistance programmes aimed, *inter alia*, at introducing new technologies, skills, and modern methods of management to the mining sector. Support is also needed to help Governments to provide adequate compensation for and to resettle communities whose traditional livelihoods would be dislocated by mining activities.

(iii) Manufacturing

13. The policies recommended to develop the manufacturing sector in LDCs are premised on the proposition that structural change in LDC economies requires a strategy of simultaneous development of agriculture and industry, and the integration of the informal sector, which in LDCs is substantial in relation to the formal sector, and provides a livelihood for a significant proportion of their populations.

14. Manufacturing activities, in general, would benefit from policy measures that create a more competitive macroeconomic environment. Any protection that is offered to infant industries must be in line with article XVIII (B) and (C) of the General Agreement on Tariffs and Trade (GATT) 1994, and should only be for dynamic sectors that are expanding in line with the dynamic comparative advantage. The usefulness of such protection would be enhanced significantly if it were to be accompanied by an obligation to export a rising share of the output of each firm enjoying such protection.

15. Policies that support the development of LDCs' small and medium-sized enterprises (SMEs) into competitive formal sector enterprises would strengthen the manufacturing sectors in these countries. The central lessons distilled from case studies indicate that support for SMEs should be based on specific organizational principles, and that public intervention should be:

- Focused and strategic, based on the sectoral needs of clusters;
- Channelled through private sector local representatives and self-help (stakeholder) bodies such as industry associations;
- Flexible, demand-oriented and customer-driven, rather than top-down and supply-driven; and
- Decentralized to community and regional levels.

16. Moreover, services such as finance, training and innovation support should be integrated rather than provided separately.

17. The objective of intervention should be to enhance horizontal and vertical ties among enterprises, promote collective efficiency, speed up learning, respond to the market and reduce transaction costs. Productivity results from a network effect; a combination of greater access to specialized information, greater supplier-producer interaction, access to high-quality public goods and innovation induced by rivalry within clusters. There is a growing consensus on the need for enterprise support, which calls for meso-level institutions to support SMEs. As such supporting institutions are weak in LDCs, most of these countries will need to start with the basics, by setting up institutions to provide training in business and management skills, and technical information support, as well as establishing industrial standards and quality agencies. In addition, institutions should be set up to promote an innovation culture

among firms, to develop basic research skills and to provide export information services and credit support (investment credit, working capital and export credit).

(iv) Tourism

18. The greatest challenge facing the tourist sector in LDCs is to promote tourism on a sustainable basis, that is, to ensure that tourism has limited negative impacts on the host communities and the environment, and develops linkages to other sectors of the economy, while providing satisfaction to tourists and contributing positively to government income.

19. LDC Governments interested in developing this sector would need to develop action plans and create or adapt institutions to oversee the development of human resources and the tourist infrastructure, the implementation of promotional strategies and legislation, and the involvement of the private sector. These plans should be based on an integrated approach to tourism, economic development and environmental protection, and should ensure the participation and inclusion of previously excluded groups.

20. Programmes to address the paucity of skilled labour in the tourist sector in LDCs have to be linked to the human resource development strategies for the whole economy, but must above all aim at ensuring high-quality services, which are crucial to the competitiveness of tourism in LDCs. Governments, in association with the private sector, have to upgrade the tourist infrastructure, including hotels, tourist attractions and access roads. The sector could also benefit from new promotional strategies aimed at repackaging tourist products to increase value for tourists, as well as to develop the appropriate mix between mass, low-value tourism and low-volume, high-value tourism.

(v) Other unexploited opportunities

21. Music, arts, crafts and information technology-based services are some of the unexploited opportunities open to LDCs. The realization of the foreign exchange-earning potential of the music sector in LDCs would require education and training, as well as proper legislation and an implementation mechanism, especially to enforce copyrights. Furthermore, the financing necessary to design and market innovative products would have to be found, as well as investment in new technology to produce final products able to meet the stiff competition in export markets.

22. The exploitation of information technologies for the export of services, starting from labour-intensive data-entry services, would need to be closely coordinated with policies to develop domestic technological capability in LDCs. This is because the development of a competitive information-services export sector has to be complemented by rapid growth in domestic information-technology applications and the development of the necessary local expertise and facilities, based on a modern telecommunications infrastructure, if LDCs' service exports are to be globally competitive.

23. All the above sectoral strategies need to be accompanied by comprehensive and integrated initiatives aimed at developing the physical and social infrastructure. However, given the level of resources required for such investment on the one hand, and the magnitude of the resource constraints facing LDCs on the other, the international community needs to

demonstrate the political will necessary to mobilize support that would complement the efforts of LDCs to develop their productive capacities.

B. International support measures to enhance productive capacities and competitiveness in LDCs

24. There is no doubt that LDCs cannot by themselves address the structural weaknesses that undermine their productive capacities and competitiveness. This understanding has informed several initiatives in the past by the international donor community on their behalf. These include the aid target of 0.15 per cent set in 1981 and, most recently, the Integrated Framework, adopted at the 1997 WTO High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development. As already mentioned, several factors, including the decline in ODA flows since the beginning of the 1990s and the seemingly intractable debt overhang of many LDCs, have frustrated these initiatives. At the same time, LDCs have been frustrated in their efforts to export the few products in which they enjoy some comparative advantage, despite the existence of several preferential market-access schemes for their exports.

25. A three-pronged approach to international support measures for LDCs is recommended. First, realistic and effective schemes to enhance market access for LDC products, particularly those in which they already have established capacities, should be worked out. Second, there is a need to reduce the drain of LDCs' resources, especially in the form of debt service payments, capital flight and excessive expenditure on military hardware. And, third, measures are needed to assist LDCs in enhancing the productive capacity of their economies. In this context, international support measures for LDCs should be delivered in two different but related packages: a "priority needs" package and a "long-term financial and technical assistance" package.

26. The "priority needs" package for immediate to short-term needs would consist of measures to substantially enhance market access for LDC exports, address the debt problem, increase resource inflows, upgrade skills, support trade services and deal with natural disasters. Two main measures are proposed as part of the market access scheme for LDCs. First, developed countries should provide technical assistance to LDCs to train their officials and exporters in the proper use of GSP schemes. This is particularly relevant considering that, according to a recent UNCTAD study, between 1994 and 1997 the LDC utilization rate for these schemes was generally low, and was below 50 per cent in the European Union, the main export market for LDCs. Simplification of these schemes would also greatly encourage their use by LDC exporters. Second, the developed countries should undertake to provide enhanced market access for export products that LDCs currently produce, notably by completely eliminating tariffs on LDC exports. This is particularly relevant as those products in which LDCs enjoy comparative advantage (especially labour-intensive products), or which offer possible trade diversification for LDCs - such as leather, footwear and vegetable oil - are subject to tariff escalation and tariff peaks. At a minimum, tariff peaks and tariff escalation have to be addressed as a matter of urgency.

27. While the recent improvements to the HIPC initiative are welcomed, the debt overhang of LDCs should still be included in the priority package to ensure that immediate debt relief is provided to all debt-distressed LDCs. The continuous decline in ODA flows to LDCs has to

be halted and additional resources should be directed towards upgrading skills, supporting social services as part of human resources development, and promoting trade efficiency.

28. The LDCs prone to natural disasters need international assistance in disaster management. Expertise in disaster-preparedness and post-disaster or rehabilitation activities (supported by finance) and training, incorporating the risk of hazards in the design of broader economic strategy in order to mitigate the economic impacts of disasters, would limit the shocks and losses inherent in the natural disasters suffered by LDCs.

29. Long-term financial and technical assistance would be needed to fund major investments in physical and social infrastructure, which are crucial to "crowd in" private investments in LDCs. Funding is needed to link up production centres to domestic and export markets by road, to improve port, handling and customs facilities, to improve telecommunications facilities and thus to enhance trade efficiency, and to assure reliable power and water supplies for industry. Specific projects in both developed and developing countries to promote investment in LDCs might involve, *inter alia*, investment protection agreements, taxation allowances for companies operating in LDCs and the development of venture capital funds for projects in LDCs.

30. Donor support would be invaluable in supporting enterprise development and enhancing the competitiveness of LDC economies by facilitating access to new technology, especially for SMEs, improving technological capabilities and providing training to increase local management skills.

31. Technical assistance to improve the functioning of regional trading arrangements of which LDCs are members would help LDCs to become more competitive. By opening larger markets, these regional trading arrangements would make LDCs more attractive to potential investors, encourage the pooling of resources for research on trade and trade-related issues peculiar to the region, and, most importantly, introduce LDC exporters to the exacting standards of global markets.

32. It is also crucial that LDCs should be assisted in developing their trade-negotiating capacities to enable them to participate effectively in future trade negotiations, as well as to understand and follow closely developments in the WTO and defend their trading interests individually and collectively.

33. These international support measures need to be designed and implemented in a manner that complements the domestic programmes and policies employed by each LDC to address supply-side weaknesses. In this way, not only would costly duplication of projects be avoided, but the efficacy of their domestic programmes would also be greatly enhanced.

34. The preparatory process for LDC-III gives LDCs and their development partners a rare opportunity to evolve a new strategy of development cooperation to benefit LDCs. This new strategy should be underscored by a desire to search for innovative approaches to mobilizing additional ODA and private capital flows in order to complement LDCs' own efforts to enhance their productive capacities and competitiveness in a rapidly evolving global context. Only then can the advent of globalization become, to paraphrase Shakespeare, the high tide that, if taken at the flood, could lead on to great fortune.