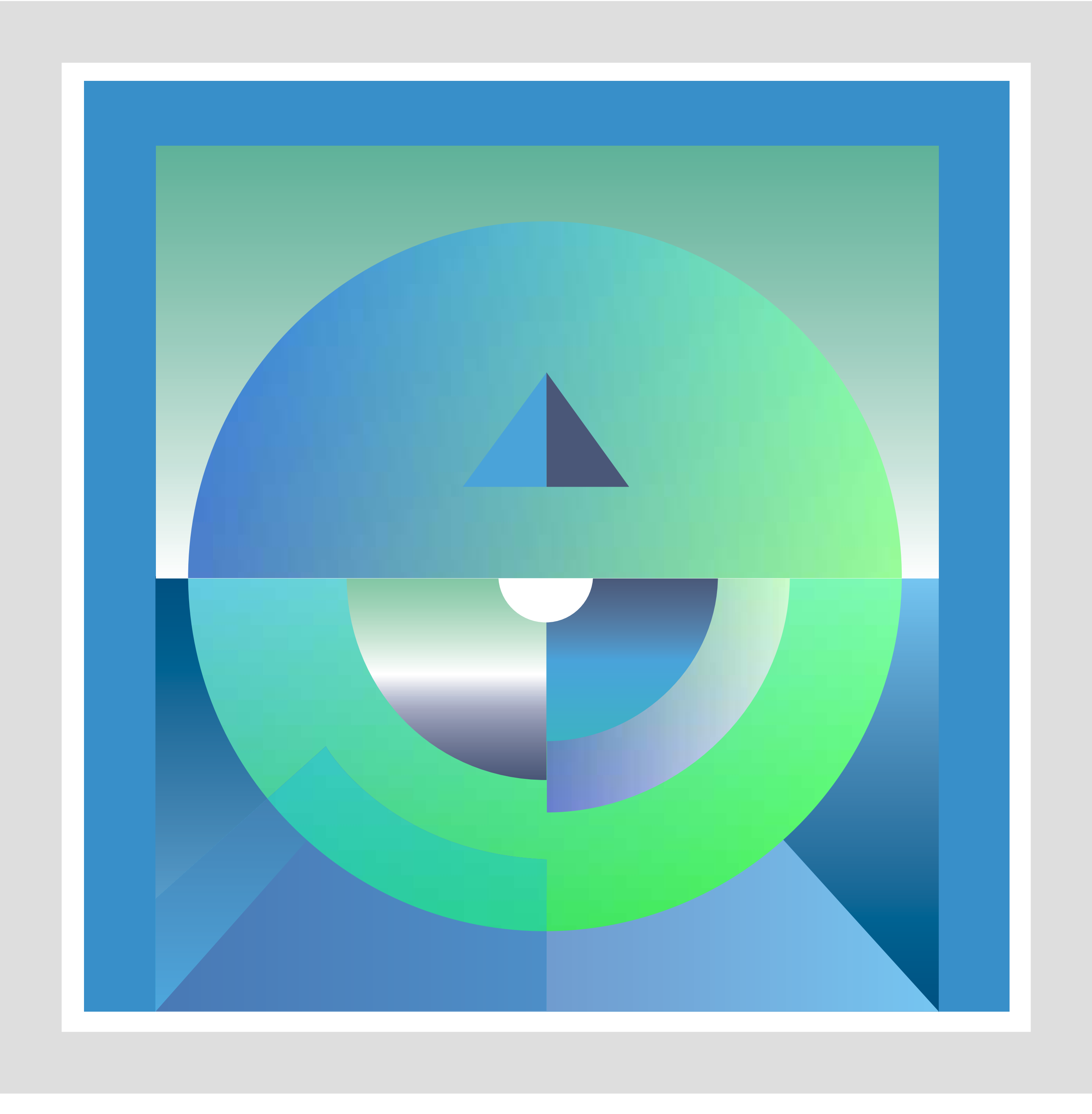
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

THE LEAST DEVELOPED COUNTRIES 1998 REPORT

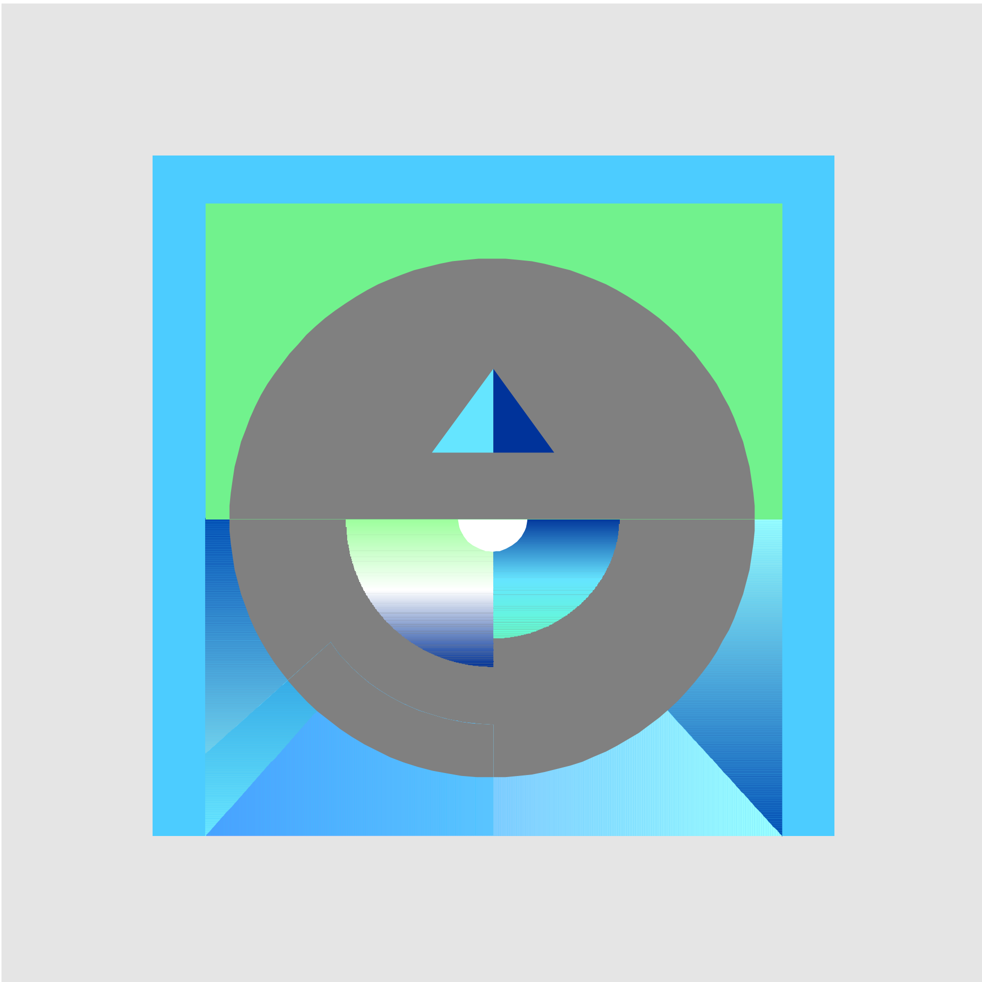
UNITED NATIONS



UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
Geneva

THE LEAST DEVELOPED COUNTRIES 1998 REPORT

Prepared by the UNCTAD secretariat



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Explanatory Notes

The term "dollars" ($) refers to United States dollars unless otherwise stated. The term "billion" signifies 1,000 million.

Annual rates of growth and changes refer to compound rates. Exports are valued f.o.b. (free on board) and imports c.i.f. (cost, insurance, freight) unless otherwise specified.

Use of a dash (–) between dates representing years, e.g. 1981–1990, signifies the full period involved, including the initial and final years. An oblique stroke (/) between two years, e.g. 1991/92, signifies a fiscal or crop year.

The term "least developed country" (LDC) refers, throughout this report, to a country included in the United Nations list of least developed countries.

In the tables:

Two dots (..) indicate that the data are not available, or are not separately reported.

One dot (.) indicates that the data are not applicable.

A hyphen (-) indicates that the amount is nil or negligible.

Details and percentages do not necessarily add up to totals, because of rounding.

Abbreviations

ASEAN	Association of South-East Asian Nations
CDC	Commonwealth Development Corporation
CFA	Communauté financière africaine
DAC	Development Assistance Committee
ECGD	Export Credits Guarantee Department
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
GSP	Generalized System of Preferences
GSTP	Global System of Trade Preferences among Developing Countries
HIPC	heavily indebted poor country
HS	Harmonized Commodity Description and Coding System
ICC	International Chamber of Commerce
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
ITC	International Trade Centre UNCTAD/WTO
LDC	least developed country
MFA	Multi-Fibre Arrangement
MFN	most-favoured-nation
MIGA	Multilateral Investment Guarantee Agency
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
SCM	subsidies and countervailing measures
SPS	sanitary and phytosanitary

TBT	technical barriers to trade
TRIMs	trade-related investment measures
TRIPS	trade-related aspects of intellectual property rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Overview

Introduction

Events of the last twelve months have demonstrated yet again the strengths and weaknesses of the globalization process, and have also confirmed the need for effective governance and management of the world economy. During 1997 world output expanded at an annual rate of 3.2 per cent, improving on the 3.0 per cent growth in 1996. Rapid growth in trade was shared by all the regions of the world, recording an impressive 9.5 per cent increase in 1997. Trade in manufactured goods increased as a share of global goods trade to around 75 per cent. 1997 was also the year when the Asian financial crisis pushed the East Asian miracle economies into recession, with large falls in real output being recorded for the first time in recent decades. It was also the year when the adverse effects of El Niño were felt in many of the world's least developed countries, a vivid reminder of their continuing vulnerability to the vagaries of the weather and unpredictable natural disasters.

This year, 1998, marks the fiftieth anniversary of the founding of the multilateral trading system under the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO). It is an occasion to remember the achievements of GATT in liberalizing world trade through successive rounds of multilateral tariff reductions and the contribution this process of freer trade has made to the economic growth and prosperity of the world economy. The expansion of markets and the provision of a rules-based system for trade between nations have together provided a powerful driver of world economic growth: world trade has expanded and international integration has proceeded apace. At the same time, the membership of WTO has increased to 132 members, two-thirds of whom are developing countries. This serves as a reminder, if any were needed, that a truly multilateral trading system requires the full involvement and participation of both developed and developing economies in the rule-making process that affects them all. To be fully credible, such a system also needs to accord due recognition to the special needs and conditions of its poorer member States.

As the new millennium approaches, it is timely to consider the opportunities and challenges of translating the reality of a globalizing and interdependent world economy into a sustained improvement in the standard of living in the world's least developed economies. The main focus of this year's Least Developed Countries Report *is an analysis of how different aspects of the multilateral trading system affect opportunities and constraints for least developed countries (LDCs) to enhance their participation in the world economy. The* Report *also examines the evolving interface between trade issues and the development objectives of LDCs. It analyses, in particular, several aspects of the multilateral trading system which traditionally have not been the main focus of concern for LDCs, but which are rapidly becoming important as these countries attempt to diversify their economies and enhance their involvement in the global economy. These issues include the extension of the multilateral framework to cover trade and the environment, and trade in services. The* Report *focuses on two other issues: the implementation of WTO agreements by LDCs and how implementation by the developed countries is likely to affect LDCs, and how the process of accession could be expedited for the 19 LDCs which are not members of WTO while ensuring that they enjoy the same rights and concessions as current LDC members. The* Report *also identifies areas where specific concessions and provisions in multilateral agreements may be beneficial to LDCs and areas in which LDCs should develop a proactive agenda which systematically puts forward their concerns and interests in the global trading system.*

Globalization, trade and development

The success of the international trading system in fostering ever-stronger economic linkages between national economies has highlighted the uneven sharing in the benefits of the globalization process. Furthermore, this has generated a new set of management and governance issues which impact on the everyday lives and well-being of the majority of the world's population, particularly in LDCs, where the people continue to live in conditions of relative poverty and hardship. That globalization does not benefit everyone equally is now widely acknowledged. LDCs are often the least able to take advantage of the opportunities that globalization presents, and globalization may lead to an increase in inequality in these countries. *The Least Developed Countries 1996 Report* drew attention to the rising inequality in the world distribution of income that has accompanied globalization. The *Report* pointed out that the differential in per capita incomes between the countries with the poorest 20 per cent of the world's population (a group that consists mainly of LDCs) and the richest 20 per cent has widened as globalization has proceeded, and that many of the LDCs were becoming further marginalized from the mainstream of the world economy. Not only have LDCs' growth rates lagged behind those in other developing countries but also their share of world exports and imports has fallen sharply. LDCs have attracted a negligible share of global flows of foreign investment and remain heavily dependent upon official development assistance to finance a large share of their investment.

This growing polarization among countries has been accompanied by increasing income inequality within countries, and poverty remains a harsh reality for significant segments of the population in many LDCs. Some 1.3 billion people – nearly a quarter of the world's population – continue to live in extreme poverty. In the year 2000, four-fifths of the people of the world will be living in developing countries, and the number in absolute poverty will still be growing.

The question of whether the international community can manage the globalization process in a way that facilitates the integration of LDCs in the world economy and at the same time offers a more equal sharing in its benefits is at the centre of the current development policy debate. Finding an answer to that question is increasingly being seen as a shared challenge and responsibility for those charged with the management of the world's economies, and this will require the active involvement and participation of all members of the international community, not least the LDCs, whose economic future is ever more closely linked to global trends over which at present they have little control or influence.

How should the international community respond, particularly to the needs of LDCs? Certainly, trade liberalization within the multilateral system will continue to perform an important role as an engine of global growth. At the same time, however, there needs to be a general recognition that an ongoing expansion in world trade is insufficient to ensure that developmental imperatives and goals are met. As President Mandela reminded the GATT Anniversary Conference, "trade does not of itself or in itself bring about a better world". What is needed is an improved system of governance of the global economy, which acknowledges, more openly than has perhaps been the case so far, that market liberalization is a good servant but a poor master of economic development.

An emerging trade and development consensus

There is already evidence of the emergence of what is increasingly being called the "post-Washington consensus" on economic development policy. The new consensus reflects a better understanding of the limitations of market forces and what is needed to make markets work better. The cornerstone of the Washington consensus which dominated development policy thinking and practice for much of the 1980s and 1990s was the belief that good economic performance depended upon liberalizing markets and getting prices right. Once these reforms were in place, private markets could be relied upon to allocate resources efficiently and to deliver robust economic growth. What is increasingly being acknowledged, however, is that this prescriptive policy package was incomplete and potentially harmful to the achievement of sustainable and poverty-reducing economic growth in the developing and least developed countries. Markets are often imperfect or incomplete and need to be supported and managed by public policy if they are to function effectively. This is most clearly seen with respect to income distribution and economic growth. The liberalization paradigm rightly asserted that sustained long-term economic growth is a necessary condition for achieving a significant improvement in the living standards of the poor, but the assumption that the benefits of faster economic growth would trickle down automatically to all socio-economic groups has been contradicted by the mounting evidence of rising inequalities in many low-income countries, even where growth performance has improved significantly. Recent research has confirmed that public policy can provide the essential intervention which allows the benefits of faster economic growth to be shared more equitably. The emergence of the post-Washington consensus on development policy has, therefore, re-established the proper role of public policy as a complement to economic liberalization and reform, which enables the market mechanism to function more effectively as an instrument of development policy.

The new consensus also recognizes that the goals of development extend beyond the relatively narrow objective of economic growth, to include distribution and poverty reduction, social development and environmentally sustainable development. There is also a recognition that the achievement of these wider developmental goals should be built on a more inclusive and participatory process of policy-making whereby all groups in society, in particular those disadvantaged groups whose voice was seldom heard in the past, participate in a variety of ways in making decisions that affect all their livelihoods.

The emergence of a broader perception of the goals of development, and a less doctrinaire and more inclusive approach to the formulation of the development policy agenda, points the way to what might be achieved by the incorporation of the same principles and ideas into the arena of international economic policy debate and negotiation. There are already encouraging signs of a greater readiness on the part of the advanced countries and the major international institutions to adopt a broader vision on matters of international economic policy and global governance and to work for shared and cooperative goals which address directly the needs of the developing and least developed countries and their people. The Director-General of WTO reflected this shift in perception in an address shortly after the fiftieth GATT/WTO Anniversary Celebration in May 1998, when he said,

> "… we must stop viewing the world through a narrow lens, and begin to look at the various challenges we face as pieces of a larger puzzle demanding broader, more integrated solutions Y many perfectly reasonable people are legitimately concerned about signs of worsening environmental degradation, unacceptable levels of poverty, human rights abuses in certain countries, or a lowering of labour standards … More than ever before trade – and the rules of the trading system – intersect with a broad array of issues and concerns which have a powerful impact on people's day-to-day lives …"

Thus, despite the lack of a broad consensus on negotiating approaches and strategies on the built-in agenda and new issues, it is possible to discern the beginnings of a "Geneva consensus", that is, an increasing acknowledgement that trade should be seen less as an end in itself, and more as a means of achieving more sustainable and equitable growth and development. Sharpening such a consensus and translating it into an operational programme of implementation will be a major intellectual and political challenge for the United Nations Conference on Trade and Development (UNCTAD), LDCs and the international community.

In part, this willingness to extend and widen the international trade policy agenda has come about as a response to the changing patterns of international exchange flows. In the rich countries of the Organisation for Economic Co-operation and Development (OECD), the balance of economic activity has swung from manufacturing to services, with the effect of shifting manufacturing to the developing countries, where lower labour costs can provide a comparative advantage. The nature of manufacturing is also changing with the emergence of a global structure of production. Today, trade is increasingly integrated with investment flows as multinational corporations using global networks coordinate international production. These structural changes in the pattern of world trade underscore recent contentions that GATT/WTO needs to shift its emphasis from the traditional concern with trade liberalization matters to "new" trade-related issues, such as trade in services, international investment and technology flows, competition policy and the environment.

The financial crisis in Asia that began in mid-1997 has had damaging effects both within and outside the region. The fact that it occurred in a region that had previously been seen as the most successful developing region in the world has had a profound effect on current thinking on trade and development strategies, and on the role of the international bodies responsible for managing the world economy. The crisis has also had an important influence on the emergence of the new development and trade policy consensus. The financial crisis in Asia has provided a stark reminder that globalization is double-edged, bringing risks as well as opportunities. The impact has not been confined to the countries at the centre of the storm, and contagion and spillover effects have affected developing countries' growth prospects. The large exchange rate devaluations in the Asian countries have damaged other developing countries' relative competitiveness, while weakened demand in the Asian markets has impacted adversely on the export prospects of both developed and developing countries. Combined with the effects of adverse weather conditions and the decline in commodity prices, this has meant that growth projections for LDCs have had to be revised downwards.

Several factors contributed, in varying degrees in different countries, to the Asian crisis, but a common factor was the weakness of financial markets. The relaxation of controls on financial institutions and the liberalization of capital accounts encouraged reckless lending and excessive exposure to foreign exchange risks by financial institutions and their customers. The crisis has a number of important lessons for development and financial policy. It shows that full-blown capital liberalization increases short-term capital volatility and contributes little to investment and growth. What is needed are policies that will both inhibit the flow of short-term capital and at the same time encourage long-term capital inflows, especially foreign direct investment. More generally, the crisis confirms that the free market cannot be relied upon to lead to a socially optimal outcome. What is lacking, for now, is a public policy that manages and controls the behaviour of financial markets; these markets, if left unregulated, are likely to produce less than optimal outcomes that are inimical to long-term real growth and development.

If a new agenda for international dialogue on trade and development is to be sustainable and is to command the support of the whole international community, then LDCs must share as equal partners in its formulation and must be able to claim ownership of it. The particular interests and concerns of the developing countries were acknowledged in the Uruguay Round negotiations, but much remains to be done to ensure that LDCs are able to access fully the benefits of membership of WTO and that their needs are addressed both in the implementation of the existing agreements and in the ongoing negotiations on the built-in agenda and consideration of new issues.

Recent growth performance in LDCs

The Least Developed Countries 1997 Report recorded the significant developments that had taken place among LDCs in the mid-1990s, when determined efforts to implement economic policy reforms led to improved economic performance in about half of the LDCs. This progress was maintained during 1997. Growth performance for the LDCs as a group averaged 4.8 per cent in 1997, one percentage point below the average growth recorded by the developing countries. Some 34 LDCs recorded an increase in per capita income. Twenty-five LDCs have now maintained per capita growth for three or more consecutive years, underscoring the economic recovery which began in the mid-1990s. Considering that the past economic growth of most LDCs has been extremely episodic, this sustained growth performance is encouraging.

The overall improvement in LDCs' economic performance in 1997 was due to a combination of factors, including enhanced macroeconomic stability as a result of prudent fiscal and monetary policies, some delayed effects of recent reform efforts, favourable weather in some Asian LDCs, and improved economic growth in Europe and North America, which are major markets for LDCs. However, this performance was not strong enough, relative to the rest of the world (in particular other developing countries), to prevent a continuing decline in the LDCs' share of world production and trade. Furthermore, the fragile nature of LDC economies, reflecting their vulnerability to exogenous shocks, lack of diversification, risk of policy reversal and threat of armed conflict, continues to threaten the sustainability of the recent recovery in performance.

The unfolding economic turmoil in East Asia raises considerable uncertainty over the short-term prospects for world output and trade. Lower non-oil commodity prices, exacerbated by weakened demand in Asian markets, will negatively affect a large number of LDCs which are highly dependent on commodities for their export earnings. Likewise, the global allocation of financial flows is expected to be affected significantly in the aftermath of the crisis. A re-evaluation of the risks associated with investment in emerging or pre-emerging economies may lead to scarcer and more expensive private external financing for LDCs. Furthermore, given the sheer size of the recent rescue packages for those countries in financial turmoil, the facilitation of concessionary finances to deal with the emergency needs of LDCs, particularly if these include calls on donor countries such as schemes under the Heavily Indebted Poor Countries Debt Initiative, will be significantly constrained.

Economic growth in African LDCs weakened slightly in 1997, but their recent growth momentum was maintained in spite of several unfavourable exogenous developments, such as bad weather, declining aid and weakening commodity prices. Drought and untimely rain caused extensive crop failures in LDCs in southern Africa and in some Sahelian countries, while the economies of eastern Africa in particular were devastated by severe floods during the last quarter of 1997 and early 1998. The floods resulted in not only significant food shortages but also heavy loss of human life and severe damage to the agricultural and transportational infrastructure in the region. Apart from the immediate need to supply emergency food, shelter and medical care to the people affected by the floods, the need for long-term agricultural and infrastructural rehabilitation in the region has put additional pressure on budgetary resources. This could have an adverse effect on both short-term macroeconomic management and long-term development planning if LDC Governments have to divert a significant amount of resources to meet these emergency needs. In other African LDCs, prudent fiscal and monetary policies and the liberalization of the exchange rate continued and brought about improvements in inflation, governmental fiscal balances and current account balances.

Asian LDCs maintained their steady economic progress in 1997, recording 5.4 per cent growth, but economic growth in the region as a whole was dampened as the financial crisis unfolded during the second half of 1997. Asian LDCs appear to have been only mildly affected in the early period of the crisis, but with a steep contraction of economic activity under way in the region in 1998, Asian LDCs who relied on their dynamic neighbours as a source of investment and trade are facing severe challenges in the form of a sharp fall in net transfers of earnings from expatriate workers, weak export performance and declining inflows of foreign direct investment.

Although the recent performance of many LDCs has been encouraging, the prospects for sustaining the recent growth momentum, especially in Africa, remain highly uncertain. There has been a lack of response from the private sector to the opportunities provided by the improved macroeconomic environment and liberalized markets in LDCs. Analysis of the sectoral contribution to growth in LDCs over the past two decades confirms that there has been little structural diversification and confirms that the agricultural sector continues to be the major contributor to growth in LDCs. The manufacturing sector's share of gross domestic product (GDP) in LDCs remains below 10 per cent. Economic performance in LDCs remains highly dependent therefore on the agricultural sector, whose performance in turn is vulnerable to exogenous and unpredictable shocks, be they from the weather, natural disasters, fluctuations in export prices or political disturbances.

Investment and savings in relation to GDP have remained very low in LDCs despite some improvement of late, and in many countries investment is insufficient to cover replacement needs, let alone support new productive capacity. Foreign direct investment in LDCs is also scarce, and is concentrated in the mineral-rich countries. The weak performance of investment and savings, coupled with scanty inflows of foreign direct investment in LDCs, casts serious doubt on LDCs' ability to sustain the momentum of the recent recovery. With little evidence of a major productivity breakthrough in the near future, a significant increase in domestic and foreign resource mobilization to raise investment levels is the key to achieving sustained long-term economic growth in LDCs.

Opportunities and constraints for LDCs in the multilateral trading system

Finance for development

The mobilization of resources for investment has long been acknowledged as a key condition for achieving sustained long-term economic growth. For LDCs, however, the average savings and investment rate has been much lower than that of other developing countries and well below the level needed to stimulate or sustain a strong economic recovery. The LDCs' record of low savings and investment has been exacerbated by the decline in public investment levels in many countries as Governments pursued more prudent budgetary and fiscal policies. As public investment has fallen or remained static, the role of the private sector in investment is becoming more important. The development of the domestic financial institutions and regulatory framework is a key instrument in the mobilization of additional domestic savings from the private sector. *The Least Developed Countries 1996 Report* documented the progress made by LDCs in strengthening their financial sectors; this year's *Report* focuses attention on the contribution that external investment resources can make in helping LDCs to maintain their growth momentum. In this regard, the *Report* discusses the role that official agencies can play in supporting public–private partnerships for the financing of investment projects in LDCs, using new forms of joint-venture finance arrangements.

The contribution of private foreign investment in LDCs remains low. In part this is due to the structural characteristics of the LDC economies, where financial markets are underdeveloped, information available to potential investors is imperfect and the risks attached to longer-term investment are high. A potentially important factor that influences the volume or direction of foreign investment flows to LDCs is the level of official support offered to private-sector investment. In conditions where markets are weak and operate imperfectly, there is a need for public intervention to support and encourage private investors. A number of multilateral agencies already 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. These bodies include the International Finance Corporation (of the World Bank group) and the Multilateral Investment Guarantee Agency. The regional development banks and bilateral donors also make an important contribution in this area. However, the extent to which these institutions have supported private-sector investment and resource mobilization in LDCs has been highly variable. In the case of the International Finance Corporation, for example, only 2.6 per cent of its investment portfolio and 9.4 per cent of its investment projects in 1997 were in LDCs. A similar pattern can be observed for many of the other agencies. In part this reflects the fact that their participation is demand-driven and shows the agencies' response to proposals or requests from private-sector investors. Public support has grown in recent years for the use of private investment to finance infrastructure projects, using various arrangements linking repayment to the revenues raised from the operation of the new infrastructure. However, here again, LDCs have not participated to any significant extent.

Public agencies can play a key role in supporting private investment in situations where the private market provides inadequate or incomplete information to potential investors. They can also act as brokers in establishing public-private investment partnerships to finance jointly infrastructure investments that neither partner acting alone would be willing or able to undertake. However, most LDCs have little experience of these sophisticated forms of project finance and need technical assistance and advisory services on setting up such arrangements. Funding on concessional terms from multilateral and bilateral agencies, partial risk guarantees and special government guarantees and financial support will also be needed to structure the financing of the projects. The international community can contribute to LDCs' efforts to improve their investment performance by helping to mobilize private finance for investment projects in LDCs, particularly in various infrastructure sectors.

External development finance and debt

The external debt burden of LDCs continues to hamper efforts to mobilize more resources and acts as a constraint on their capacity to accelerate growth. This burden has not been eased by the decline of over $1 billion in the flow of external resources to LDCs in 1997. As in earlier years, official development assistance continues to account for most of the external flows to LDCs. There was a sharp drop in aggregate flows of official development assistance to LDCs in 1996, from $16.6 billion in 1995 to $14.2 billion, which represents a fall in the LDCs' share of total flows of official development assistance from 28 per cent to 24 per cent. The overall outlook for development assistance is bleak, as the United States seems hesitant to maintain a leadership role in the provision of aid and the Japanese economy is moving into recession. Moreover, although the recent mobilization of resources by the international community to help the East Asian countries in crisis may not have diverted aid funds set aside for the poorest countries, the crisis has shifted the focus of international attention to the Asian region and significantly increased that region's claims on global resources.

The speed and magnitude of the international community's financial support to the Asian economies in crisis contrast sharply with its hesitant response to the debt overhang and decline in real aid flows which continue to restrain development prospects in LDCs. Many LDCs have been unable to meet their obligations fully, and by the end of 1997 a total of 19 LDCs had rescheduled their debts. Of the 41 countries identified as heavily indebted poor countries (HIPCs), 29 are LDCs, and are in principle eligible for consideration of additional relief under the HIPC initiative. By mid-April 1998, nine countries, six of which were LDCs, had been reviewed for eligibility for additional debt relief under the HIPC scheme. However, progress in completing the eligibility process has been slow, and it seems that only three LDCs will reach completion point before the end of the year 2000. It appears therefore that few LDCs will benefit from the HIPC initiative over the short or even medium term. Continued efforts are needed on the part of the international donor community to address the problems of LDCs' indebtedness and the downward trend in real aid flows to them, if the opportunity to transform the recent recovery in many LDCs into sustained economic growth is not to be lost.

LDCs and the multilateral trading system

Strengthening LDCs' capacity to participate in the multilateral trading system, including accession to WTO by those LDCs which are not already members, should be an important part of the efforts by the international community to integrate LDCs into the world economy. Membership of WTO allows countries to design their development strategies and trade policies in a more predictable, transparent and stable environment. It also allows them to advance their trade and economic interests through effective participation in multilateral trade negotiations, thereby obviating the need for a series of periodic bilateral trade agreements with trading partners. However, WTO is more than just a trade organization: its influence extends beyond trade negotiations and it has a growing impact across a wide spectrum of trade-related issues. LDCs therefore cannot remain indifferent to its activities, nor can those that are not yet members expect to remain unaffected by the processes and evolution of the trading system. More significantly, LDC members of WTO have an opportunity to play a proactive role in the workings of the organization and to ensure that their interests are properly recognized in the emerging "Geneva consensus" on issues that fall within the parameters of the trade–development nexus. Even from a weak multilateral bargaining position, these countries can contribute to the dialogue in WTO by articulating their interests and formulating specific proposals on the implementation of the Uruguay Round agreements and on the negotiations on the built-in agenda. Those that are not yet WTO members must ensure that accession negotiations take full account of their shared, development-oriented problems.

Accession to WTO

In order to achieve accession on terms consistent with their trade, financial and development needs, LDCs need to formulate their major negotiating objectives on the basis of a detailed analysis of their economic strategies and policies and their conformity with the obligations of WTO membership. Accession negotiations and eventual WTO membership require a considerable strengthening of the national institutional infrastructure in acceding countries, many of whom have found themselves poorly equipped in terms of human and financial resources to meet this challenge. A major effort is required with respect to institution-building and -upgrading, training in specialized skills and improving information collection, coordination and management. UNCTAD, with its wide-ranging and multidisciplinary technical expertise, has a particular contribution to offer LDCs in many of these areas.

In the light of the exceptionally heavy burden that the accession process imposes on the limited human and institutional capacity of LDCs, the process might be reviewed in order to reduce the obligations it entails for them, without compromising the transparency and integrity of the WTO multilateral rules and disciplines. Without the full institutional integration of LDCs in the multilateral trading system, there cannot be a truly global framework for the management of the world economy. The developed and the more advanced developing countries have already demonstrated their commitment to accession of all LDCs to membership of WTO. The challenge, however, is not only to expedite the process, but to ensure that the process is non-discriminatory in the sense that it acknowledges the common policy, institutional and structural problems faced by LDCs, and treats them accordingly. If this challenge is met, LDCs will be able to assume full, participative roles in the multilateral order they have chosen to join.

Implementation of the Uruguay Round agreements

Most of the 29 LDCs who are currently members of WTO started the process of accession in the course of the Uruguay Round negotiations, but many failed to anticipate fully the consequences of membership on their particular trade and development interests. Some of these consequences have become clearer as the countries have sought to implement the agreements and fulfill their obligations. The implementation of the agreements has posed two distinct types of problem for LDCs: (1) problems derived from their own processes of interpretation and domestic implementation of the agreements; and (2) problems arising from the parallel processes of other WTO members.

The relationship between a country's municipal or domestic law and international law is a complex one, even when it is not complicated by development-engendered problems. Four general activities, nevertheless, characterize most domestic exercises in implementation, and LDCs have experienced special difficulties in carrying out each of them.

First, notifications to the WTO secretariat, which are designed to promote transparency, involve the compulsory sharing of specific information relating to the trade policy and trade measures of Governments. They present major administrative hurdles for countries with a poor communications infrastructure and an understaffed or inefficient civil service. Given the number of WTO agreements that include provisions for notification, it is not surprising that LDCs have experienced particular problems in complying with these provisions.

Second, trade-restrictive measures have to be eliminated. These are mainly non-tariff barriers in the agricultural sector, investment-related domestic content requirements or subsidies to facilitate import substitution. While there may be good reasons for treating barriers of the first and second kind as temporary measures taken for balance-of-payments reasons under article XVIIIB of GATT 1994, prohibited import substitution subsidies must be abolished by the end of 2002.

Third, certain agreements mandate the establishment of national institutions, typically to perform administrative or enforcement-related functions. While this may represent a heavy drain on the financial and administrative resources of LDCs, it is important to recognize that to delay the establishment of an institution whose creation is not compulsory (e.g. anti-dumping authorities to comply with the Agreement on Implementation of Article VI of GATT 1994) may involve further costs.

Fourth, many agreements involve compulsory legislative enactment and the formulation of procedures. LDCs' problems in this respect generally parallel those associated with the establishment of obligatory executive institutions.

As was mentioned above, the way in which non-LDC WTO members implement their WTO obligations can also create particular problems for LDCs. Article XX of GATT 1994 and the agreements on anti-dumping, technical barriers to trade, and sanitary and phytosanitary measures, in particular, include a number provisions whose interpretation could adversely affect LDCs' export interests. Moreover, any problems that LDCs experience in this respect are likely to be compounded by the non-diversified nature of their exports.

In addition to the problems of implementation per se, LDCs are also particularly exposed to what might be described as the ongoing or unfinished business of implementation. Many of the Uruguay Round agreements involve continuing reviews or built-in agendas; these reviews are often effectively fully-fledged negotiation processes. LDCs need to be prepared to defend their interests in each of the respective forums, for example with regard to non-actionable subsidies under the Agreement on Subsidies and Countervailing Measures, the patenting of plants and animals under the Agreement on Trade-Related Aspects of Intellectual Property Rights, the limitations of anti-dumping panels, and the formulation of rules of origin under the Agreement on Trade-Related Investment Measures.

It is important to emphasize that the benefits of the Uruguay Round agreements are contingent upon the implementation of obligations and commitments. LDCs, particularly those in Africa and the net food-importing countries, are adjudged to benefit the least from the agreements because of their weak integration in the multilateral trading system. They risk being marginalized further if they are unable to implement effectively their WTO commitments and therefore cannot make the most of whatever opportunities the multilateral trading system offers. The implementation of the Uruguay Round agreements and the provision of technical assistance programmes to enhance the participation of LDCs in the multilateral trading system should be priorities for the international community in the immediate future.

LDCs and trade in services

Trade in commercial services, which include travel, transport, communications and financial and professional services, accounted for about 25 per cent of world trade in 1996. The revolution in information technology has made many services increasingly tradeable, and the lowering of communication costs has added a new dimension to global integration, with important implications for LDCs as they seek to enhance their participation in the world economy. To compete successfully in the international arena, LDCs need to ensure that producers can access efficient, competitively priced producer services; such services are a key element in determining international competitiveness both for firms and for economies as a whole.

The importance of the global trade in services is reflected in the inclusion of services as a new issue in the Uruguay Round agreements. The General Agreement on Trade in Services (GATS) sets out multilateral principles and procedures to govern trade in services, and although it contains no general obligation to offer national treatment or market access to foreign suppliers, specific duties of this nature do arise in the sectors and subsectors included in each member State's individual schedule of commitments. Article XIX of GATS provides for appropriate flexibility for developing countries and LDCs in extending market access in line with their development situation.

GATS has important implications for LDCs, despite the fact that their service sector is still at a relatively early stage of development. The focus in GATS on opening markets poses difficult challenges for policy makers, who will need to balance carefully the costs and benefits of greater competition. In addition, since the liberalization of trade in commercial services often also involves domestic regulatory policies and legal requirements, any reforms that may be introduced will need to have an internal as well as an external dimension. LDCs stand to gain from such reforms through either the expansion of their service exports or improvements in the competitiveness of their domestically produced services. Unfortunately, they are often too poorly equipped in terms of institutions and human and financial resources to derive the maximum benefit from the strengthening and expansion of their involvement in international trade in services, and they find themselves at a considerable disadvantage in preparing for trade negotiations and in formulating domestic policy reform measures. There is a need for international support to strengthen LDCs' institutional infrastructure and help them to acquire the skills required to identify the main issues and policies concerning their integration into the international economy on terms that will increase their economic progress and leave them better equipped to compete internationally, while at the same time their special development priorities and concerns as LDCs are recognized.

LDCs and the environment

LDCs have traditionally given little attention to environmental issues, and even less to the trade-related aspects of such issues. In recent years, however, environmental degradation has become an internationally recognized fact, and LDC Governments have acknowledged the need to integrate environmental considerations into their development planning and poverty alleviation programmes. Many have introduced national environmental action plans or similar projects designed to strengthen institutions, monitor and enhance environmental quality, provide environmental education and raise public awareness. Significantly, however, trade-related environmental and environment-related trade issues have received little or no explicit mention in these plans.

Many of the issues that are under consideration in the WTO Committee on Trade and Environment affect LDCs just as they affect other developing countries. Environmental requirements, for example, restrict market access for LDC producers in exactly the same way as they do for those in relatively more developed countries. LDC producers, however, are generally much less better prepared to accommodate such requirements in their production processes than their competitors in other developing countries. Their resulting market access problems can, in turn, be compounded when multiple measures (designed, for example, to safeguard both the environment and health) are imposed simultaneously. The fact that LDC export earnings typically depend on a limited number of items may further exacerbate these problems.

In other instances, trade-related environmental issues pose a special challenge to LDCs. While environmental degradation can reduce their capacity to generate future export earnings, these countries are especially vulnerable to the dumping of wastes, environmentally harmful products and obsolete technologies that may, directly or indirectly, lead to such degradation. Lack of information on the toxic or hazardous nature of such wastes as well as multiple points of entry make it extremely difficult for LDCs to legislate and implement import bans on such materials. The costs of any environmental degradation they may suffer then tend to be compounded by their lack of economic diversification.

The trade-related environmental problems of LDCs reflect a myriad of development-related linkages and it is more appropriate to describe them in terms of their broader socio-economic context, not as trade-related environmental issues, or even environment-related trade issues, but rather in terms of the overall problems of trade expansion. LDCs' environmental problems include inadequate sanitation facilities, water pollution, land degradation, deforestation and loss of biodiversity. These problems are closely related to poverty, population pressure, market and policy failures, and dysfunctional institutions. They are also aggravated by social and political instability. WTO environmental disciplines seek to restrict the use of trade measures to achieve environmentally-oriented ends, and they are premised on certain assumptions with respect to member States' infrastructure and institutional capacity that exclude many of the LDCs' most pressing concerns. Greater attention needs to be given by the international community to increasing the capacities of LDCs for policy analysis and improved coordination on trade and environment issues, to help reduce some of the constraints that at present hinder the achievement of sustainable development in LDCs.

Advancing the new consensus

Over the past decade, Governments have been considering the contours of a new post-cold war order based on promoting sustainable economic growth and development. There is a growing recognition that globalization has led to a disjunction of economic and political structures at the international level, where the boundaries of economic activity bear less and less resemblance to national and political frontiers. Equally, the economic gap between the economies of the North and South, and even between economies within the South, has widened, while at the same time the pace of economic integration has accelerated. The traditional separation between trade and investment has been eroded as manufacturing production is increasingly organized and managed at a global level. As developing economies have become more open and integrated into the global economy, so the need for a closer integration of development policy and trade issues is increasingly being acknowledged. The efforts to accommodate these disjunctions in the world economy have been concentrated in the United Nations and WTO but integration at the international institutional level has lagged behind the evolving realities of the globalization process. Meeting the challenge of achieving a closer integration of the trade and development policy agendas will not be easy and will require new negotiating techniques and approaches, in which proper recognition is given to the concerns and interests of LDCs. There is, fortunately, evidence of a will on the part of the whole international community to strengthen the international institutional structures in a way that will ensure that the globalization process is directed towards achieving sustainable growth and development, particularly in LDCs.

LDCs themselves can make a significant contribution to the rule-making process in at least three ways, namely, by taking an active part in negotiations which are part of the built-in agenda, making specific suggestions to improve certain agreements, and taking an active interest in the current debate on new issues.

With regard to the built-in agenda, one way in which LDCs can contribute to the rule-making process is by identifying their strategic interests in the negotiations which are due to start in 1999. Considering the importance of agriculture as a source of food and livelihood in the economies of LDCs, they may need to seek a review of those provisions in the Agreement on Agriculture that at present constrain the production of food for domestic consumption. LDCs should be able to provide subsidies and take import control measures to improve their agricultural production. There is also a case for redressing the present weaknesses in the provisions as regards the food needs of net food-importing LDCs. In the area of services, the effective liberalization of labour-intensive services in the developed countries and the movement of labour from LDCs should be the subject of serious negotiations. If combined with a full relaxation of limitations and conditions in sectors in which the developed countries have made commitments for market access and national treatment, LDCs should be in a position to derive significant benefits from the liberalization of the services sector.

There is room to improve certain agreements so that they take into consideration the structural constraints facing LDCs. For example, there is a need to redress the imbalance between rights and obligations in the Understanding on Rules and Procedures Governing the Settlement of Disputes, and the cumbersome and costly dispute settlement procedure itself needs to be reviewed. The balance-of-payments provision in article XVIIIB of GATT 1994 needs to be reviewed so that it takes into account the structure and nature of reserves and flows in determining whether a country is facing a balance-of-payments problem. In the choice of measures to control imports in the event of a balance-of-payments problem, LDCs need to be in a position to exercise full flexibility, under the scrutiny of the Balance-of-Payments Committee, in view of the fact that price measures are less effective in their relatively undeveloped economic systems. The Agreement on Trade-Related Aspects of Intellectual Property Rights needs an operational provision on the promotion of technological innovation and transfer of technology if its objectives are to be attained.

LDCs have to be active participants in the current process of debating and formulating negotiating positions on new issues, not only to safeguard potential benefits, but also to protect against possible risks and losses. In the area of the environment, LDCs' initiatives need to be aimed at acquiring the necessary technology and resources for environment-friendly process and production methods. They need to be fully involved in the WTO debate on investment, to ensure that any future course of action takes due account of their vital interests. They need to insist that any future course of action on investment should be focused on development; that is, it should combine the twin objectives of the development of host countries and adequate protection for investment. In the area of competition policy, a flexible policy is needed that accommodates the development objectives of each country. It may, however, need to be supplemented by an operational guideline for foreign firms to ensure that their activities are consistent with a country's development process, as well as to safeguard against possible restrictive business practices by both foreign and local firms; in this way, the ground can be laid for firms to become internationally competitive. LDCs need to follow closely the exercise on government procurement, to ensure that they are not overburdened with the dissemination of information on bids and the evaluation process, and that domestic suppliers are not disadvantaged in competitive terms.

Making the most of the GATT/WTO system

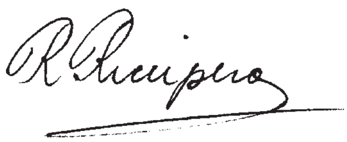
The principles of reciprocity and mutual advantage which underscore the GATT/WTO system mean that a weak economy may not automatically receive the full benefits of the system. Several corrective measures were taken in the past within GATT/WTO in recognition of this problem. Part IV of GATT 1994, the differential and more favourable treatment granted to developing countries, particularly LDCs (as contained in the so-called “enabling clause”), and the specific special treatment provisions in the various WTO agreements are evidence of these measures.

In the past, however, LDCs have not been spared from very strict import controls in sectors such as textiles and clothing. In the field of agriculture, LDCs have not been spared from the obligation of binding all tariffs; in the field of subsidies, LDCs are required to eliminate their import substitution subsidies by the end of the year 2002; and there is no special provision for exemptions for LDCs in the area of anti-dumping.

As weak trading partners, LDCs face a considerable handicap in a multilateral trading system based mainly on reciprocity. It therefore becomes imperative that an effective system of special provisions for them should be made an integral part of GATT/WTO. Far from being an exercise in generosity, this should be treated as a corrective measure to deal with the structural weaknesses of LDC economies as well as to ensure a balance in the distribution of the benefits of the system. In this regard, effective surveillance of the implementation of the special and differential treatment measures becomes necessary. A WTO body, such as the Committee on Trade and Development, could have periodic consultations with individual members, particularly the developed-country members, to examine the implementation of these measures.

The GATT/WTO system at its best can only provide a healthy and helpful environment; it is up to LDCs themselves to implement policies that will enable them to derive the benefits from it, while at the same time minimizing any losses. Similarly, they themselves have to improve their institutional capacity to identify their trade and development interests in the multilateral trading system. For this purpose, they need to upgrade their domestic institutions and establish an appropriate consultative mechanism that takes into account the interests of all groups affected by any issue being dealt with in WTO, in order to arrive at an overall national position. All stakeholders need to be involved in this exercise. After the country’s interests have been identified, there is a need for careful preparation before pursuing them in the relevant WTO bodies. In this process, coordination with other LDCs and other developing countries will be of the utmost importance, as their interests will very often be similar. Moreover, the combination of the efforts of LDCs and other developing countries will strengthen their capacities to prepare and negotiate.

One thing is clear: WTO will have a wide-ranging impact on the economies of countries and the global trading system. It is important for LDC members to participate in it effectively if they are to maximize their benefits from it and minimize any associated adverse effects, and it is the duty of the international and multilateral organizations to provide them with all possible support to facilitate their participation.



Rubens Ricupero
Secretary-General of UNCTAD

Part One

Global Economic Developments and LDCs

Recent Developments and Outlook

Chapter 1

A. World economic growth and trade

World output expanded at an annual rate of 3.2 per cent in 1997, marginally higher than the rate of 3.0 per cent recorded in 1996. The improvement reflected a slightly better performance by the developed market economies and the growth of the transitional economies of central and eastern Europe. These improvements, however, were offset in part by declines in the growth rate of many developing countries in Asia and Africa. Such declines were particularly pronounced in the Asian economies most affected by the financial crisis in that region, but growth also slowed in China in 1997. The decline in the growth rate of African economies reflected declines in commodity prices and adverse weather conditions, due in particular to El Niño (see below), as well as armed conflicts. In sharp contrast, Latin America recorded its best performance in a quarter of a century, thanks largely to continued export expansion and a robust recovery in investment. All in all, the 5.4 per cent growth rate enjoyed by the developing countries as a whole was well above the growth rates of other groups of countries (see table 1). The continued economic reform efforts of the least developed countries (LDCs) led to an overall output growth rate of 4.8 per cent in 1997. Gross domestic product (GDP) rose by 5 per cent or more in 20 LDCs (for more details, see table 5).

The volume of world merchandise trade recorded an impressive 9.4 per cent growth rate in 1997.[1] In fact, before the onset of the Asian financial crisis, virtually all industrialized countries, with the notable exceptions of the United Kingdom and the United States, were relying on increased exports for economic growth. This was especially the case in the European Union; in Japan, too, domestic demand was sluggish owing to restrictive fiscal policies. The sharp contraction of import demand in Japan and the East Asian countries affected by

TABLE 1: GROWTH IN WORLD OUTPUT
(percentage per year)

	1981–90	1991–94	1995	1996	1997[a]
World	2.8	1.8	2.5	3.0	3.2
Developed market economies	2.9	1.5	2.1	2.5	2.7
Developing countries	2.4	4.8	4.6	5.9	5.4
Africa	1.9	0.5	2.7	4.6	3.3
Asia	7.0	8.1	9.0	7.1	5.9
Middle East & Europe	2.2	4.1	3.6	4.9	4.4
Western hemisphere	1.0	3.9	-0.1	3.6	5.2
Countries in transition	1.6	-8.7	-1.1	-1.6	1.4
LDCs	2.6	1.1	4.4	5.5	4.8
African LDCs	1.9	0.2	4.7	5.3	4.7
Asian LDCs	4.8	4.4	4.5	5.5	5.4

Source: UNCTAD secretariat calculations based on Asian Development Bank (1998), Economic Commission for Africa (1998), IMF (1998), United Nations (1997) and World Bank (1998).

a Estimates.

the financial crisis and the near-saturated state of import demand growth in the United States and the European Union are likely to lead to a slowdown in world trade in 1998. The prospect of inflated, politically sensitive trade deficits in the developed economies, which may trigger a move towards protectionism, creates more uncertainty over the prospects for world trade and output.

A notable feature of the current price cycle is the insensitivity of non-oil commodity prices to the recovery in industrial demand, which contrasts sharply with the comparable recovery in 1994, when the prices of both agricultural raw materials and ores and metals rose sharply in response to resumed growth in demand.

There was a significant improvement in price stability in most groups of the world economy in 1997, primarily as a result of strong and sustained policy commitments to price stability and productivity growth, in part in response to increased global competition. Weak commodity prices, including oil prices, also helped to keep the inflation rate in check. Consumer prices in the developed market economies, for instance, rose by only 2 per cent on average in 1997, the lowest level since 1961. The favourable financial conditions along with robust export demand have contributed to recent economic growth in these economies.

The apparent stability of non-oil primary commodity prices in 1997 was the result of substantial increases in the prices of tropical beverages on the one hand and declines in the prices of agricultural raw materials on the other. Commodity prices have been following a downward trend since the mid-1970s, and that trend has been exacerbated by the adverse effects of the Asian financial crisis. From June 1997 to April 1998, non-oil commodity prices recorded on average a decline of 10 per cent. This decline was particularly marked in the case of agricultural raw materials and metals (see table 2). Oil prices also fell by nearly 40 per cent from their peak levels in 1997 as a result of slowing growth in demand aggravated by the warm winter in the northern hemisphere, which reduced the demand for heating oil. An acceleration in production expansion and the considerable build-up of inventories also contributed to lower prices. A notable feature of the current price cycle is the insensitivity of non-oil commodity prices to the recovery in industrial demand. This contrasts sharply with the comparable recovery in 1994, when the prices of both agricultural raw

TABLE 2: GROWTH IN WORLD TRADE AND DEVELOPMENTS IN COMMODITY PRICES
(percentage per year)

	1985–90	1990–95	1995	1996	1997[a]
World trade	5.4	6.0	9.0	5.0	9.4
Volume of exports					
Developed market economies	5.1	4.4	7.6	4.2	8.8
Developing countries	6.5	8.1	11.5	6.0	11.5
Western hemisphere	1.8	6.2	12.0	11.0	12.5
Africa	4.3	2.4	5.0	7.0	5.5
Volume of imports					
Developed market economies	6.2	3.7	8.2	3.8	7.9
Developing countries	4.1	9.3	11.0	6.5	10.0
Commodity prices					
Oil	-4.2	-5.2	8.6	18.9	-6.2
Non-fuel	1.9	2.5	10.2	-4.2	-
Food	4.4	1.4	5.7	6.6	-4.1
Beverages	-9.5	7.9	1.1	-16.5	28.8
Agricultural raw materials	3.6	4.1	16.1	-10.5	-10.9
Minerals and metals	5.7	0.1	17.6	-12.9	-

Source: UNCTAD secretariat calculations based on United Nations (1997) and the UNCTAD *Monthly Commodity Price Bulletin* (various issues).
a Estimates.

materials and ores and metals rose sharply in response to resumed growth in demand. There are several reasons for the inelastic price behaviour observed in 1997: first, many commodities were in ample supply; second, the subdued inflationary tendencies in many developed economies effectively eliminated the stimulus to speculative buying; and, third, the more subdued price movements also reflected the strength of the United States dollar, which rose in real terms by 7.8 per cent in 1997.

The unfolding economic turmoil in East Asia casts serious doubt on the short-term growth prospects for the world economy (see UNCTAD, 1998a). Real output is expected to decline sharply for those economies directly affected by the crisis in 1998 and a full recovery to pre-crisis levels may take several years of adjustment. Although there is no unanimity on the precise speed of the recovery in countries directly affected by the crisis or on the precise extent of its impact on the world economy, there is general agreement that the crisis has generated a good deal of uncertainty – as witnessed by the fact that since the outbreak of the crisis the International Monetary Fund (IMF) has been revising downwards its 1997 estimates and projections for the world economy in 1998–1999. The growth prospects for other developing countries have also been unfavourably affected by the crisis, through the reduced availability of foreign financing, increased interest spreads on foreign borrowing, and precautionary policy-tightening to protect domestic economies from the contagion effects of the crisis.[2]

The ongoing financial crisis is likely to imply cutbacks in FDI flows to Africa due to diminished investor confidence and dramatic reductions in the outward investments of developing Asian countries.

The developed market economies are also expected to be negatively affected by the Asian financial crisis, largely through reduced export demand from Asia. However, the impact will vary from country to country and from sector to sector, depending on such factors as the importance of trade and financial links with the economies in crisis, the economy's position in the business cycle and developments in the foreign exchange and financial markets (IMF, 1998, p. 8). Japan may be the hardest-hit, because of its strong trade links with and large volume of lending to Asia, its weak position in the business cycle and its own financial problems. A prolonged or deep economic recession in East Asia, particularly in Japan, or delayed contagion effects in large emerging market economies, could hamper the short-term growth prospects for the world economy.

African developing countries

In Africa as a whole, output growth slowed to 3.3 per cent in 1997, a large drop from 4.6 per cent in 1996. While export volumes increased by 6 per cent, earnings rose by a mere 3 per cent in dollar terms, considerably less than the 12.5 per cent average growth in 1995–1996. However, this economic weakening was limited to a few large countries in the region, such as Algeria, Kenya, Morocco and South Africa, whose economies were hard hit by adverse weather conditions associated with El Niño (see box 1), weak commodity prices or political instability. For the majority of countries, the momentum of the strong recovery which started in 1994 was maintained with the help of the continued implementation of economic reforms.

Inflation continued to fall for the most part, as prudent fiscal and monetary policies were maintained. Government fiscal deficits as a percentage of GDP in Africa as a whole were reduced from 3.8 per cent in 1996 to 2.4 per cent in 1997 and the annual growth rate of broad money aggregates was reduced from 24.6 per cent in 1996 to 16.3 per cent, both of which contributed to a lower average inflation rate of below 20 per cent. As the majority of African countries recorded single-figure inflation rates, the median inflation rate fell to below 10 per cent. In contrast to the remarkable price stability maintained in the Communauté financière africaine (CFA) zone countries, inflation remained high in Angola, Burundi, the Democratic Republic of the Congo and the Sudan, where political factors disrupted the production and distribution of goods. Significant improvements in price stability were made in Madagascar, Malawi and Mozambique. Meanwhile, drought-related increases in food prices in Kenya and Uganda, wage increases in Zimbabwe and exchange rate depreciation and increases in administered prices of petroleum and electricity in Ghana drove up inflation to double figures. Financial-sector reform made steady progress in the continent in 1997: the central banks continued to strengthen the supervisory framework in Uganda and Zambia, new central bank legislation was adopted in Kenya and the banking sector was restructured in Mozambique (where the last State-owned bank was privatized), the United Republic of Tanzania and Zimbabwe. Net inflows of foreign direct investment (FDI) to Africa held steady in 1997; they were estimated at roughly $5 billion, compared with $4.7 billion in 1996. The bulk of investment went to the large, mineral-rich countries such as Angola, Egypt, Morocco, Nigeria, South Africa and Tunisia and recent reformers such as Uganda (see UNCTAD, 1997a, 1998b). The Asian financial crisis may imply reduced FDI flows to Africa as a result of a general change in business attitudes and the expected cutback of outward investments from developing Asian countries, such as Malaysia, which have recently become active investors in Africa. The recent fall in oil prices is likely to further damage the prospects for FDI in the African oil industry, particularly for new exploration projects. However, these direct adverse effects of the Asian financial crisis could be somewhat counterbalanced by the improved economic situation in Europe, Africa's main trading and investment partner, and the United States.

The economic consequences of decreased demand for a wide range of primary commodity exports have been especially dire for those African LDCs whose economies are not diversified.

Of more relevance to many commodity-dependent African developing countries is the sharp decline in import demand for a wide range of primary commodities since the start of the Asian financial crisis (see UNCTAD, 1998c). This decline has been responsible for the pronounced drop in the prices of many of these commodities, which account for about a third of the non-oil primary exports of the developing countries. Of course, factors other than the crisis also contributed to the fall in prices, but there is no doubt that the prices of agricultural raw materials, timber, metals (particularly copper and nickel) and, to a somewhat lesser extent, energy products were adversely affected by the depressed demand stemming from the crisis. Preliminary estimates suggest that many exporters of these commodities in developing countries have suffered large falls in their income and earnings. For example, up to a quarter of Zambia's export earnings could be lost as a result of the drop in prices. The effects on oil exporters could be even greater, since many of them are highly dependent on this single commodity: for example, Angola's export earnings could fall by as much as two-thirds, and its GDP by almost one-fifth, as a result of lower oil prices.

Varying degrees of progress were made towards regional economic integration in the subregions of Africa in 1997. Intraregional trade in Africa increased from 6 per cent of the total merchandise trade in 1990 to 9.2 per cent in 1996 but it still remains small by other regions' standards.[3] One positive development in this area is the Maputo corridor project, a planned cross-continent transport link from the port of Maputo in Mozambique to Walvis Bay in South Africa, which will have a significant impact on the prospects for economic integration and growth in the Southern African Development Community in the years to come.

Box 1: Effects of El Niño on African developing countries

El Niño is a climatic phenomenon which usually occurs every two to seven years with varying degrees of intensity and duration. The phenomenon involves a warming of the surface waters in the central and eastern equatorial Pacific Ocean, as a result of which global atmospheric conditions are disrupted, typically bringing heavy rainfall to some areas, such as the southern United States and Peru, and drought to others, such as the western Pacific. The current El Niño is expected to be the most severe of the century. It started in March 1997 but its impact was only felt towards the end of 1997 and beginning of 1998. In eastern Africa, one of the regions most affected, its immediate effects were dramatic, with heavy loss of life, a large number of displaced persons, the spread of diseases, loss of livestock and damage to harvests. Agricultural production fell in many countries, including Ethiopia, Morocco, South Africa and Zambia, after bumper crops had raised agricultural output to record levels in 1996. According to the Global Information and Early Warning System of the Food and Agriculture Organization of the United Nations (FAO), 20 countries in sub-Saharan Africa faced food emergencies at the end of 1997; in 14 of them, the emergency was attributed to adverse weather conditions. Damage to infrastructure, including housing and transport facilities, will also adversely affect the development potential of the countries concerned.

In western Africa, a long dry spell in July and August 1997 resulted in poor harvests in the Gambia, Mauritania and Senegal. Meanwhile, exceptionally heavy rains caused severe disruption in several parts of eastern Africa: in some countries, whole regions were cut off. After these heavy rains, any further excessive rainfall is likely to adversely affect the main crops in the subregion in 1998. Damage to crops caused by floods has worsened an already difficult food situation in the subregion, and there has been a substantial upward revision of anticipated cereal imports, including food aid, for 1998. In Somalia, the worst flooding in three decades resulted in 2,000 deaths and hundreds of thousands of displaced persons, and inflicted serious damage on the country's housing and infrastructure. The adverse weather conditions also resulted in the fourth consecutive below-average harvest in the country. The losses of livestock caused by floods were exacerbated by an outbreak of Rift Valley fever, which triggered a ban on Somalia's exports of livestock and meat. In the United Republic of Tanzania, floods disrupted rail and road systems and led to serious food shortages in remote villages, especially in the lake regions which suffered the most damage. In Uganda, flooding and mudslides also caused loss of life and damage to housing and infrastructure and road conditions hampered the distribution of food aid. In Ethiopia, harvesting was disrupted by heavy rains and extensive flooding which resulted in loss of life, the displacement of large numbers of people and damage to housing in the south-eastern areas bordering Kenya and Somalia. The heavy rains helped reduce grain production in 1997 by as much as a quarter compared with the level of the previous year. In Eritrea, unseasonable rains spoiled stores of harvested cereals.

There is little sign that the weather in 1998 will be more favourable than in 1997. Indeed, the increase in the number of food emergencies so far in 1998 is mainly attributable to El Niño (FAO, 1998) and there is little doubt that the extensive damage it has inflicted on eastern Africa's transport infrastructure and agriculture will have a lingering impact on the region's growth prospects.

Asian developing countries

Economic expansion in Asian developing countries continued to slow down in 1997 after registering a remarkable 9 per cent growth rate in 1995. The slowdown is expected to continue in 1998 with a projected average growth rate for these countries of 4.0 per cent, as the full impact is felt of the financial turmoil that engulfed the economies of Indonesia, Malaysia, the Philippines, the Republic of Korea and Thailand in mid-1997. With a significant increase in unemployment and poverty, coupled with weak social protection schemes, the painful adjustments lying ahead may cause severe social unrest in these countries. Nevertheless, despite the financial crisis, most Asian developing countries except Thailand managed to record a growth in output in 1997; the prospects for 1998 and 1999 are not bright, however.

All the subregions of Asia, except for the Central Asian republics, experienced a slowdown in output growth, though there were wide disparities in its magnitude. In China, high growth of 8.8 per cent was sustained with the help of low inflation and strong export growth (exports grew by 21 per cent). China's relatively closed financial market, comfortable levels of grain and foreign reserves and relative lack of reliance on short-term capital could help to insulate it from the contagion effects of the financial crisis. South-East Asian countries experienced a steep decline in GDP growth rates as the economies of the subregion were hard hit by both the financial crisis and the severe drought and widespread fires caused by El Niño. South Asia's recent expansion, which averaged 6.8 per cent per year in 1994–1996, declined to less than 5 per cent in 1997. The region's vulnerability to adverse weather conditions and its inadequate infrastructural services will act as constraining factors in its future economic performance. Bringing down fiscal deficits to sustainable levels also remains a major challenge facing the economies of South Asia.

The economic integration that has already taken place among the Asian economies may, paradoxically, make recovery more difficult.

The economic performance of the Pacific island developing countries deteriorated in 1997 as a result of sluggish demand for their commodity exports, exacerbated by the slowdown in the tourism sector, which has been hard hit by the Asian financial crisis. Five of the region's economies – Fiji, the Marshall Islands, the Federated States of Micronesia, Papua New Guinea and Solomon Islands – recorded negative growth in GDP in 1997.

As the full impact of the financial crisis unfolds in 1998, demand in the region as a whole is likely to shrink markedly. The Asian economies, particularly those in the south-east and the east, have traditionally relied on foreign export markets to build their huge supply capacity and utilize scale economies, but intraregional trade and investment have recently gained importance as the economic integration of the region has picked up pace, and this makes it more difficult for the region to make a rapid recovery. Unless there is a significant boost from Japan, whose protracted economic troubles are causing import demand almost to collapse, the region's import capacity will be severely constrained, and this will limit the export growth and ultimately the economic growth of the region. One positive note can be found in the results of a survey of leading multinational companies, carried out jointly by the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce (ICC) in the aftermath of the financial crisis (UNCTAD/ICC, 1998). The results show an unabated confidence in East and South-East Asia as a destination for FDI, but it remains to be seen whether this confidence will be maintained in 1998 and 1999.

Developing countries in the western hemisphere

The Latin American economies showed a strong recovery from the economic slump caused by the Mexican financial crisis of 1994–1995 by expanding at a healthy rate of 5.2 per cent in 1997 and, so far, withstanding the contagion effects of the Asian financial crisis. Strong growth for the region as a whole was attributed to strong export and investment growth, for which decade-old economic reform was credited. Large-scale privatization and the lifting of restrictions on FDI, coupled with the prospects for strong growth, encouraged large FDI inflows into the region, which now has five of the top ten developing-country recipients of FDI.

The economic reforms undertaken by Latin American countries during the 1980s have shielded them from the worst effects of the Asian crisis.

With large budget deficits and growing current account deficits signalling the vulnerability of their economies, the financial markets of Argentina, Brazil, Chile and Mexico came under severe pressure towards the end of 1997. However, persistent economic restructuring, particularly of the banking system, in the 1990s and the response to the Mexican crisis, together with the authorities' prompt tightening of monetary policy, helped to maintain the stability of exchange rates.

There is likely to be more fallout from the Asian financial crisis in the course of 1998 and 1999. Economic growth in Argentina, Brazil, Chile and Mexico is expected to weaken in 1998 as a result of the tightening of policies, which will cause some slowdown in the overall economic activity in the region. The fall in the price of copper and zinc due to the collapse of demand in Asia will have serious adverse effects on the export-earning prospects of Chile and Peru. Government budget deficits and current account deficits have deteriorated in the major economies of the region recently. The worsening external balance could affect the inflow of the foreign capital on which the economies depend significantly. Furthermore, the increase in risk premiums for emerging market debts in the wake of the Asian crisis will substantially increase the cost of foreign borrowing.

The least developed countries

Although real GDP growth rates in LDCs have been impressive in recent years, there has been a slow decline in their relative share of world production and trade.

In 1997, LDCs sustained their recent economic recovery, growing at an average of 4.8 per cent (down slightly on 1996) despite adverse weather conditions, declines in commodity prices, the continued stagnation of aid flows to LDCs and the persistence of their external debt problems. Thirty-four LDCs, containing over 80 per cent of the total population of LDCs, achieved real GDP growth of 3 per cent or higher. As many as 25 countries have now enjoyed three or more consecutive year-on-year gains in per capita income, partly as a result of the consistent implementation of economic policy reforms.[4]

The economic performance of LDCs, however, was not strong enough (relative to the rest of the world, particularly other developing countries) to stem the slow decline of their share in world production and trade (see table 3). As there is little chance of achieving significant productivity gains in the near future, the mobilization of economic resources is the key to economic take-off in LDCs, but LDCs' recent performance in this area is not encouraging. The volume of investment as a percentage of GDP in these countries is estimated at 16 per cent

Table 3: Share of LDCs in the world economy, 1985–1996
(as a percentage)

	1985–90	1991–96	1994	1995	1996
Share of LDCs in world					
Output	0.7	0.7[a]	0.8	0.8	0.9
Exports	0.5	0.4	0.4	0.4	..
Imports	0.7	0.6	0.6	0.6	..
FDI inflows	0.4	0.6	0.4	0.3	0.5
Share of LDCs in the developing countries’					
Output	4.2	3.9[a]	3.9	4.1	4.1
Exports	2.1	1.4	1.4	1.3	..
Imports	3.5	2.3	2.2	2.1	..
FDI inflows	2.2	1.8	1.1	1.0	1.5
Net financial inflows	17.9	10.9	9.6	9.9	7.4
Net ODA inflows	29.0	26.3	26.5	27.6	24.3

Source: UNCTAD secretariat calculations based on UNCTAD (1997a), WTO (1998) and OECD (1998).
a 1991–1995

and the gross domestic savings ratio at 10 per cent, which are far short of the levels needed to attain and sustain a rate of growth that would have any significant impact on their economies. The situation is not better when it comes to mobilizing foreign resources. While the debt overhang has eroded the credibility and capacity of LDCs' Governments to mobilize resources through the private capital market, official development assistance (ODA), which accounts for most of the external financial flows to LDCs, has been declining recently and FDI flows to LDCs remain well below 1 per cent of the world total.

The adverse weather conditions in 1997 showed once again the vulnerability of LDCs' economies to exogenous shocks. Widespread crop failures and the resulting food shortages hampered economic expansion, not only because the output of essential cash crops was reduced, but also because Governments had to reallocate expenditure away from investment in infrastructure and manufacturing to emergency food procurement and famine relief.

Until significant productivity gains can be achieved in LDCs, their economic growth prospects will be largely determined by their ability to mobilize economic resources.

The total debt stock of LDCs did not grow in 1997, owing chiefly to a reduction in short-term borrowings; this is quite a turnaround considering that debt stock had been rising steadily. However, it should not be allowed to mask the continued difficult debt situation of the majority of these countries. Many LDCs have been unable to meet fully their obligations, and have accumulated arrears and had to request rescheduling of their official debts. Eligibility for debt relief under the Heavily Indebted Poor Countries (HIPCs) Debt Initiative of the World Bank/IMF had been confirmed for Uganda, Burkina Faso and Mozambique by early 1998 and decisions on Guinea-Bissau and Mali are expected before the end of 1998 (for more details on the debt situation of LDCs, see section C below).

FDI inflows continued to concentrate on the resource-related sectors in 1997, boosting the economic growth of resource-rich countries. In Mozambique, for example, FDI inflows have soared since 1994 as a number of large projects, with an estimated value of $10 billion, have been launched or proposed to exploit hydropower (e.g. the Cabora Basa dam) and natural gas (in the Pande gas field). However, there is growing concern about the actual benefits to the domestic economy of such projects, as the capacity of the indigenous private sector is still limited, economic links to local suppliers are weak, and thus many of the potential positive effects on local labour and the service sector are foregone.

Output grew in Asian LDCs at an annual rate of 5.3 per cent in 1997, down from 5.7 per cent in 1996. The full impact of the Asian financial crisis had not materialized in 1997, even for LDCs in the region. The delayed transmission of contagion effects to regional LDCs can be attributed to some extent to the dominance of subsistence agriculture and a correspondingly low level of monetization. For example, GDP in the Lao People's Democratic Republic grew by 7.2 per cent in 1997 as a result of improved agricultural performance. However, with its heavy reliance on Thailand for over 40 per cent of its FDI, about 60 per cent of its imports and nearly 30 per cent of its exports, its growth prospects will be greatly constrained in coming years by the recent setbacks suffered by the Thai economy. The disappointing performance of the Cambodian economy in 1997 was the result of political upheaval in July and the subsequent disruption of business activities. Cambodia was excluded from all foreign aid and was denied membership of the Association of South-East Asian Nations (ASEAN). The Cambodian economy saw its output growth fall to 2 per cent in 1997 from 6.5 per cent in 1996, while the inflation rate was in double figures in 1997. In Bangladesh, GDP grew by 5.7 per cent in 1997, its highest level in the 1990s. The country's agricultural sector, with a growth rate of 6 per cent, was the main factor in this strong performance; in the future, its newly discovered gas reserves could play a major part in the transformation of its economy. As shown by the experiences of the new oil-exporting African economies, the prospects for easy money also bring big challenges, and can be used as an excuse not to press ahead with difficult reforms. However, with its more democratic political system and the active involvement of non-governmental organizations, Bangladesh is in a good position to avoid this temptation.

Short-term prospects for LDCs

Following several years of steady economic recovery, LDCs are likely to face a slowdown in growth. The international economic environment and the weather conditions, the two major determinants of LDCs' economic performance, are not expected to favour LDCs in 1998, and could lead to a disappointing outcome to their continued reform efforts. The growth prospects for African LDCs will improve if the recovery in the European Union (a major export market for Africa) continues and if the South African economy rebounds quickly and is able to bring some dynamism to the Southern African Development Community. Similarly, a rapid recovery in East Asia and the revitalization of the Japanese economy would be a great boost for LDCs in that region.

The Asian economy has been the fastest-growing export market for African LDCs, although it is small compared to their other export markets.

The irregular weather patterns associated with El Niño are expected to have an unfavourable effect on LDCs' economies; the effect, however, will differ from one LDC to another and from one region in a country to another. Higher-than-average rainfall has been good news for southern Africa, where a severe drought was expected, but bad news for central and eastern Africa. Although it is too early to gauge the precise impact of the weather on the outcome of the 1998 growing season, the shortage of inputs in central and eastern Africa, caused by heavy floods which damaged crops in fields and stores, disrupted the movement of goods and reduced the harvest in 1997, has already jeopardized agricultural production in the continent.

Commodity prices will continue to fall in 1998 (except for the prices of a few commodities such as coffee and tea, since crops of those products have suffered from unfavourable weather conditions) as a result of increased supply capacity (particularly in the case of non-ferrous metals), the absence of speculative buying of commodities, and the strong United States dollar. This trend will be compounded by weakened demand resulting from the financial crisis in East Asia, which accounted for a significant part of the increase in world demand over the period 1991–1996 for a wide range of commodities, including metals, agricultural materials, high-value foodstuffs and energy (UNCTAD, 1998c). Lower commodity prices will adversely affect a large number of LDCs which are highly dependent on commodities for their export earnings (see table 4). On the other hand, a fall in wheat and rice prices should help to lower the import costs of net food-importing LDCs, as long as they rely on imports through commercial channels.[5]

The contagion effects from the Asian financial crisis will make themselves felt. Demand for primary commodities has been weakened in the wake of the turbulence in Asia, and manufacturing products will face even tougher competition from the export goods of the countries in crisis. The Asian economy has been the fastest-growing export market for African LDCs, although it is small

TABLE 4: SHARE OF PRIMARY COMMODITIES IN EXPORT EARNINGS OF LDCs IN 1996

Commodity[a]	Share in all LDCs (%)	Share in individual LDCs (%)
Petroleum	20.8	Angola 93.9, Yemen 85.4, Equatorial Guinea 68.3, Democratic Republic of the Congo 9.4[b]
Copper	6.2	Zambia 58.3, Democratic Republic of the Congo 14.4[b]
Cotton	5.2	Burkina Faso 56.8,[b] Mali 54.9, Benin 51.9, Chad 43.6[c], Sudan 31.6,[b] United Republic of Tanzania 18.0, Togo 15.0,[b] Central African Republic 13.9,[b] Mozambique 9.7[b]
Diamonds	5.2	Liberia 54.7,[d] Democratic Republic of the Congo 50.4,[b] Sierra Leone 45.1,[b] Central African Republic 34.6,[b] Guinea 15.7,[c] Togo 8.9,[b] Myanmar 7.7[d]
Coffee	4.8	Uganda 82.7,[b] Rwanda 69.4, Ethiopia 63.6,[c] Burundi 57.3, Madagascar 23.9,[b] United Republic of Tanzania 18.0, Togo 13.6,[b] Haiti 9.6[b]
Timber	4.0	Solomon Islands 69.7,[b] Cambodia 68.7, Myanmar 36.1,[b] Lao People's Democratic Republic 28.3,[c] Equatorial Guinea 23.6, Central African Republic 15.5,[b] Democratic Republic of the Congo 12.3,[b] Liberia 9.7,[d] Vanuatu 6.2[b]
Tobacco	1.8	Malawi 65.8[b]
Iron ore	1.6	Mauritania 43.7, Sierra Leone 24.1[d]
Gold	0.5	Mali 16.5, Burkina Faso 6.2,[c] Ethiopia 5.4[c]
Tea	0.5	Rwanda 14.9, Malawi 7.6,[b] Burundi 6.1[b]
Cocoa	0.2	Sao Tome and Principe 63.2,[b] Vanuatu 6.3[b]

Source: Economist Intelligence Unit, *EIU Country Reports;* UNCTAD secretariat calculations.
a The Standard International Trade Classification codes (revision 2) corresponding to these commodities are: petroleum 333, copper 682, cotton 263, diamonds 667, coffee 071, timber 247+248, iron ore 281, tobacco 121, gold 971, tea 074 and cocoa 072.
b 1994–1995
c 1995
d 1994

The creation of the euro is likely to have important implications for many LDCs: the European Union accounts for one-third of LDCs' world trade and is their most important export market. It is also the biggest source of imports for four out of five LDCs.

compared to their other export markets, and Asian investment has complemented the mineral resource-oriented western investment in Africa. With so many of their neighbours in economic turmoil, the Asian LDCs, who relied heavily on those neighbours as a source of investment and trade, suddenly lost the advantage of being located in the most economically dynamic region in the world. Another adverse side-effect of the crisis is that foreign private financing for LDCs has become scarcer and more expensive.

The eventual linkage of the CFA franc and the euro will offer both opportunities and challenges to the countries of the franc zone (see box 2). Such a linkage could improve the access of the countries concerned to global capital markets, increase their export market and give them greater exchange rate stability, thereby helping to reduce price volatility and inflation. The main risk is appreciation of the real exchange rate of the CFA franc if the euro appreciates, against the United States dollar in particular. Since the bulk of the zone's exports – oil, cocoa and coffee – are denominated in dollars and since the demand for primary products is greater outside the European Union than within it, a strong euro would mean a diminished competitiveness for exporters from the franc zone (Hadjimichael and Galy, 1997).

Box 2: LDCs from the franc zone and the Economic and Monetary Union

In May 1998, Heads of Government of the European Union (EU) formally confirmed the creation of the Economic and Monetary Union (EMU) and the new European Central Bank. The introduction of the new EU currency, the euro, in January 1999 will bring about a radical change in the international monetary system. The existing system, currently dominated by the United States dollar, could be transformed into a tripolar one based on the dollar, the euro and the yen.[1] Under such a monetary system, it is possible that the euro would be used as widely as the dollar in transactions concerning oil and other commodity or international service contracts.

EU monetary integration will affect the economies of LDCs whose main trade and economic partners are EU member States. The EU accounts for a third of LDCs' world trade, and more than half of their trade with developed market economies. For about 80 per cent of LDCs, the EU has been the most important market for exports and the largest source of imports.

The creation of the euro will therefore have important implications for many LDCs, and the euro may eventually become the leading currency partner (as opposed to the dollar or yen) for most African LDCs. European monetary integration will affect EU countries' trade and economic relations with LDCs. The impact of the introduction of the euro on individual LDCs and groups of LDCs will depend largely on the extent of their trade and financial links with the EU. In the long run, as long as there is no major diversion of trade and investment away from LDCs as a result of European monetary integration and the expected expansion of the EU, the introduction of the euro should be a stabilizing factor that is favourable to LDCs. Downward pressure on interest rates in Europe as a result of the advent of the euro may improve LDCs' chances of gaining access to the European financial market and thus strengthen their economic partnership with the EU. The euro may therefore help LDCs, especially the African, Caribbean and Pacific LDCs and those in the franc zone, to become integrated in the global economic system. The nature of any successor to the current Lomé Convention, which expires in February 2000, has important implications in this context.

On the other hand, the process of monetary integration in the EU could have adverse implications for the exports of LDCs to the EU market. One element of uncertainty which could have a negative impact on the international competitiveness of some LDCs is the risk of an overvaluation of the euro vis-à-vis the United States dollar. There may also be a related risk of volatility of LDC currencies vis-à-vis the dollar, since many LDCs' primary commodity transactions are denominated in dollars, but this risk is expected to be transitory, as the dollar–euro exchange rate is likely to be relatively stable in the long run. In general, cooperation between LDCs and the EU to enhance LDCs' competitiveness will be necessary in order to maximize the benefits and minimize the risks associated with the advent of the euro.

European monetary integration has been of particular concern to the 10 LDCs which are members of the CFA franc zone (see Hajimichael and Galy, 1997). At present, the EU is their most important trading and economic partner. Together with five other African countries which are members of the franc zone, LDCs have benefited, *inter alia*, from a guaranteed currency convertibility vis-à-vis the French franc at a fixed rate, through operational accounts established by agreements concluded between the French Treasury and the three individual issuing banks (the Central Bank of West African States, the Bank of the Central African States, and the central bank of the Comoros). It is expected that during a probationary period (until mid-2002) there will be no substantive change in the CFA franc and Comoros franc arrangements. France's entry into the EMU implies that the French franc will be replaced by the euro, and thus the peg against the French franc by a peg against the euro. The free convertibility of CFA and Comoros francs into euros, which will be guaranteed by France, should be considered as a budgetary arrangement between the French Treasury and the issuing African banks of the franc zone, rather than as an exchange rate agreement affecting all EMU countries. Arrangements of a budgetary nature appear to be authorized by article 109 (5) of the Maastricht Treaty, and would be consistent with the EU strategy of developing and strengthening monetary cooperation with African, Caribbean and Pacific countries as well as other developing countries that maintain important trade and economic relations with Europe. In the longer run, however, it is possible to envisage a shift from the indirect peg of the African currencies of the franc zone against the euro (through the French Treasury) to a direct one based on exchange rate agreements with the EMU. The latter would require the unanimous approval of the European Council and the European Central Bank.

EU monetary integration offers the LDCs of the franc zone a number of potential advantages and risks. On the side of the advantages, the transition from the French franc to the euro could stimulate bilateral trade between the zone's LDCs and EMU countries and enhance the stability of the effective exchange rates of the CFA and Comoros francs. The advantages of the latter would depend on the stability of the euro vis-à-vis the dollar, and on the extent to which the euro replaced the dollar in the denomination of primary commodity prices in the zone's LDCs. Thus, the euro could facilitate the macroeconomic adjustment efforts of these LDCs, as well as their efforts to enhance regional economic integration and encourage FDI (especially from the EU) in the zone.

Among the risks is the risk of appreciation of the real effective exchange rate of the franc zone currencies, both in the short and long term, which could weaken the external competitiveness of the zone's LDCs and lead to currency devaluations and the need for negotiations on a new conversion rate between the three individual issuing banks of the African area of the franc zone and the European Central Bank. However, this risk should not be overstated – there is also a risk of depreciation. Moreover, a strong euro vis-à-vis the dollar could speed up the replacement of the dollar by the euro as the denominated currency in international commodity transactions or service contracts, and this would help LDCs in the franc zone to mitigate the exchange rate risk associated with these transactions. As noted earlier, pegging to a potentially more stable euro (as compared with the French franc) would definitely help to reduce exchange rate volatility as long as sustainable parities were set between the zone currencies and the euro, although there might be a higher initial risk of volatility before the new system settled in. The improved economic performance since the 1994 devaluation, especially in the area of macroeconomic stability, of the countries of the West African Economic and Monetary Union and, to a lesser extent, of the countries of the Economic and Monetary Community in Central Africa will be a great asset for LDCs in the franc zone in their efforts to adjust to the introduction of the euro.

1 In the mid-1990s more than 60 per cent of foreign exchange reserves, about 80 per cent of external bank loans and around 40 per cent of external bond issues were in United States dollars (see Henning, 1997, and Polak, 1998).

B. Sustainability of recent economic growth in LDCs

A notable development in recent years has been the more widespread pattern of economic recovery and growth among LDCs. Table 5 shows that the number of countries with an annual growth rate of more than 5 per cent has increased steadily since 1990, with 20 LDCs, which accounted for over 60 per cent of the total population of LDCs, achieving this level of growth in 1997 (see Fischer, Hernandez-Catà and Khan, 1998). Could these developments be a turning point in LDCs' drive towards sustained economic growth and development? Considering that the past economic growth of LDCs – particularly African LDCs – can be characterized as at best episodic, the three consecutive years of growth in per capita income achieved by 25 LDCs is an encouraging sign. At the same time, however, LDCs' vulnerability to exogenous shocks, lack of trade diversification, shortage of trained personnel, weak and under-developed financial systems, the threat of armed conflict and macroeconomic instability urge caution before we conclude that a turning point has been reached in Africa's development. Indeed, developments so far in 1998 have underscored the vulnerability of LDCs' economies to exogenous shocks.

Whatever the ultimate net effects of European monetary integration on LDCs, it is certain that they will be intensified for those that are members of the CFA franc zone.

Better policies and fortuitous developments in the weather and commodity prices have been cited as the main factors in the recent economic success of LDCs.[6] A turnaround in economic policies, to encourage private investment and strengthen market mechanisms, backed by improved macroeconomic management, and changes in the external environment, such as increasing globalization, have been identified as factors which make a difference.

Since poor policies have been shown in a number of empirical studies to be the principal cause of economic underperformance in sub-Saharan Africa (see box 3), the case for continued economic reform is now well established. However, market-oriented economic reforms are not on their own a sufficient condition for attaining sustainable economic growth. Macroeconomic stability – reflected in low and stable inflation, sustainable budget deficits and appropriate exchange rates – sends important signals to the private sector about the general direction of economic policy and the credibility of the authorities' commitment to an efficiently managed economy. Macroeconomic stability facilitates long-term planning and investment decisions, and thereby encourages savings and private capital accumulation (Ghura and Hadjimichael, 1996, p. 608). Improvements in the stability and predictability of the trading environment are also beneficial for the development of supply capacity in LDCs. Therefore the

TABLE 5: FREQUENCY DISTRIBUTION OF LDCS ACCORDING TO REAL GDP GROWTH RATES, 1980–1997

GDP growth rate	Number of countries								
	1980–89[a]	1990	1991	1992	1993	1994	1995	1996	1997[b]
over 8 %	6	2	3	7	4	4	10	6	3
5%–8%	6	8	8	4	11	12	7	15	17
3%–5%	7	9	9	7	7	10	14	11	14
0%–3%	8	12	8	15	11	6	6	8	8
less than 0%	10	12	15	10	11	12	8	4	1
Average growth rate	2.6	2.3	0.6	0.9	1.6	2.3	4.4	5.5	4.8

Source: UNCTAD secretariat calculations based on the relevant editions of *World Economic Outlook* (IMF), *Asian Development Outlook* (Asian Development Bank) and *The Least Developed Countries Report* (UNCTAD).

a Figures denote average number of countries in each category.

b Estimates.

Box 3: Main findings of growth regression studies on sub-Saharan Africa

There is a large body of empirical literature, stimulated by the so-called "new growth theory" (Romer, 1986, and Lucas, 1988), which attempts to identify by means of cross-country regression analysis the factors that lead to the differences in long-term growth rates between countries. The continued poor performance of the economies in sub-Saharan Africa during the past few decades has recently received some attention in this literature, and a wide range of socio-economic variables have been tested for their effects on income growth. Among other things, these studies have drawn attention to the relative importance of structural and policy factors in explaining the poor performance of the economies in sub-Saharan Africa.

The main findings of these studies can be summarized as follows:

(1) There is evidence of "conditional convergence" in Africa, i.e. after controlling for various structural and policy variables, the initial per capita income level is estimated to be negatively correlated with the growth rate.

(2) A lack of openness has been identified as the single most important cause of slow growth in sub-Saharan Africa;[1] Sachs and Warner (1997), for instance, estimate that greater openness would have added an extra 1.4 percentage points to African growth.

(3) Other policy variables, such as investment, macroeconomic stability (government consumption, real exchange rate variations, inflation), financial depth and population growth, have been consistently found to have a significant correlation with per capita income growth. Sachs and Warner (1997) estimate that Africa could have achieved per capita growth of 4.3 per cent per year over the period 1965–1990, compared with the actual rate of 0.8 per cent per year, if it had followed fast-growth policies, even given African levels of life expectancy, climate, geography and demographic trends.

(4) Africa's structural conditions (notably the fact many countries are landlocked and its high dependence on natural resources), ethnic diversity and tropical climate have also been shown to be significantly negatively correlated with income growth; according to Gallup and Sachs (1998), health and geographical factors are estimated to reduce the growth of Africa compared with that of East Asia by 2.0 percentage points per year, more than the macroeconomic factors of investment, openness and quality of public institutions (which are estimated to reduce it by 1.7 percentage points).[2]

(5) There are mixed results on the existence of contagion or neighbourhood effects.[3]

Easterly and Levine (1997) point out that explaining cross-country differences in growth rates requires not only an understanding of the link between growth and public policies, but also an understanding of why countries choose different public policies. Evidence suggests a significant correlation between underlying growth conditions such as ethnic diversity or geography and public policies in sub-Saharan Africa. The same authors attribute Africa's growth-retarding policy packages to higher ethnic diversity in Africa; ethnic diversity may increase polarization and thereby impede agreement on the provision of public goods and create positive incentives for growth-reducing policies, such as financial repression and overvalued exchange rates, that create rents for the groups in power at the expense of society at large. According to Gallup and Sachs (1998), the more protectionist policies in sub-Saharan Africa could be the result of adverse geographical factors; the revenue-maximizing sovereign, they argue, will impose high rates of taxation when growth is inherently low and unresponsive to policy because of adverse geographical factors. In view of these findings, care must be taken not to neglect the structural factors underlying growth conditions and not to overstate the role of policy variables in economic growth; the correlation between underlying growth conditions and policies also compounds the identification problem in estimating the effects of economic policy on economic performance.

It has also been pointed out that growth regression studies suffer from weaknesses such as the poor quality of data and certain variables, which exacerbate the problem of measurement. Nonetheless, Collier and Gunning (1997) note that there is a reasonable agreement between what the growth regression studies find to be important explanatory factors for growth in sub-Saharan Africa and the variables suggested by other literature, such as case studies or microeconomic evidence on African economic performance.

Notes:

1 Collier and Gunning (1997) list a lack of openness in product markets, a lack of social capital, high risk and poor public services as the four factors which the growth regression studies find to be important to long-term economic growth in Africa.

2 In South Asia, geography is moderately important (estimated to reduce growth by 0.8 percentage points per year), while in Latin America, the geography and the health variables explain almost nothing of the shortfall in growth relative to East Asia (Gallup and Sachs, 1998).

3 Easterly and Levine (1998) report systematic contagion across national borders of Africa, that is, there are inter-country spillover effects among African economies, which could be either positive or negative. Policy choices are also found to be contagious across borders so that the growth effects could be much greater if neighbouring countries act together, although Sachs and Warner (1997) find little evidence of neighbourhood effects.

benefits of economic reform are realized when the private sector responds by building up productive capacity and allocating resources in a more efficient way. However, the response from the private sector to the new opportunities provided by the improved macroeconomic environment and liberalized markets in LDCs has been less than encouraging; clearly the risk of reversal in reforms and economic performance also weighs heavily.[7]

LDCs will need to diversify their economies if they are to sustain the favourable levels of economic performance that they have enjoyed in recent years and reduce the vulnerability of their economies to exogenous shocks.

The slight decline in output growth in 1997 and the prospects of a further slowdown in 1998 as a result of continuing unfavourable climatic conditions and weak commodity prices, together with a more challenging global economic environment, suggest that the recent economic performance of LDCs might be difficult to sustain without a further diversification of their economies so as to reduce their vulnerability to exogenous shocks.

Against this background, the rest of this section evaluates the market responses to economic reforms in LDCs by analysing the latest aggregate level data.[8] First, real GDP growth is analysed by sector to determine the contributing factors and to assess whether GDP growth has displayed any distinctive features in recent years, particularly since 1995. Second, recent trends in the key economic indicators for LDCs are examined to see which structural factors explain the recent economic recovery and whether it can be sustained.

Analysis of real GDP growth in LDCs

The analysis of real GDP growth by sector makes it possible to assess which sectors of the economy have been the driving and lagging sectors over a particular period of time. The relative contribution to real GDP growth by sector is determined by two factors: output structure and growth of real output in each sector. The production structure of LDCs as a group did not undergo any significant change between 1980 and 1996 (see table 6). Rapid expansion in the service sector, one of the distinguishing features of developing countries' growth pattern over the same period (World Bank, 1998, p. 170), did not take place in LDCs. On the contrary, the share of the service sector in LDCs actually declined slightly and its relative contribution to GDP growth declined by half from 49.6 per cent in 1980–1985 to 24.7 per cent in 1995–1996. The agricultural sector, which accounts for about 40 per cent of total output in LDCs, was the major contributor to output growth in LDCs during the first three periods, covering from 1980 to 1994, contributing about one-third of total output expansion. The agricultural sector's contribution increased significantly in the last period of the exercise and more than 50 per cent of total output expansion in LDCs was attributable to the expansion in agricultural production. The manufacturing sector dragged LDCs' economic growth during the first three periods, especially during the 1991–1994 period, by growing at a lower rate than the overall economy, but during the 1995–1996 period its contribution to GDP growth increased to as much as 13 per cent as its output increased at an average annual rate of 6.7 per cent. Although the manufacturing sector gained most in terms of its relative contribution to GDP growth, from 5.7 per cent during the first half of the 1980s to 13.3 per cent during the 1995–1996 period, it still has a narrow base in LDCs' aggregate economy, accounting for less than 10 per cent of total output.

The production structure of all LDCs has remained little changed during the past 15 years or so: the agricultural sector has remained the major source of growth.

Due to the considerable diversity in the economic performance of individual LDCs, an analysis based on the average performance of LDCs may conceal some positive structural changes in a number of them. In line with the classification used by UNCTAD (1996), LDCs are categorized into three sub-groups based on

TABLE 6: SECTORAL CONTRIBUTION TO REAL GDP GROWTH IN LDCs, 1980–1996
(as a percentage)

Period	GDP	Agriculture	Industry	Manufacturing	Services
	Average growth rates per year				
1980–1985	2.5	2.4	2.2	1.6	3.4
1986–1990	3.4	3.6	3.6	3.0	3.9
1991–1994	0.9	1.6	2.2	0.3	1.8
1995–1996	5.1	6.4	4.2	6.7	2.8
	Production structure				
1980–1985	100	38.3	20.6	9.8	40.1
1986–1990	100	37.4	20.7	9.5	41.9
1991–1994	100	38.6	20.2	7.9	40.8
1995–1996	100	38.4	22.2	8.9	39.6
	Relative contribution by sector				
1980–1985	100	34.0	16.4	5.7	49.6
1986–1990	100	36.2	20.3	7.7	43.5
1991–1994	100	33.4	24.9	1.5	41.7
1995–1996	100	54.7	20.6	13.3	24.7

Source: UNCTAD secretariat calculations.
Note: The sample used in this exercise consisted of 27 African LDCs and 4 Asian LDCs. Thus the average annual growth rates of real GDP in the table, calculated as weighted averages of the 31 sample countries, may differ from those computed for LDCs as a whole in table 1.

their output growth during the 1980–1996 period: strong-growth LDCs (group A), moderate-growth LDCs (group B) and stagnant LDCs (group C).[9] The average GDP growth rate for the 1980–1996 period was 4.7 per cent for the 13 countries in group A, 3.3 per cent for the 11 countries in group B, and 0.9 per cent for the 24 countries in group C.

As expected, sectoral analysis of real GDP growth in LDCs reveals a very diverse pattern of output growth and activities across the different groups of LDCs during the period 1980–1996 (see table 7). Most countries belonging to group A were able to keep up their momentum of growth during the 1995–1996 period. Equatorial Guinea, Lesotho and Uganda accelerated the pace of economic recovery during the 1995–1996 period by expanding total output at a double-figure growth rate. All the countries in group B except for Chad have improved their growth performance recently, especially Malawi and Myanmar. The worst of the civil strife appeared to be over in several of the countries in group C (e.g. Angola, Ethiopia, Mozambique, Rwanda and Togo), which have recorded high GDP growth rates recently; this is also reflected in a steep decline in the number of LDCs recording negative GDP growth. The economic performance of Burundi, the Central African Republic, the Comoros and Sierra Leone, on the other hand, deteriorated sharply as civil strife disrupted their economies. Owing to the strong economic recovery of several countries in groups B and C, the growth gap between the three groups diminished significantly in the 1995–1996 period, though the sectoral distribution of GDP growth contributions differed sharply between the groups.

The sectoral output growth pattern and the output structure of countries in group A are very close to those of Asian LDCs. The growth of GDP in the strong-growth LDCs depends less and less on growth of the agricultural sector (down from 27 per cent in 1980–1985 to 13 per cent in 1995–1996) and more and more on output expansion in the industrial sector. Brisk growth in the manufacturing sector resulted in a significant increase in its relative contribution to GDP growth from 4.0 per cent in 1980–1985 to 15.5 percent in 1991–1994, although it fell to 12.7 per cent during the 1995–1996 period as the service

TABLE 7: SECTORAL CONTRIBUTION TO REAL GDP GROWTH IN DIFFERENT GROUPS OF LDCs, 1980–1996

(as a percentage)[a]

Period	GDP	Agriculture	Industry	Manufacturing	Services
	Strong-growth LDCs (group A)				
1980–1985	100 (3.8)	26.5 (2.3)	11.8 (3.1)	4.0 (1.7)	58.6 (6.1)
1986–1990	100 (4.4)	29.6 (3.2)	21.2 (6.2)	9.3 (5.0)	48.6 (5.2)
1991–1994	100 (4.6)	14.4 (1.9)	28.7 (7.8)	15.5 (8.2)	55.8 (5.8)
1995–1996	100 (5.7)	13.0 (2.2)	27.2 (8.8)	12.7 (8.0)	56.7 (7.1)
	Moderate-growth LDCs (group B)				
1980–1985	100 (3.6)	27.0 (3.5)	16.7 (3.4)	8.4 (3.2)	40.9 (4.3)
1986–1990	100 (3.1)	37.9 (3.3)	22.3 (3.2)	10.5 (3.3)	39.9 (3.3)
1991–1994	100 (2.8)	66.4 (5.2)	15.5 (2.0)	-24.9(-6.8)	25.9 (1.9)
1995–1996	100 (5.6)	51.3 (7.5)	18.6 (3.8)	9.0 (4.3)	23.9 (3.1)
	Stagnant LDCs (group C)				
1980–1985	100 (1.0)	67.2 (2.1)	26.8 (1.3)	7.6 (0.9)	18.5 (0.5)
1986–1990	100 (2.8)	42.1 (4.0)	18.4 (2.6)	14.6(1.5)	38.6 (3.0)
1991–1994	100 (-2.2)	-5.2 (-0.1)	-20.8 (-1.0)	-23.0 (-3.7)	-70.8 (-2.0)
1995–1996	100 (4.5)	95.0 (9.1)	13.0 (2.1)	13.4 (6.6)	-4.9 (-0.5)

Source: UNCTAD secretariat calculations.

a The figures in parentheses denote average annual growth rates; the sample consisted of eight LDCs from group A, eight from group B and 15 from group C.

sector boosted its output significantly. Among the LDCs in group A, Lesotho and Uganda and, to a lesser extent, Bhutan and Cambodia saw a brisk expansion of their manufacturing output. On the other hand, the manufacturing sector of the countries in groups B and C showed a much more volatile growth pattern than that of countries in group A. The manufacturing sector of group B has yet to recover from the severe contraction experienced during the 1991–1994 period, while robust growth of manufactured production in group C in 1995–1996 contributed to as much as 13.4 per cent of GDP growth. The relative contribution to GDP growth of the agricultural sector increased significantly over the sample period in both group B and group C. In group C, the dominance of the agricultural sector was even more pronounced; almost all the output expansion in the 1995–1996 period was attributable to increased output in the agricultural sector, while the service sector dragged the economy by posting negative growth during the same period. In this group, Ethiopia and Mozambique saw a brisk expansion of their service sectors, as is typically observed in post-conflict economies, and this has contributed to a sharp economic recovery during the 1990s.

During periods of sustained economic growth in LDCs, the contribution of the manufacturing sector to growth increased in relative terms.

In those LDCs where economic growth has been sustained longest (group A), agriculture-led growth appears to be gradually giving way to manufacturing-sector-led growth. The agricultural sector in this group of countries has yet to reach its full potential level of production, but the parallel is already evident between this group of countries and the East Asian economies of, for example, Thailand, Malaysia and the Republic of Korea at an earlier stage of their development. These economies also experienced a gradual shift during a period of sustained economic growth away from reliance on the agricultural sector towards the manufacturing sector (i.e. agro-processing and textiles) as the source of growth.

Review of key economic indicators

On the evidence available, the recent reform efforts undertaken by LDCs have led to significant improvements in inflation rates and to more disciplined government consumption. Prudent fiscal and monetary policies in LDCs have contributed to improvements in inflation rates, government fiscal balances, growth in broad money aggregates and current account balances. Table 8 shows, among other things, the trends in inflation rates, share of government consumption in GDP, growth in broad money aggregates and current account balances in LDCs. The table reveals a mixed picture of LDCs' overall economic performance, but there are notable improvements in GDP growth, inflation, and gross domestic savings in the period 1995–1996 as compared with the period 1991–1994. Meanwhile, the statistics for individual LDCs reveal that a number of them have made significant progress towards macroeconomic stability.

The prudent fiscal and monetary policies adopted by several LDCs in recent years have given them a measure of macroeconomic stability.

Overall, improved economic policies and a more stable macroeconomic environment have not yet been translated into a significant increase in investment or diversification in the manufacturing sector. The manufacturing sector in LDCs accounts for less than 10 per cent of GDP, compared with an average of 23 per cent in developing countries in 1994. The current level of the sector's share in GDP is lower than it was in 1980, even though many LDCs have experienced a strong rebound in manufacturing output since the sharp fall in the early 1990s. Among the different groups of LDCs, those in group C suffered most in terms of a lower contribution of the manufacturing sector to the economy.

The ratio of gross domestic investment to GDP increased by only one percentage point during the 1980–1996 period, and the ratio remained at around 15 per cent of GDP for LDCs as a whole – far lower than the 27 per cent for the developing countries in 1994. However, investment has been brisk recently in a number of LDCs, such as Bangladesh, Burkina Faso, Chad, Equatorial Guinea, Ethiopia, Lesotho, Malawi, Mauritania, Togo, Uganda and Yemen, where an increase in investment demand has been the major driving force behind recent output expansion. All the same, in many LDCs the investment ratio is too low to cover replacement needs, let alone support new productive capacity.

Gross domestic savings rates were still low, although they increased noticeably from 6 per cent in the 1991–1994 period to 10.3 per cent in the 1995–1996 period. Much of this increase appears to have come from increases in the average savings rate of African LDCs, which almost doubled from 6.1 per cent to 11.4 per cent. The average savings rate of Asian LDCs rose only marginally from 7.2 per cent to 8 per cent. In 20 of the 35 LDCs for which data are available, the gross domestic savings rate rose during the 1995–1996 period as compared with the 1980–1994 period.

Low investment and savings rates, together with low FDI flows, cast doubt on LDCs' ability to sustain the recent recovery.

The response of foreign investors to the policy reforms fell far short of expectations. Although the ratio of net FDI inflows to GDP increased by as much as four times during the 1980–1996 period, to about $2 billion in 1996, FDI inflows to LDCs were still at a very low level. The ratios were negatively correlated with past growth performance, averaging a meager 0.3 per cent for group A, 1.1 per cent for group B and 2.6 per cent for group C.

The weak performance of investment and savings and low FDI flows into LDCs cast serious doubts on LDCs' ability to sustain the momentum of the recent recovery. Improved resource mobilization led by vigorous investment

Table 8: Trends in key economic indicators of LDCs, 1980–1996
(percentage per year, unless otherwise noted)

	1980–1985[a]	1986–1990	1991–1994	1995–1996
GDP growth	2.1	3.1	1.1	4.9[b]
Export volume (1980 = 100)	98.8	106.4	117.3	114.0[c]
Import volume (1980 = 100)	104.2	100.2	107.8	123.0[c]
Terms of trade (1980 = 100)	93.5	85.8	77.8	60.0[c]
Manufacturing value-added (% of GDP)	9.7	9.2	7.7	8.5
Gross domestic investment (% of GDP)	15.1	15.5	15.6	16.1
Gross domestic savings (% of GDP)	4.0	7.2	6.0	10.3
Net private capital inflows (% of GDP)	1.6	1.1	1.7	1.5
FDI (% of GDP)	0.2	0.3	1.0	1.0
ODA (% of GDP)	9.9	12.6	17.0	15.9
Private investment (% of GDFI)[d]	53.4	52.5	56.4	58.3
Inflation (consumer prices)	17.7	22.9	25.9	13.1
Government consumption (% of GDP)	13.2	14.4	14.7	13.4
Current account balance (% of GDP)	-6.1	-6.0	-7.4	-6.4
Money and quasi money (M2)	22.0	25.3	27.0	21.4

Source: UNCTAD secretariat calculations based on UNCTAD (1997a, b) and World Bank (1998).
a The figures for the 1980–1985 period may be subject to severe bias due to the lack of data for many underperforming LDCs.
b Average annual growth rate for 1995–1997.
c Annual growth rate for 1995.
d Gross domestic fixed investment.

and backed by high domestic savings rates is the key to achieving long-term economic growth without incurring unsustainable imbalances in their current accounts. LDCs' present levels of investment and savings are simply not high enough to support a robust economic recovery.

To summarize, the sectoral growth pattern of LDCs' economies reveals that recent improvements in their performance were largely due to output expansion in the agricultural sector. While some of the expansion simply reflected a rebound from the weak performance recorded in the previous period, some of it can be ascribed to changes in macroeconomic policy as well as specific agricultural sector policies implemented by several LDCs during the 1980s and 1990s (UNCTAD, 1997c, pp. 101–105). Agriculture is the lead sector in these economies, but its performance is well below its full potential, highlighting the need for LDC Governments to devote more resources to the agricultural sector. As argued in the last year's *Report* (UNCTAD, 1997c), considering not only the sector's contribution to GDP but also its importance as a source of food and livelihood, LDCs need to prioritize agriculture as part of their overall growth strategies if they are to attain and sustain high growth rates. At the same time, a strong and efficient agricultural sector could be a means to broader developmental objectives if it leads to industrialization via agro-processing. Given the historical evidence on the role of the manufacturing sector in the structural transformation from a commodity-dependent economy to a dynamic, diversified one, LDCs would be well advised to nudge their agricultural sectors in this direction. It is too early to draw definite conclusions, but it appears that LDCs in group A are already moving in this direction after more than a decade of sustained economic growth during which the industrial sector has increased its contribution to GDP in these countries at the expense of the agricultural sector.

Fragility of the recent economic recovery

To determine whether the recent growth performance in LDCs' economies is sustainable, we need to look more closely at the factors that can have a significant impact on the economy. Political and macroeconomic stability, a well-trained and specialized labour force, a well-developed financial system and a diversified trade structure are all factors known to contribute to high economic growth rates and help to sustain them.

Political and macroeconomic stability

A stable political and macroeconomic policy environment is crucial for attracting investors and retaining their confidence in an economy: the two deterrents to investment most cited by investors are fear of civil war and policy reversals. The risk of policy reversal in some LDCs may partly account for both the slow recovery and the weak correlation between reform and growth. Over a third of LDCs have experienced some form of violent civil strife since the beginning of the 1980s, and the effects of conflict usually spill over to neighbouring countries (UNCTAD, 1997c, p. 136). Despite numerous efforts to resolve armed conflict and a few notable successes in this area in recent years, the political situation in a number of LDCs is still too fragile to guarantee a durable peace. There were as many as five coup attempts in LDCs in 1997, which all led to severe disruption of economic activities. According to a recent survey on political risk by *Euromoney* magazine, based on a poll of risk analysts, risk insurance brokers and bank credit officers, the perceived political risks remain very high in LDCs as a whole: on a scale of 1–25, where 25 signifies no political risk at all, no LDC scored higher than 10 points, and the average risk rating for LDCs was 4.5 points.

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Human resource development

LDCs in general have made only modest progress in human resource development since 1980 in terms of life expectancy, adult literacy rates and school enrolment ratios. According to the United Nations Educational, Scientific and Cultural Organization (UNESCO), the average gross enrolment ratio for primary schools in LDCs increased only slightly to 68 per cent in 1994 from 65 per cent in 1980. While there was a significant improvement in countries such as Burkina Faso, Burundi, Malawi, Mauritania and Nepal (where ratios rose by over 100 per cent in the 1980–1994 period), there was a large fall in the ratio during the same period in Angola, the Central African Republic, the Comoros, Madagascar, Mozambique, Sierra Leone, the United Republic of Tanzania and, to a lesser extent, the Democratic Republic of the Congo, Ethiopia and Guinea-Bissau.[10]

Population growth in LDCs is almost twice the global average rate and it actually accelerated during the 1990s as declines in death rates were not accompanied by declines in birth rates even though many LDCs have adopted explicit population policies aimed at slowing the rate of population growth. At the same time, the urban population in LDCs expanded at a rapid rate of 4.9 per cent in the 1980–1996 period, as compared with 2.5 per cent for the whole world. A large dependent population and a high rate of rural-to-urban migration are serious impediments to both human resource and infrastructure development in LDCs. Indeed, considering the severe shortage of skills in LDCs and their demographic characterictics, it is unlikely that LDCs will be able to sustain the recent gains made in economic growth.

Considering the severe shortage of skills in LDCs and their demographic characteristics, it is unlikely that LDCs will be able to sustain their recent economic growth.

Development of the financial sector

A serious constraint on economic growth and structural transformation in LDCs is their weak, underdeveloped and relatively undiversified financial systems. Financial intermediation is low in relation to GDP, and financial institutions are often inefficient and their financial status is precarious because of, among other things, inadequate capitalization and the accumulation of huge non-performing loans (UNCTAD, 1996, p. 87). While some attempts have been made in several LDCs in recent years to address the weaknesses of the financial sector, they have met with limited success, and have yet to produce noticeable financial deepening. As discussed in part two, chapter 3, two indicators of financial depth (the ratio of demand and time deposits to GDP, and the ratio of claims on the private sector to GDP) suggest that the banking sector is still very weak in LDCs, particularly if the ratios in LDCs are compared with those in other low-income countries and middle- to high-income developing countries.

The financial systems in LDCs are unable to perform efficiently the essential functions of a financial system in economic development, such as the mobilization of savings, the allocation of credit among competing borrowers and the provision of a reliable payments mechanism.

Another indicator, the spread between banks' deposit and lending rates (which provides a proxy measure of financial-sector efficiency, reflecting the degree of competition between financial institutions), also confirms the inefficiency of the banking sector in LDCs. During the 1990s, the spread level remained in double figures in 9 of the 16 countries for which data are available. Credit to the private sector has been on a downward trend in the 1990s for all LDCs, and while commercial bank loans have shown a turnaround in developing countries as a whole in the 1990s, they have remained at very low levels in most LDCs.

The financial systems in LDCs are therefore unable to perform efficiently the essential functions of a financial system in economic development, especially with regard to the mobilization of savings, the allocation of credit among competing borrowers and the provision of a reliable payments mechanism for commercial transactions. This has constrained the access to finance of investors requiring long-term finance and of others who are important in sustaining economic recovery, such as smallholders or small and medium-sized enterprises.

Trade diversification

In LDCs' economies, export earnings are the major determinant of the availability of imported inputs and hence the aggregate supply capacity of the economy. Aggregate demand is also likely to be sensitive to export earnings, and export earnings may influence a country's foreign creditworthiness. The government revenue base is generally heavily dependent upon taxes levied on exports and imports, so that the budget deficit is vulnerable to changes in the value of export earnings which in turn are quite vulnerable to external shocks (Brownbridge and Harrigan, 1996, p. 410).

The export earnings and aggregate supply capacities of many LDCs are extremely vulnerable to fluctuations in world commodity prices.

However, given the large share of primary commodities in total exports (i.e. their lack of trade diversification) and the large share of essential foods in their imports, the export earnings of LDCs, aggregate supply capacity and government revenues have been vulnerable to world price fluctuations for a few commodities. Throughout the past decade, the concentration of exports on two or three products has been pervasive in LDCs. With few exceptions, these products are in the commodity, or unprocessed and semi-processed, category of goods: only 5 of the 28 LDCs for which there are comparable export data reduced their commodity dependency, and 26 of these continue to derive more than 70 per cent of their earnings from commodity exports (Patel, Gayi and van der Geest, 1997, p. 4).

Table 9: Export concentration index for LDCs[a]

	1980	1990[b]	1994
All LDCs	0.534	0.550	0.502
African LDCs	0.568	0.587	0.560
Asian LDCs	0.344	0.442	0.368

Source: UNCTAD secretariat calculations based on UNCTAD (1997b).

a Concentration index ranges between 0 and 1, where 1 represents the most extreme concentration.

b For the Democratic Republic of the Congo, Equatorial Guinea and Guinea-Bissau, 1991 figures were used instead of 1990 figures.

Table 9 provides estimates of the extent of export concentration in LDCs, calculated as a Hirschmann index. Of the 22 LDCs for which data are available for both 1980 and 1994, 12 countries were able to reduce export concentration, but export concentration increased for the other 10 countries. Even for those countries that achieved some export diversification, the extent of improvement was very limited. Export diversification was only accompanied by the expansion of supply capacity (in terms of an increased share of manufacturing and investment in GDP) in Uganda and Vanuatu.

Trade diversification, which is generally premised on three interrelated objectives, namely, stabilizing export earnings, expanding export revenues and upgrading value-added, has therefore been recommended as a means of reducing LDCs' vulnerability to fluctuations in commodity prices (Patel, Gayi and van der Geest, 1997, p. 1). Trade diversification (that is, expanding the number of exportable primary products as well as increasing value-added) is crucial to achieving sustainable growth in LDCs. While the starting point for LDCs should naturally be the agricultural sector in which they have a comparative advantage, not much has been achieved in this area. The apparent failure of LDCs to achieve a significant degree of trade diversification has been attributed partly to their rich endowment of natural resources relative to human capital (Mayer, 1997) and partly to the price reforms which formed part of structural adjustment programmes. The latter proved to be of greater benefit to traditional primary commodity exports than to non-traditional exports from LDCs, since non-traditional exports often face severe constraints such as inadequate technological, managerial, technical and marketing skills, inadequate infrastructure and lack of finance (Brownbridge and Harrigan, 1996).

Paradoxically, the most severe drag on the future growth of LDCs is likely to come from the agricultural sector, which has to date played a leading role in their economic recovery. Despite recent policy reforms, agricultural output and productivity are far below their potential levels and the sector has yet to be modernized.

Conclusion

The main conditions for robust or sustainable economic growth in LDCs have not yet been fulfilled despite some improvements in recent years: LDCs' gross domestic savings and investment are still at very low levels, their demographic characteristics are not conducive to long-term growth, and they continue to be plagued by a shortage of critical skills. Furthermore, political and macroeconomic stability has not yet been fully established, and inefficient financial intermediation, due to a weak financial sector, and the continuing lack of trade diversification are likely to hamper the future growth of LDCs. Paradoxically, the most severe drag on the future growth of LDCs is likely to come from the agricultural sector, which has to date played a leading role in their economic recovery. Despite recent policy reforms, agricultural output and productivity are far below their potential levels and the sector has yet to be modernized. About 85–90 per cent of the agricultural sector in LDCs is rainfed. Year-to-year swings in output can be as high as 15–20 per cent, largely as a result of fluctuations in rainfall. Diversification in the agricultural sector is limited, and what appears to be horizontal diversification in some LDCs (such as Uganda) is simply due to a rehabilitation of production structures destroyed as a result of civil strife or years of neglect. The recent positive developments in the agricultural sector in LDCs, which include increased export earnings and increased food production, are due more to a combination of favourable world commodity prices and good weather conditions, which are transitory factors, than to productivity improvements – although productivity improvements have been achieved in a few cases.

Furthermore, while the average proportion of cultivated land under irrigation in LDCs has been increasing over the last 15 years, it is still low compared with that in other developing countries. For example, the average proportion of cultivated land under irrigation increased in LDCs from 9.6 per cent in 1980 to 13.1 per cent in 1994, but this was far less than the average proportion of 25.7 per cent in 1993 for all developing countries.[11] Similarly, average fertilizer consumption per hectare of arable land in LDCs, particularly in African LDCs, is well below that in the developing countries as a whole, but average figures mask varying performances between Asian and African LDCs on the one hand and the even greater differences between individual LDCs on the other.

It appears unlikely that the recent positive economic growth in LDCs will be sustained in the medium to long term without further wide-ranging macroeconomic policy reforms aimed at tackling the structural factors that continue to shackle their economies.

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C. External financing flows and the debt situation of LDCs in 1996–1997

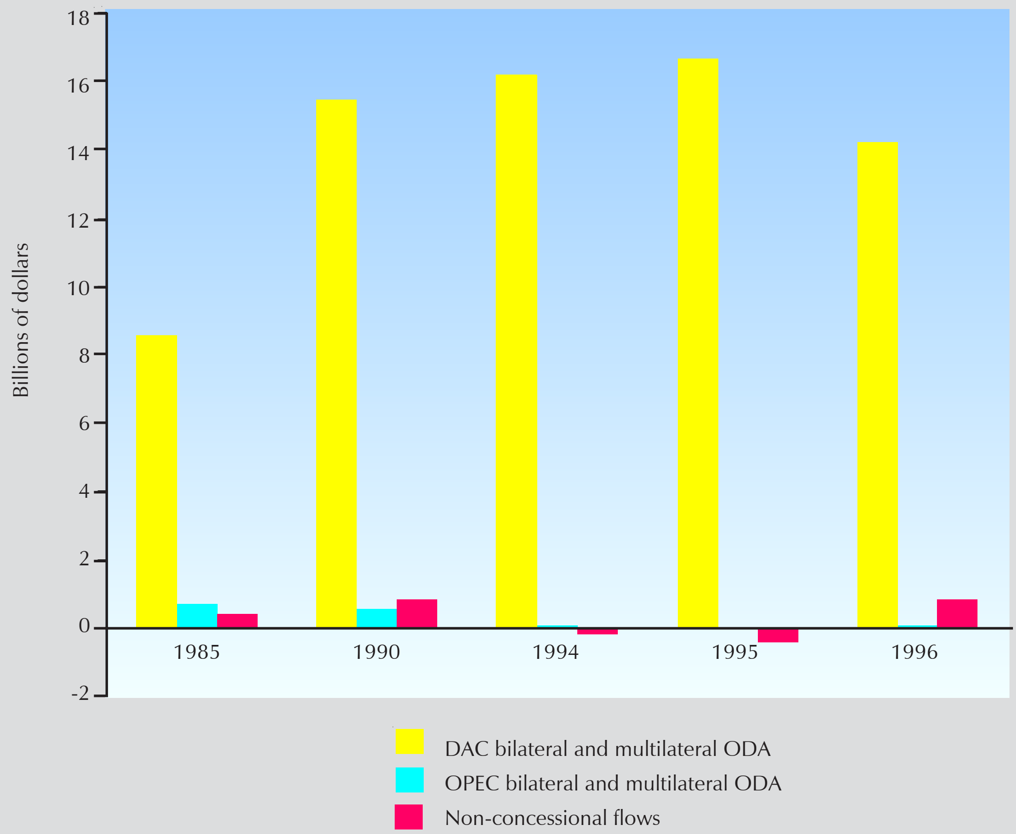
Total net flow of resources to LDCs

The total net flow of resources to LDCs in 1996 amounted to $15 billion as recorded in the statistics of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD). This is a decline of over $1 billion as compared with the previous year's figure of $16.2 billion (see chart 1 and annex table 19). As in earlier years, ODA (amounting to $14.2 billion in 1996) continued to account for most of the external financing flows to LDCs. The net contribution of other official financing to resource flows to LDCs was negligible in 1996, and there continued to be net repayments on account of private export credits, although the outflow on this account has contracted significantly during the last two years. Other private capital flows (direct and portfolio equity investment) to LDCs from the DAC countries as recorded in DAC statistics amounted to $0.9 billion on a net basis in 1996. The apparent turnaround in portfolio investment to LDCs in that year was almost wholly accounted for by swings in offshore flows to Liberia.[12] Other LDCs received very little investment of this type.

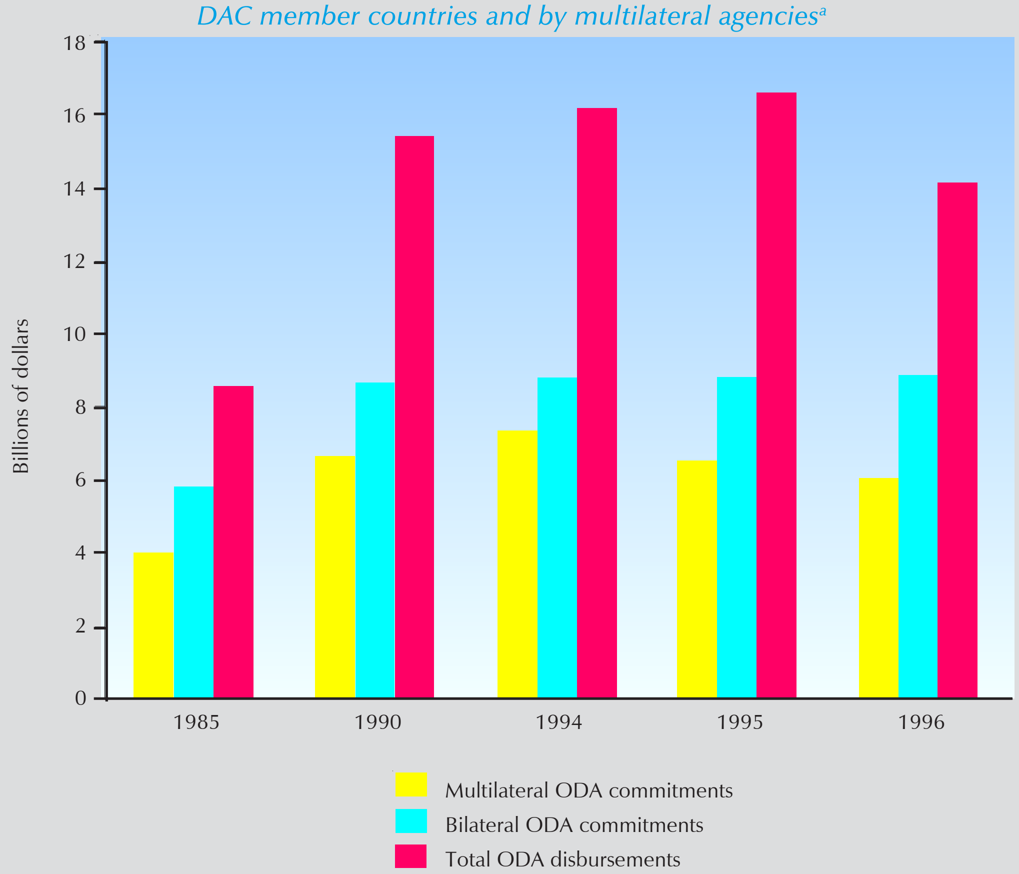
However, DAC statistics, based on reporting from DAC members, are not likely to capture all private flows to LDCs, especially as regards equity, or even all official flows. UNCTAD estimates of FDI flows, which are based mainly on balance-of-payments figures, show a relatively important role for FDI in the

Chart 1: Net flow of external resources to LDCs, 1985-1996

A: Total external resource flows by origin



B: Total ODA disbursements and commitments by DAC member countries and by multilateral agencies[a]



Source: UNCTAD secretariat, based on OECD data.
a Multilateral agencies mainly financed by DAC member countries.

FDI flows have largely bypassed the majority of LDCs, especially in Africa, where the majority of LDCs are located. About half the total number of all LDCs received FDI flows of less than $10 million a year between 1993 and 1996, with some of them recording no flows at all.

external financing of LDCs. According to revised UNCTAD estimates, FDI flows to LDCs amounted to almost $2 billion in 1996, up from $1.1 billion in 1995. Preliminary figures indicate, however, a slight decrease in FDI flows to LDCs in 1997. LDCs as a group have not benefited from the massive increase in FDI flows to the developing countries during the current decade. Such flows to LDCs were actually lower on average in dollar terms during the period 1994–1996 than during the previous three-year period, and their share in total FDI flows to developing countries had shrunk to 1.5 per cent in 1996 (and even less in 1997, according to preliminary estimates) from 4.4 per cent in 1991. Moreover, some of the countries affected by the Asian financial crisis have been “frontier investors” in many developing countries, including in a number of LDCs, and LDCs could in future suffer from the likely reduction in outflows from that group of emerging home countries.

The distribution of FDI flows is skewed regionally among LDCs: Cambodia, the Lao People’s Democratic Republic and Myanmar, in South-East Asia, and Angola, Uganda, the United Republic of Tanzania and Zambia, in southern and eastern Africa, accounted for the bulk of the FDI flows to LDCs in the period 1993–1996. Equatorial Guinea experienced phenomenal increases in FDI flows in 1995 and 1996. In the Pacific region, Solomon Islands and Vanuatu received appreciable FDI flows in relation to the size of their economies (see table 10).

FDI flows have largely bypassed the majority of LDCs, especially in Africa, where the majority of LDCs are located. About half the total number of all LDCs for which data are available, including Bangladesh (the largest LDC) and about 20 African LDCs, received FDI flows of less than $10 million a year between 1993 and 1996, with some of them recording no flows at all.

Cambodia, the Lao People’s Democratic Republic and Myanmar have emerged as new destinations for FDI mainly because of their links to ASEAN and recent macroeconomic reforms to open up their economies to private investment.

Cambodia, the Lao People’s Democratic Republic and Myanmar have emerged as new destinations for FDI mainly because of their links to ASEAN and recent macroeconomic reforms (which are limited in the case of Myanmar) to open up their economies to private investment. (The Lao People's Democratic Republic and Myanmar became members of ASEAN in 1997, while Cambodia is still in the observer category.) All three economies are heavily dependent on intraregional investments, with Indonesia, Malaysia, Singapore, Thailand and the Republic of Korea being the chief sources of their FDI, although some industrialized countries have also shown interest in tapping their rich natural-resource potential.

Recent trends in ODA flows

ODA flows to LDCs remained fairly steady in nominal terms during the first half of the 1990s at around $15–16 billion per year. In 1995, this level of disbursement was bolstered by exceptional payments to Zambia as this country completed its rights accumulation programme with the IMF towards the end of the year. However, in 1996 there was a sharp drop in aggregate ODA flows to LDCs, which fell by $2.4 billion to $14.2 billion, down from $16.6 billion in the previous year. LDCs bore the brunt of the decrease in total ODA in 1996, as disbursements to other developing countries actually increased marginally in nominal terms; LDCs’ share of total ODA flows fell to 24 per cent from 28 per cent in 1995.[13]

The significant decline in ODA flows to LDCs in 1996 resulted from reduced bilateral aid from Japan and the United States (bilateral aid from the United States to LDCs fell to less than half of its 1995 level), and the sharp contraction in net financing on the Structural Adjustment Facility and Enhanced Structural

Table 10: FDI flows to LDCs, 1991–1996
(in millions of dollars)

Host Country	1991	1992	1993	1994	1995	1996
South, East and South-East Asia						
Afghanistan	-	-	-	-	-	-
Bangladesh	15	18	10	8	2	13
Cambodia	-	33	54	69	151	294
Lao People's Democratic Republic	7	8	30	59	95	160
Maldives	7	7	7	8	7	8
Myanmar	238	171	149	91	115	100
Nepal	2	1	4	6	5	19
Subtotal	**269**	**238**	**254**	**241**	**375**	**594**
West Asia						
Yemen	583	714	897	11	-218	100
Latin America and the Caribbean						
Haiti	-2	-2	-3	-	7	4
The Pacific						
Kiribati	-	-	-1	-	-	1
Samoa	3	4	2	3	2	4
Solomon Islands	15	14	13	11	18	21
Vanuatu	26	27	26	30	31	28
Subtotal	**44**	**45**	**40**	**44**	**51**	**54**
Africa						
Angola	665	288	302	170	250	290
Benin	13	1	-	-	1	1
Burkina Faso	1	-	13	4	2	3
Burundi	1	1	1	1	2	-
Cape Verde	1	-1	3	2	10	12
Central African Republic	-5	-11	-10	4	2	5
Chad	4	2	15	27	13	18
Comoros	2	-1	-	-	1	2
Democratic Republic of the Congo	12	-1	7	-2	-	-
Djibouti	-	2	1	1	3	4
Equatorial Guinea	41	6	22	17	127	376
Ethiopia	1	-	1	3	8	5
Gambia	10	6	11	10	8	11
Guinea	39	20	3	-	1	24
Guinea-Bissau	2	6	-1	-	-	-
Lesotho	8	3	15	19	23	28
Liberia	8	-11	30	14	21	17
Madagascar	14	21	15	6	10	10
Malawi	18	2	10	9	13	17
Mali	4	-8	-20	45	17	23
Mauritania	2	8	16	2	7	5
Mozambique	23	25	32	35	45	29
Niger	15	56	-34	-11	7	-
Rwanda	5	2	6	-1	2	2
Sierra Leone	7	-5	-7	-3	-2	-
Somalia	-	-	-	-	1	1
Sudan	-1	-	-	-	-	-
Togo	6	-2	1	2	-	1
Uganda	1	3	55	88	121	121
United Republic of Tanzania	3	12	20	50	120	150
Zambia	34	45	52	56	67	58
Subtotal	**934**	**469**	**559**	**548**	**880**	**1 213**
Grand total: 44 LDCs	**1 828**	**1 464**	**1 747**	**844**	**1 095**	**1 965**
Memo item:						
FDI inflows to developing countries	41 782	51 108	72 528	95 582	105 511	129 813

Source: UNCTAD, FDI/TNC database.
Note: Data are not available for Bhutan, Eritrea, Sao Tome and Principe, and Tuvalu.

Adjustment Facility account from the IMF. Net concessional flows from the IMF to LDCs thus fell to negligible levels in 1996 from $1.3 billion in the previous year. Nevertheless, the ODA picture for LDCs as depicted by the 1996 figures is not uniformly bleak; a number of donor countries and institutions broadly maintained their aid programmes in LDCs, while others, including some of the multilateral donors, increased their aid allocations to these countries as compared with 1995. Moreover, new aid commitments to LDCs from some donors were on the rise in 1996 (see annex table 23).

Despite the significant decline in ODA flows to LDCs in 1996, the outlook is not uniformly bleak; a number of donor countries and institutions broadly maintained their aid programmes in LDCs, while others increased their aid allocations to these countries as compared with 1995.

Implementation of ODA targets and the outlook for ODA

Since 1992, the flow of ODA to the developing countries as a whole has declined significantly in real terms, and disbursements have also started to decrease in nominal terms. The share of total ODA in the GNP of the DAC donor countries declined further to 0.25 per cent in 1996, the lowest ratio recorded since the United Nations adopted in 1970 the overall ODA target of 0.7 per cent of donor countries' gross national product (GNP). This ratio had already fallen to 0.27 per cent in 1995 from 0.33 per cent in 1992. The corresponding GNP share of ODA to LDCs from the DAC countries has followed this general trend, with a further deterioration in aid to LDCs in 1996. The ratio for LDCs fell to 0.05 per cent in 1996 from 0.06 per cent in the previous year, and as compared with 0.09 per cent at the outset of the decade.

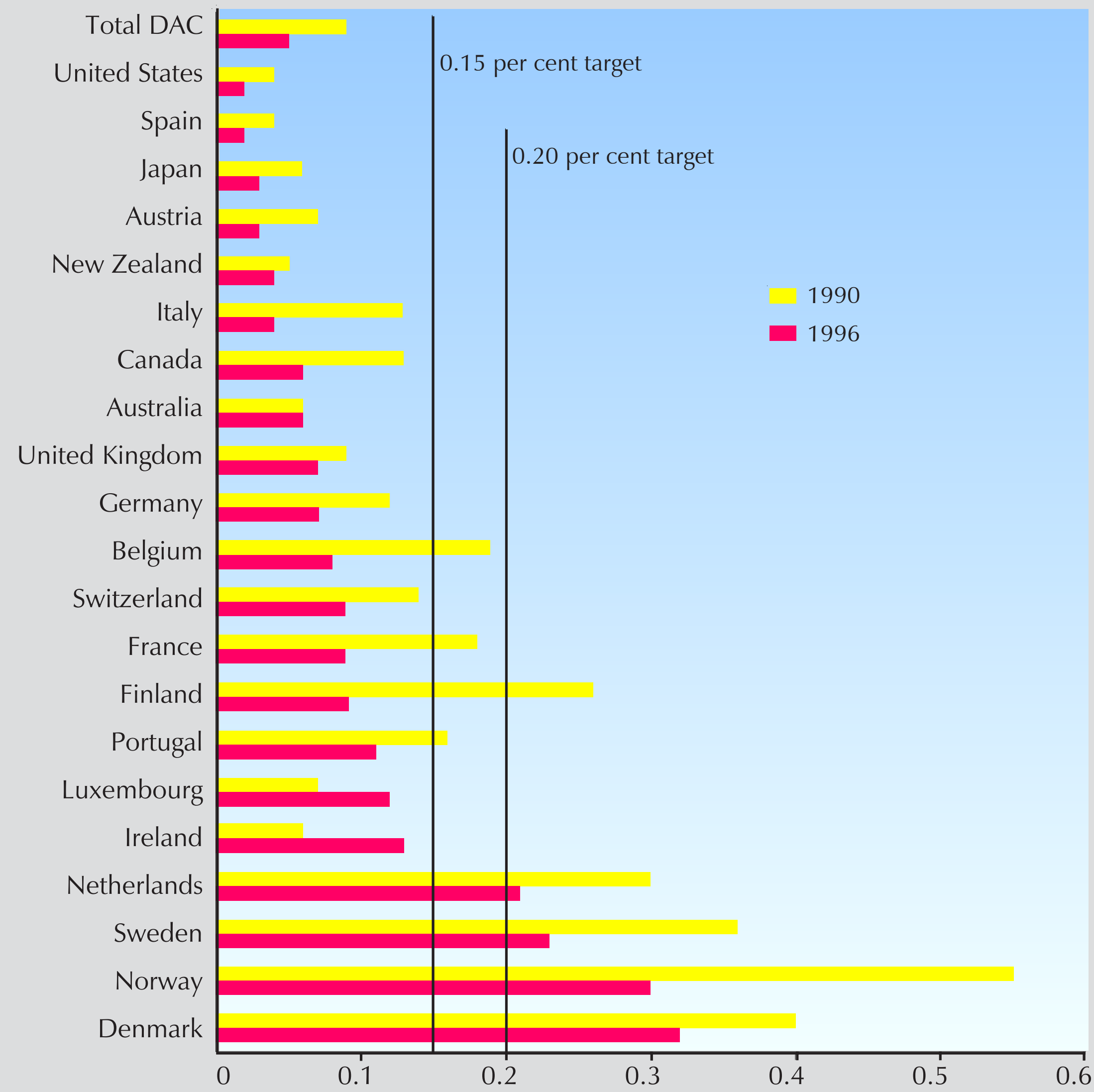
Special targets for increasing ODA to LDCs during the 1990s were set at the beginning of the decade in the Paris Programme of Action for these countries, but only a few donor countries have met these targets. ODA to LDCs was actually lower in 1996 than in 1990 in 14 of the 21 DAC donor countries. For the DAC as a whole, the decline amounted to just over 25 per cent. Consequently, in many DAC countries, including all the major donors, the aid to LDCs/GNP ratio has fallen significantly since the beginning of the decade (see chart 2 and annex table 22). Ireland and Luxembourg have been the only two countries to improve their aid to LDCs in terms of the GNP ratio since 1990; both are now approaching the target of 0.15 per cent. Four of the DAC countries continue to meet the 0.20 per cent target – Denmark (becoming the top performer in 1996 with a ratio of 0.32 per cent), Norway, Sweden and the Netherlands.

Four of the DAC countries continue to meet the 0.20 per cent target for ODA to LDCs – Denmark (the top performer in 1996 with a ratio of 0.32 per cent), Norway, Sweden and the Netherlands.

Much of the decline in the overall DAC performance vis-à-vis LDCs in 1996 can be attributed to the significant drop in contributions from Japan and the United States, which were in previous years the largest donors to LDCs in dollar terms (and continue to be so as regards aid to all developing countries). As far as LDCs are concerned, there were important changes in the ranking of donors in dollar terms in 1996, as Germany became the largest donor, followed by France.

The overall ODA outlook continues to be bleak. The United States seems hesitant to maintain a leadership role in the provision of aid, while the Japanese economy is in recession, and member States of the European Union are preparing themselves for monetary union as well as for further enlargement of the Union. In these circumstances, aid targets for LDCs and increasing ODA flows to these countries are less likely to receive priority attention. Moreover, although the recent mobilization of resources to help the East Asian countries in crisis may not yet have diverted aid funds set aside for the poorest countries (such as funding from the International Development Association and other concessional windows, the Enhanced Structural Adjustment Facility or bilateral country programmes), this region has become a major focus of attention. The

CHART 2: ODA TO LDCS FROM DAC MEMBER COUNTRIES, 1990 AND 1996
(Percentage of donor's GNP)



Source: UNCTAD secretariat, based on OECD data.

financial crisis in the region has significantly enhanced the region's claims on global resources and has led to appeals for funding to cover unexpected debt arrangements, and could contribute to a further reduction in traditional aid programmes in the long run. Moreover, the emerging capacity of some of these countries to contribute to international development cooperation efforts is certain to be limited for some time to come. Likewise, the World Bank's assistance to East Asia is likely to reduce the net income and surpluses of the International Bank for Reconstruction and Development, which have in recent years been used to support special programmes in favour of the poorest countries (on debt reduction for instance), from which many LDCs have benefited in the past.

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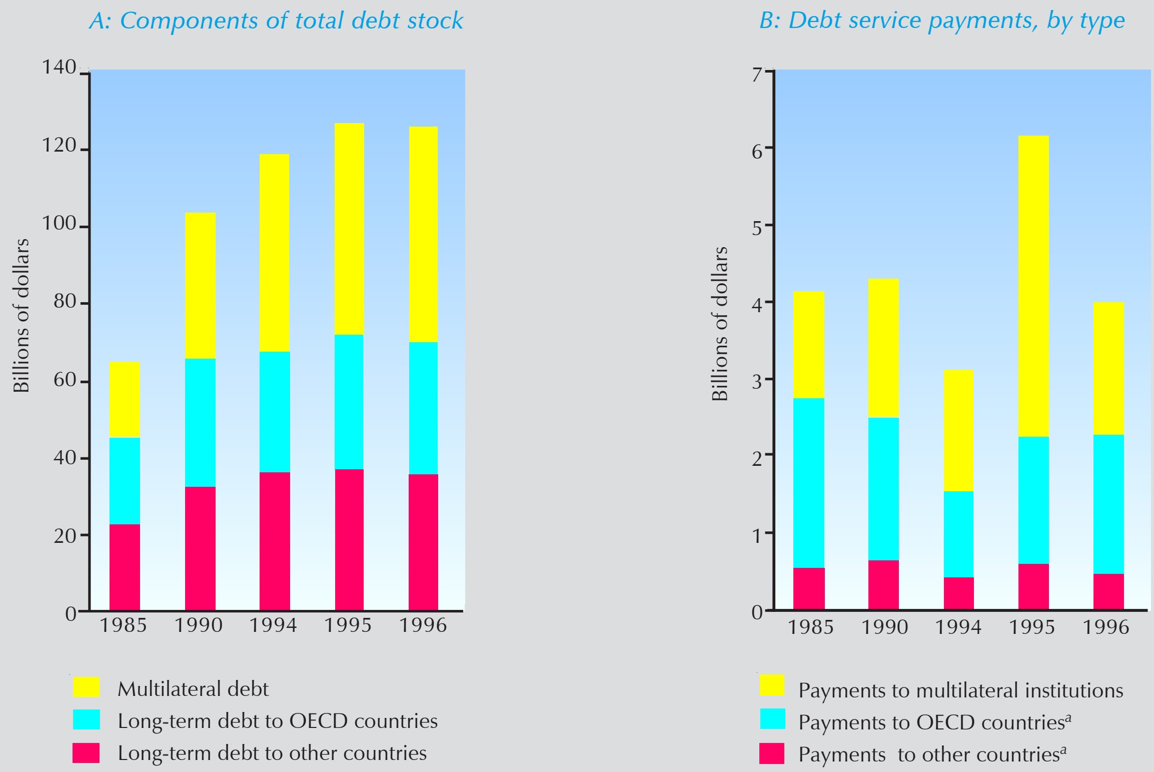
On the positive side, LDCs could gain from the recent United States initiatives in favour of Africa; the Government of the United Kingdom has reaffirmed its commitment to meeting the 0.7 per cent ODA target and reversing the decline in aid; and there is the continued steadfast implementation of aid programmes in favour of LDCs by a number of smaller donor countries. Still, the prospects for renewed ODA growth are highly uncertain.

CHART 3: EXTERNAL DEBT AND DEBT SERVICE PAYMENTS OF LDCS, 1985–1996



Source: UNCTAD secretariat, based on OECD data.
a Payments on long-term debt only.

RECENT TRENDS IN LDCS' EXTERNAL DEBT SITUATION

Available estimates indicate that the outstanding external debt of LDCs decreased slightly in 1996. Their total external debt was $134 billion at the end of the year, as compared with $136 billion at the end of 1995. The continued expansion of multilateral lending to LDCs was offset by declines in outstanding debt owed to other creditors. Debt service payments made by LDCs in 1996 amounted to $4.3 billion, approximately the same level as in the previous year if the exceptional debt service payments made by Zambia in 1995 are not taken into account. Excluding payments by Zambia, debt service by LDCs increased by some $0.2 billion in 1996 (see chart 3 and annex tables 27 and 28).

However, the pause in the growth of LDCs' external indebtedness should not mask the continued difficult debt situation of the majority of these countries. For the countries for which reliable GDP figures are available, outstanding external debt at the end of 1996 amounted to 90 per cent of their combined GDP (see annex table 29). LDCs' relatively low average debt service ratio of 15 per cent of exports in 1996 reflects payments actually made, not payments due. Many of the LDCs have been unable to meet their obligations fully, and have accumulated payments arrears and have had to request rescheduling of their official debts. By the end of 1997, a total of 19 LDCs had rescheduled their debts within the Paris Club on Naples terms, and five of them returned to the Paris Club and concluded new agreements in 1997 (see annex table 30). Twenty-nine LDCs are included in the group of 41 countries that have been identified as heavily indebted poor countries, and are in principle eligible for consideration of additional relief under the HIPC initiative of the World Bank/ IMF (see UNCTAD, 1997c, part one, chapter 2).

Implementation of the HIPC initiative

The HIPC initiative, endorsed at the annual meetings of the World Bank and the IMF in September 1996, builds on existing mechanisms for providing debt relief. New elements are the extension of debt coverage to include multilateral debt and the firm commitment of creditors to grant sufficient relief to ensure debt sustainability (defined according to precise criteria) and provide an exit from the debt-rescheduling process. Implementation is in practice linked to internationally agreed economic adjustment and policy reform programmes, such as Enhanced Structural Adjustment Facility arrangements with the IMF. In principle, after a first three-year period of good performance, the need for further debt relief is determined at a "decision point"; if additional HIPC assistance is deemed necessary at that point, a further three-year period of satisfactory performance is required before completion of the process and final delivery of the debt relief package. Some advance relief may be provided in the form of, for example, International Development Association grants (as opposed to normal credits).[14]

Twenty-nine LDCs are included in the group of 41 countries that have been identified as heavily indebted poor countries, and are in principle eligible for consideration of additional relief under the HIPC initiative of the World Bank/ IMF.

The initial implementation of the HIPC scheme has been fairly laborious. The debt sustainability assessments undertaken to determine debt relief needs is a complex process, and implementation in some cases has been held up by problems concerning burden-sharing between creditors and data reconciliation. Nevertheless, progress has been made in reviewing eligibility and some countries have embarked on the HIPC process. By mid-April 1998, nine countries had been reviewed for eligibility for additional relief under the HIPC scheme, six of them LDCs. Uganda was the first HIPC to reach decision point, in April 1997. Eligibility was also confirmed for Burkina Faso and Mozambique, while Benin's external debt burden was deemed sustainable without further assistance.[15] Decisions on Guinea-Bissau and Mali were expected to follow. Debt sustainability analysis to determine eligibility for assistance and the required amounts of additional debt relief was being undertaken for several other African LDCs. Chad, Ethiopia, Guinea, Mauritania and Togo have been mentioned as being among those next in line. However, not all of them would necessarily require assistance under the HIPC initiative. If the decision point is reached for these countries by the end of 1998, around a third of the LDCs listed as HIPCs will have embarked on the HIPC process during the first two years of the implementation of the scheme.

Around a third of the LDCs listed as HIPCs will have embarked on the HIPC process during the first two years of the implementation of the initiative if decision point is reached for those African countries for which debt sustainability analysis is being undertaken.

Uganda became the first country to reach "completion point", in April 1998. The debt relief offered to the country notably includes a reduction of its multilateral debt service obligations, through buy-backs of debts and through grants to cover part of the costs of servicing its multilateral debt. Similar debt relief for the other LDCs so far declared eligible is expected in mid-1999 (for Mozambique) and the first half of 2000 (for Burkina Faso). These countries have all been given some credit for a good track record of economic performance, and have benefited from a shortening of the two standard three-year periods of satisfactory performance foreseen in the initiative.

In the context of the HIPC initiative, Paris Club creditors have indicated a willingness to provide debt reduction of up to 80 per cent in net present value terms – 80 per cent corresponding to "Lyon terms", as compared to 67 per cent under Naples terms – on a case-by-case basis after the debtor country has successfully completed the first period of satisfactory performance required under the initiative. Côte d'Ivoire (not an LDC) was the first country to sign an agreement on Lyon terms with the Paris Club in this framework, in April 1998. In the same month, Uganda received a "topping-up" to 80 per cent of debt relief obtained under earlier agreements with Paris Club creditors when it reached completion point under the initiative. Mozambique signed a similar topping-up agreement in late May 1998 after reaching decision point in April 1998.

Assessments of progress made under the HIPC initiative have so far been mixed: while progress has been made in reviewing eligibility, the delivery of benefits after the very first cases is likely to be slow. At the time of writing, only three LDCs seem certain to reach completion point before the end of 2000. If the six-year satisfactory-performance requirement is stringently applied to countries which have less smooth track records or which have only recently entered the HIPC process, they may have to wait some time before receiving the benefits of additional debt relief, or simple debt stock reduction if their case so warrants.

The HIPC scheme must be flexibly implemented and further improvements made in order to provide maximum benefits to HIPCs whose debt situation is deemed unsustainable and to provide all HIPCs with effective strategies for resolving the problems of debt overhang.

Apart from the countries mentioned above, a few other LDCs have ongoing Enhanced Structural Adjustment Facility programmes with the IMF, and could be expected to enter the HIPC process in their turn, as they successfully complete these programmes. However, other heavily indebted LDCs are still embroiled in or recovering from civil strife (including some of the largest debtors among LDCs), while others do not yet have credible economic programmes. The HIPC scheme must be flexibly implemented and further improvements made in order to provide maximum benefits to HIPCs whose debt situation is deemed unsustainable and to provide all HIPCs with effective strategies for resolving the problems of debt overhang. In particular, as debt relief is urgently needed, generous credit should be given for satisfactory track records, and the interim period between decision and completion point could be shortened for all HIPCs who can prove their commitment to improved economic performance and policy reform. Moreover, human and social development needs should be taken into account when debt relief and additional assistance requirements are discussed.

HIPC FINANCING ISSUES

Since the HIPC initiative was first conceived, some modifications have been made to improve the scheme, such as the formulation of explicit criteria for taking into account the fiscal burden of debt and assessing export performance over a somewhat longer term than that originally envisaged, so as to take greater account of export trends. When the LDCs considered eligible so far reached decision point, the targets for their external debt, in net present value terms, were set at the lower end of the target range of 200–250 per cent of exports (200 per cent for Mozambique, 202 per cent for Uganda and 205 per cent for Burkina Faso), implying a greater amount of relief to be provided. For these countries, total debt service relief in nominal terms has been estimated at some $3.5 billion, Mozambique alone accounting for the bulk of that relief (an estimated $2.9 billion in nominal terms). In all, the estimated debt relief for the six HIPCs which have so far qualified for assistance under the initiative amounts to some $5.7 billion (the equivalent of $3 billion in net present value terms).

The resources allocated to financing rescue packages for East Asian countries could diminish the amount of reserves which could be set aside by the World Bank to fund the HIPC initiative.

Funding for the required debt relief packages appears to be reasonably secured for the "frontrunner group" of HIPCs, that is, those whose debt relief needs have been or are currently in the process of being reviewed. Financing has so far been forthcoming on a case-by-case basis, although in the case of Mozambique the negotiations were protracted and far from easy. As regards multilateral contributions to the HIPC scheme, the World Bank's share is funded mainly through its HIPC Trust Fund, to which $750 million of net income and surplus of the International Bank for Reconstruction and Development has been transferred. By early April 1998, 15 bilateral donors had made contributions or pledges to the Fund. The IMF has also made various arrangements for meeting its share of HIPC obligations, including the setting up of the Enhanced Structural Adjustment Facility/HIPC Trust. The Trust has to date received additional bilateral contributions from six countries, including three developing countries. Still, additional contributions towards financing the HIPC initiative are needed to assist all multilateral institutions to meet their share of the cost, including, in particular, the African Development Bank.

The HIPC initiative cannot be considered to have been successfully completed until the debt overhang of all the countries identified as HIPCs has been removed.

Financing also remains an issue in other respects. Thought still needs to be given to securing the longer-term funding of the initiative. If funds are scarce, there is a danger that debt sustainability targets will be too "tight" (that is, at the higher end of the target ranges), jeopardizing the success of exit strategies and HIPCs' future debt sustainability and growth and development prospects. The HIPC process holds great promise for the debtor countries concerned, and it would be regrettable if the continuation of the process became beset by incessant financing problems and if further commitments were delayed for the same reason. The resources allocated to financing rescue packages for East Asian countries could diminish the amount of reserves which could be set aside by the World Bank to fund the HIPC initiative.[16] It would be of great concern if the debt situation of the HIPCs could not be solved rapidly because attention was diverted to other major financial crises. Moreover, beyond the cases which are currently being considered, there are some HIPCs with very large debts waiting further down the line, including countries likely to present exceptional financing needs. The HIPC initiative cannot be considered to have been successfully completed until the debt overhang of all the countries identified as HIPCs has been removed.

In the case of Mozambique, special efforts by creditors were needed to achieve the necessary financing package. These included Paris Club creditors agreeing to provide assistance beyond the 80 per cent reduction on eligible debts foreseen by the Lyon terms, including: special treatment on post cut-off-date debt; voluntary contributions by bilateral donors to help close the financing gap; and the provision by the IMF and the World Bank of assistance beyond their proportional share. The HIPC package together with ongoing traditional debt relief mechanisms should reduce Mozambique's external debt from $5.6 billion in net present value terms towards the end of 1996 to $1.1 billion at the foreseen completion point in June 1999, reducing annual debt service payments to below 20 per cent of export earnings. Still, this result required many months of negotiation. The original financing gap to be filled did not represent more than a few hundred million dollars; there is a striking contrast with the facility and speed with which $111.2 billion of assistance was mobilized, during the same period, for the East Asian countries in crisis.

Two concerns need to be highlighted in the HIPC process: the need to provide the countries concerned with an effective exit from their debt overhang problems as soon as possible; and the need to secure the necessary resources for the full implementation of the initiative and expeditious resolution of individual cases.

New initiatives and developments in the debt field

Two concerns need to be highlighted in the HIPC process: the need to provide the countries concerned with an effective exit from their debt overhang problems as soon as possible, thereby improving their prospects for achieving sustainable development and attracting foreign private investment through enhanced creditworthiness; and the need to secure the necessary resources for the full implementation of the initiative and expeditious resolution of individual cases.

A significant policy initiative in this respect was launched by the Chancellor of the Exchequer of the United Kingdom at the Commonwealth Finance Ministers' meeting in September 1997. The United Kingdom initiative, called

"Debt 2000: The Mauritius Mandate", aims to ensure that all eligible poor countries will at least have embarked on the HIPC process by the year 2000, and that firm decisions will have been taken by that time on the amounts and terms of debt relief for at least three-quarters of these countries. The Chancellor also proposed a more flexible interpretation of the Paris Club rules, for example by applying relief to post cut-off-date debts where necessary, shortening the six-year period of satisfactory performance for the countries with the strongest reform programmes (a requirement already waived for the first countries to reach decision point, as mentioned above), and giving debtor countries a stronger voice in the negotiations. He also mentioned sales of IMF gold as a possible mechanism for enabling the IMF to play its part in the HIPC scheme. The basic aim of the initiative, to bring rapidly on board all HIPCs with the year 2000 as a target date for having all eligible countries in the process, has since been endorsed by the Development Committee at the World Bank and IMF spring meetings in April 1998 as well as by the Group of Eight at the Birmingham Summit in May 1998. The goals of the Mauritius Mandate could be reached if adequate financing was secured and the implementation of the HIPC initiative was speeded up.

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Another development in the debt field in 1997 of particular relevance to LDCs was the agreement on the participation of the Russian Federation as a creditor country of the Paris Club from September of that year. An important part (around one-fifth) of the total outstanding long-term debt of LDCs is due to the Russian Federation. In a number of LDCs which used to have close cooperation relationships with the former Soviet Union, this share is much higher, and, as pointed out in *The Least Developed Countries Report* in previous years, the problems of their external debt overhang cannot be resolved without dealing with this component of their debt. The liabilities of debtor countries to the Russian Federation which were previously dealt with on a bilateral basis can now be dealt with in the Paris Club.

According to the September 1997 agreement, in order to make Russian claims comparable with those of other Paris Club members, outstanding Russian claims will be reduced by an upfront discount that will be applied when these claims are first dealt with by the Russian Federation within the Paris Club framework. The discount will also take into account a debtor's economic and financial situation; a higher discount will be applied to the poorest countries. LDCs are likely to be among the primary beneficiaries of this provision. Indications are that in the best of cases they could receive a discount of as much as 80 per cent on their outstanding liabilities. The Russian Federation will in addition provide debt relief in accordance with the applicable Paris Club agreement. Although debts to the Russian Federation are apparently to be repaid in convertible currencies and valued at the historical exchange rate of 0.6 roubles per dollar and not at current market-determined rates, the agreement still implies significant relief on debts owed by LDCs and other low-income countries to the Russian Federation, and rescheduled within the Paris Club. The implications for LDCs remaining outside the Paris Club framework are less clear; while many African LDCs have been to the Paris Club, other countries, notably some Asian LDCs with large debts to the Russian Federation, have not yet engaged in such debt-restructuring.

Having countries embark on the HIPC process does not imply that most of them would reap major benefits from the scheme over the short or even medium term. For policy makers in a number of heavily indebted LDCs and other HIPCs, even those which have embarked on the process, or have good expectations of doing so in the near future, six years – in practice, the successful and steadfast implementation of two consecutive Enhanced Structural Adjustment Facility agreements with the IMF – must seem a long period to wait before fully benefiting from HIPC assistance. Moreover, for the poorest HIPCs, urgent consideration needs to be given to bolder action, including the conversion into grants of all remaining official bilateral debt.

Notes

1. Because of the strong United States dollar and low inflation, the value of world trade in dollars increased only modestly despite strong volume growth.
2. Secondary market spreads increased dramatically in late 1997, as the average spread on Brady bonds jumped from 350 basis points in September to more than 600 basis points in early November (each basis point in yield costs borrowers $1 million over the life of a $1 billion issue of 10-year bonds).
3. According to WTO (1997), intraregional shares in each region's total merchandise trade in 1996 were: 68.3 per cent for western Europe, 51.9 per cent for Asia, 18.9 per cent for transitional economies, 18.4 per cent for North America, 13.7 per cent for Latin America, and 7.3 per cent for the Middle East.
4. Strong economic recovery continued in the CFA zone LDCs: average GDP growth in 1997 is estimated at 5.5 per cent for the eight LDCs in the zone (after excluding the Democratic Republic of the Congo and Equatorial Guinea).
5. In 1992, average shares of food items and fuels in LDCs' total imports were 22.9 per cent (cereals accounted for 5.8 per cent) and 11.8 per cent respectively, far higher than shares of 8.6 per cent and 7.9 per cent, respectively, for developing countries as a whole (UNCTAD, 1996).
6. Some doubts have been expressed about whether economic growth is accurately recorded, following concerns about the accuracy of official data and the virtual absence of data on the informal sector, which appears to be of growing importance in the economies of LDCs (particularly African LDCs).
7. Collier and Gunning (1997, p. 59) argue that poor policies are locally stable in Africa and thus there is a high risk that reforms will be reversed. They also attribute the lack of response to the high-risk environment of Africa. Partial policy reform in a high-risk environment may have only a limited impact on investment because of the principle that "bad news travels fast".
8. Other important benefits from economic reforms and trade liberalization such as the more efficient use of capital and the emergence of new entrepreneurs are not captured by these aggregate economic indices.
9. *Group A (strong-growth LDCs)*: Bangladesh, Bhutan, Cambodia, Cape Verde, Equatorial Guinea, Eritrea, Lao People's Democratic Republic, Lesotho, Nepal, Maldives, Solomon Islands, Uganda and Tuvalu. *Group B (moderate-growth LDCs)*: Benin, Burkina Faso, Chad, Guinea, Guinea-Bissau, Malawi, Mauritania, Myanmar, Sudan, United Republic of Tanzania and Yemen. *Group C (stagnant LDCs)*: Afghanistan, Angola, Burundi, Central African Republic, Democratic Republic of the Congo, Comoros, Djibouti, Ethiopia, Gambia, Haiti, Kiribati, Liberia, Madagascar, Mali, Mozambique, Niger, Rwanda, Samoa, Sao Tome and Principe, Sierra Leone, Somalia, Togo, Vanuatu and Zambia.
10. It should be noted that higher school enrolment could also imply a deterioration in the quality of the education provided if the public resources for educational purposes remain stagnant or decrease, as has been the case in several LDCs. According to UNESCO, public expenditure on education in LDCs in relation to GDP decreased from 3.1 per cent in 1980 to 2.8 per cent in 1993–1994.
11. There are marked variations among LDCs in the proportion of cultivated land under irrigation: the proportion is over 50 per cent in Equatorial Guinea, around 30 per cent in Bangladesh, Bhutan, Madagascar, Mauritania, Nepal and Yemen, and less than 1 per cent in Benin, Burkina Faso, Chad, the Democratic Republic of the Congo, Lesotho, Liberia, Rwanda, Togo, Uganda and Zambia.
12. Portfolio investment is included in the item "Other [DAC] non-concessional flows" in annex table 19.
13. The volume of total ODA (to all developing countries, including LDCs) decreased by $1.7 billion in 1996, to $58.6 billion from $60.3 billion in 1995. ODA to developing countries other than LDCs increased by $0.7 billion in nominal terms. Among the non-LDCs, the low-income countries were also affected by a decline in ODA, although to a lesser extent than the LDCs, while the higher-income groups benefited from increased ODA flows. (Figures refer to developing countries according to the DAC definition.)

14. For a description of the key features of the HIPC initiative, see UNCTAD, 1997c, part one, chapter 2, and 1997d, part one, chapter II.E.
15. At the time of writing, three non-LDC HIPCs had reached decision point, namely: Bolivia (in September 1997), Guyana (in December 1997) and Côte d'Ivoire (in March 1998).
16. See paragraph 12 of the communique of the Development Committee of the World Bank dated 17 April 1998. See also *Financial Times*, "World Bank's loans to prop up Asia leave little for the poor", 2 April 1998.

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Mobilizing Private Finance for Investment in LDCs

Chapter

2

In the course of the 1980s and 1990s, many LDCs have pursued economic reform programmes aimed at the restoration of fiscal balance and the establishment of an enabling environment for investment. In a number of these countries, reform packages, coupled with favourable commodity prices and good weather, have in recent years contributed to increased growth rates and enhanced foreign investment. Some countries, such as Angola and Mozambique, have recorded significant increases in inflows of FDI since the beginning of the decade, while others, such as Cambodia, the Lao People's Democratic Republic, Uganda and the United Republic of Tanzania, have seen a turnaround since 1993–1994.

Despite these promising trends, most LDCs receive very small or negligible amounts of foreign private capital. For LDCs as a group, FDI inflows corresponded to 14 per cent of official development assistance receipts in 1996,[1] and 1.5 per cent of total FDI to developing countries. Among the LDCs which attracted significant amounts of FDI during the 1990s, much of the investment was in the oil and mining sector. There has also been some investment in Africa in other areas of comparative advantage, such as agro-industries and tourism, although so far on a modest scale. However, FDI in the manufacturing sector remains weak and evidence points to considerable disinvestment by transnational corporations following structural adjustment. Not only has import liberalization in import-substituting industries adversely affected foreign firms, but large devaluations have also undermined foreign currency rates of return (Bennel, 1994).

In 1996, FDI flows into LDCs accounted for 14 per cent of receipts of official development assistance and only 1.5 per cent of total FDI to developing countries.

Moreover, although there have been no systematic studies so far to determine the quality of new investments, there is reason to believe that some of the new investment is concentrated on trading and the final value-added end of the manufacturing process (e.g. repackaging a product imported from abroad) and therefore may constitute relatively footloose investment.

LDCs have hardly attracted any non-FDI types of capital flows, such as portfolio equity investment, while bond issuance is currently out of reach for most of them. Bank and other trade-related lending has also been negative for the LDCs as a group: many of them carry an external debt overhang which effectively rules out further sovereign lending by commercial banks for the time being.

In the light of the declining trend in official development assistance and the very limited access of LDCs to private finance, this chapter reviews the mechanisms and support measures which would help LDCs to overcome the constraints they face in mobilizing private finance. Particular emphasis is given to the mobilization of private finance for infrastructure projects.

A. Obstacles to enhanced private flows

Compared to other developing countries, LDCs have a number of characteristics which make it difficult for them to attract FDI and other forms of private capital. These include their low levels of income and small market size, poor international competitiveness and weak physical infrastructure, as well as their weak domestic private sector, their underdeveloped domestic financial sector and capital markets and the perception of them by lenders and investors as a high risk. Regional perceptions are equally important: sub-Saharan Africa as a whole is seen as a high-risk area.

Investors view LDCs as high-risk investment climates.

A vibrant domestic private sector is an important magnet for foreign investors. Many LDCs have a lacklustre indigenous domestic private sector, and the creation of a market-oriented environment for the private sector in LDCs as a whole still has some way to go. Although restrictive regulations have been lifted by a number of Governments, the “soft infrastructure” (e.g. the legal and accounting standards) that governs market transactions remains weak in many LDCs.

In many LDCs, especially in Africa, the financial sector remains underdeveloped and there are few if any institutions which cater for business development needs.[2] Private-sector savings are low and there are few mechanisms by which these savings can be mobilized into productive investments. In those LDCs which have stock exchanges, these are generally small (IFC, 1997a); for example, only eight companies are listed in Zambia. Even in Bangladesh, which has 186 listed companies, the market capitalization of the companies is very low – 5 per cent of GNP in 1995, compared to nearly 40 per cent in India and about 15 per cent in Pakistan and Sri Lanka. Other attributes of these stock markets, especially those in Africa, include: illiquidity; infant market transaction systems, with a large risk of default on payment or delivery and long delays in settlement; lack of protection of property rights; and lack of transparency.

B. New financing mechanisms: non-FDI foreign equity investment

Interest has in recent years turned to the role of non-FDI investment in the financing of the enterprise sector in emerging markets. Non-FDI flows mainly take the form of equity investments in the capital of local companies. These investments are made by financial institutions, institutional investors (such as pension funds, insurance companies or investment trusts) or individuals. Foreign equity investment flows are becoming a significant source of external finance for investment for developing countries as a whole. For the three years 1993–1995, total equity investment flows, including quasi-equities such as convertible bonds and bonds with equity warrants, were equivalent to nearly half the FDI flows to developing countries and countries in transition (see UNCTAD, 1997, part one, chapter 3).

Foreign equity flows are becoming a significant source of external investment for the developing countries as a whole.

Types of investment mechanism

Foreign equity investment in emerging markets is made through direct purchases by individual investors of shares of companies listed on the stock markets of the countries concerned, purchases of equity offerings issued by companies from these countries on international capital markets, or investments through equity funds such as country or regional funds and through venture capital funds. The first two forms of investments are less frequent in low-income countries. As the stock markets in these countries are in a nascent stage, individual investors would be less likely to take the risk of investing directly, as they are not as well informed as professional institutional investors. International equity offerings are in general accessible only to large well-known companies from fairly developed emerging markets which can meet the strict disclosure and reporting requirements applied to such issues. Country and regional funds and venture capital funds are thus the most common forms of equity investment in developing countries and are of particular interest to LDCs.

Venture capital firms are more likely to consider the small-scale investments typically offered in LDCs, but they do not have adequate resources to satisfy fully LDCs' needs for private finance.

Venture capital funds seek to invest in new or high-risk ventures with prospects for high growth and profitability, providing early-stage financing as well as funding for the expansion of established companies, and typically involve some management participation in the investee company. Such funds (and private equity investments) can invest without the need for a local stock exchange although the latter guarantees such investors much liquidity. On the other hand, for other types of portfolio equity investment the presence of an exchange is a critical requirement. Venture capital funds are more likely to consider favourably small-scale investments and may therefore be more appropriate for investments in LDCs. Unfortunately, because of the relatively small-scale nature of venture capital funds, they are unlikely by themselves to be large enough to satisfy the need for private finance in LDCs.[3]

Capital market development

In many cases, an adequate capital market development strategy is a prerequisite for the development of portfolio investment. Many LDCs are now actively trying to promote domestic securities markets, but this is a difficult and delicate process. For securities markets to operate with some degree of efficiency and liquidity, the conditions are a stable macroeconomic environment and a well-developed financial and capital market infrastructure (UNCTAD, 1993, pp. 25–26). There is a need for prudential standards to establish capital adequacy requirements, safekeeping of securities and financial reporting requirements for intermediaries, as well as a system for monitoring and enforcing such requirements. These should include rules on information disclosure, clarity of contractual relationships and strict fiduciary responsibility, including an effective legal system to specify and enforce disclosure standards for all companies issuing securities to the public and listing securities for secondary trading on stock exchanges. There should also be organizational controls that provide for the establishment and operation of stock exchanges, clearing houses and market information systems.

A stable macroeconomic environment and a well-developed financial and capital market infrastructure are prerequisites for efficient securities markets.

In many LDCs, the economy is too small to justify the cost involved in setting up an efficient stock market. In this case, regional cooperation on capital market development may help to improve the mobilization of both local and foreign resources for the financing of a sufficiently large number of companies, thus providing a wider choice of stocks and more market liquidity. However, the establishment of regional capital markets or stock exchanges would require intensified efforts for the harmonization of accounting and reporting systems, tax regulations, and monetary and financial policies.

Investment opportunities in LDCs

The high-risk reputation of LDCs may mask the potential for high returns in many of them.

Very often, the existence in LDCs of rich natural resources which are still under-exploited, or not exploited as efficiently as they might be, gives investors an opportunity to realize potentially high returns. This dormant potential is even more attractive now that the liberalization process has eased foreign investors' access to these countries' markets. However, although investment opportunities exist in LDCs – in tourism, agro-industries and infrastructure for example (see UNCTAD, 1998) – most investors are still keeping their distance from these markets because of lack of information, misperceptions to varying degrees about LDC markets, and the high costs of seeking the best opportunities in these often small markets. Building on the work already undertaken by some pioneer institutional investors (such as the International Finance Corporation (IFC) and the Commonwealth Development Corporation (CDC), discussed further below), a starting point for the further development of investment funds would be to find good projects and to identify sponsors who can mobilize private investors. Some small investment funds which are more willing to consider frontier markets could also play a supportive role in the initial phase in mobilizing foreign equity investment.[4]

Investment in LDCs is often impeded by the difficulty of obtaining adequate market information on opportunities.

LDCs need technical assistance to improve their institutional infrastructure in order to enhance their ability to attract more foreign equity investment flows and draw benefits therefrom. Direct investment in unlisted companies through venture capital funds or through private equity investment involves a fair amount of research to identify good projects. In this respect, facilitating the flow of information on investment opportunities to private investors will be instrumental in mobilizing more foreign investment in LDCs. Pursuing the process of exchanges of views and information between the private sector, international organizations and Governments is one promising way to encourage more investment flows to LDCs.

C. Role of official agencies in enhancing private flows to LDCs

The obstacles which LDCs face in attracting private capital from abroad underline the critical importance of the role of official agencies (multilateral and bilateral development finance institutions and aid agencies) in enhancing private flows to LDCs. While there are a number of actions that these countries can take to promote private capital inflows, there are limits to what they can do on their own. Official agencies need to step up their activities in these countries significantly if LDCs are to be successful in mobilizing substantial amounts of foreign private capital.

International financial institutions play an important role in facilitating the flow of private funds into LDCs.

A number of multilateral agencies play an important role in providing adjustment and investment finance to improve the enabling environment, in guaranteeing some of the non-commercial (political) risks of foreign investors, in reassuring private investors and lenders by partially financing private businesses, in directly mobilizing private capital (e.g. through investment funds), in providing advice and technical assistance on investment policies and promotion and on project development, and in disseminating information to potential investors and lenders. The leading institution in this respect is the World Bank and its specialized agencies, the IFC and the Multilateral Investment Guarantee Agency (MIGA). The regional development banks, of which the Asian

Development Bank and the African Development Bank are of particular importance to LDCs, also play a significant role.

Bilateral donors also play a major role in providing aid finance for adjustment and for investment projects in the development of physical, social and human infrastructure in developing countries. In addition, a number of OECD countries have established national mechanisms to protect their own investors when investing in other countries. They have also set up national institutions which invest directly in developing countries through loans and equity participation and which, by their presence, reassure private-sector investors.

Investment insurance

Multilateral, national and private providers

In recent years, there has not only been a dramatic increase in FDI, but also a corresponding increase in the level of investment insurance provided by the three main sources of such insurance: the multilateral sector as represented by MIGA, the national investment insurance agencies in industrialized countries, and the international private insurance market.

MIGA, set up in 1988,[5] essentially covers three forms of political risks: war and civil disturbance, expropriation and currency transfer. Guarantees are currently subject to a total exposure limit of $50 million per project and $175 million per country. At the end of June 1997, the contingent liability under guarantees issued and outstanding totalled about $2.5 billion, covering 48 countries (MIGA, 1997).

The provision of political risk insurance by national and private institutions long predates that of MIGA. The Overseas Private Investment Corporation (OPIC) in the United States is by far the largest public insurer. All the other major industrialized countries also provide political risk insurance but, with the exception of Germany and Japan, practically all combine their export credit and investment insurance business in one organization. The cover is restricted to the nationals of the respective countries. Overall in 1996, the 46 public institutions (including MIGA) which belong to the International Union of Credit and Investment Insurers (the Berne Union) saw their business increase by 50 per cent to $15 billion.

The private market in political risk insurance consists of certain syndicates at Lloyds of London and a few insurance companies such as AEG. They write more insurance business than the public-sector agencies. For example, the Brockbank syndicate at Lloyds alone provided $5 billion of cover in 1995, seven times as much as MIGA (Jaffe and Reith, 1997). It is not possible to determine the extent to which the private market has covered investments in LDCs, but judging by the cover provided by the public agencies, it is unlikely that such cover would be very extensive.

Activities of public insurers in LDCs

There are no comprehensive data available on the cover provided by all public agencies to LDCs, but the data which are available suggest that the insurance business conducted in relation to LDCs is limited. Thus, only seven LDCs had benefited under MIGA programmes, representing 6.5 per cent of the total MIGA portfolio as at the end of June 1997. Of the cover provided by OPIC in 1996, only $48.7 million was in relation to LDCs, which included Angola, Haiti, Uganda and the United Republic of Tanzania (OPIC, 1996). Similarly, data available from the United Kingdom Export Credits Guarantee Department (ECGD) suggest that as at 31 March 1997, of the 23 countries to which overseas investment insurance had been provided, only two were LDCs (Bangladesh and Malawi), together accounting for some 7 per cent of the total amount of cover provided (ECGD, 1998).

One of the reasons why there has been only limited cover in LDCs is that demand for such cover is investor-driven. Investors base their decision to invest in a particular location largely on commercial considerations and only then decide whether or not to seek political risk insurance cover. Thus, it would be expected that the largest share of insurance would be provided to those countries which receive reasonable amounts of FDI or portfolio equity flows or both, but which are considered risky by investors. This is borne out by the experience of MIGA, which has played a major role in facilitating the flow of FDI by guaranteeing projects in many countries that have received substantial FDI inflows without ranking among the major recipients of FDI. About 23 per cent of MIGA's portfolio has consisted of projects in the low-income countries (MIGA, 1997), including the seven LDCs mentioned above. On the other hand, as the vast majority of LDCs did not attract significant FDI inflows, it is to be expected that insurance cover for investments in these countries would also have been limited.

Many public investment insurance programmes cover both export credit and investment insurance; this can make it difficult for heavily indebted LDCs that are not eligible for export credits to qualify for insurance coverage.

LDCs may also face supply constraints. MIGA and national agencies cannot go beyond their overall exposure limits. For example, MIGA's capacity to insure has remained constrained by its capital base, so that is inevitable that it should first meet the high demand from those investors who have already made decisions to invest in particular locations. In addition, a number of LDCs are not yet members of MIGA. Another reason why a number of heavily indebted poor countries, including LDCs, have not significantly benefited from public investment insurance programmes is that many national agencies cover both export credit and investment insurance business. The result is that countries which are not eligible for export credit cover because of their high indebtedness sometimes also get tainted for the purposes of investment insurance, because of the relative unimportance of the latter business.

Action is needed to overcome these constraints. The recent agreement to enhance MIGA's capital base should facilitate expansion in its overall activity, but may not necessarily benefit investments in LDCs. In this respect, a recent United Kingdom initiative is of particular interest. ECGD is making available an extra $100 million of investment insurance targeted at 25 poor countries, 17 of which are LDCs.[6] A key feature of this investment initiative is that ECGD will work in partnership with investors as well as other insurers – private, national and multilateral. The initiative sets an example which could be emulated by other national agencies, as well as MIGA, to facilitate investments in the poorest countries by providing insurance cover. Like ECGD, these other agencies could clearly earmark funds for this purpose. In fact, the establishment of a trust fund under the auspices of MIGA to support investment insurance in heavily indebted poor countries and LDCs should be carefully examined.[7] To increase demand for cover in these countries, MIGA and national agencies would also need to mount special outreach programmes for potential investors. To some extent, this is already done by some agencies (such as MIGA and OPIC), but to have a real impact on the poorest countries, a much more targeted approach is needed.

Participation in private-sector ventures

Institutions providing finance to private enterprises

There are a number of institutions at the multilateral and national level which provide direct equity and loan finance to private-sector projects in developing countries without government guarantees and spur additional private investment in the process. The premier institution at the multilateral level in this respect is IFC, the private-sector arm of the World Bank group. The Inter-American Development Bank has also set up an IFC-equivalent, the Inter-American Investment Corporation, while the Asian Development Bank was also instrumental in establishing by equity participation a private-sector company, the Asian Investment and Finance Corporation.

At the national level, a number of industrialized countries have set up specialized institutions whose purpose is to provide equity or loan finance, directly or through guarantees, to private-sector ventures in developing countries. These include OPIC in the United States, the Export-Import Bank of Japan and the Japanese Overseas Economic Cooperation Fund, as well as a number of specialized development finance institutions in Europe.

Other institutions active in this field include the European Investment Bank, which uses resources supplied by the European Development Fund under the Lomé Convention to act as venture capital for private enterprise in African, Caribbean and Pacific countries. Moreover, an instrument called the European Community Investment Partners has been created by the European Union to foster the start-up of businesses created jointly by a local investor and a European counterpart, mainly in Asia and Latin America; it follows a decentralized approach, using financial intermediaries. The Nordic Investment Bank and the Nordic Development Fund also lend to private-sector projects in developing countries. In particular, the Nordic Development Fund has set up for a trial period a special facility for private-sector financing offering subordinated loans with equity features in connection with direct investments in the poorer developing countries by enterprises from Nordic countries and in conjunction with lending by Nordic or international or regional development finance institutions.

LDCs accounted for 9.4 per cent of the total investments in the portfolio of the International Finance Corporation as at the end of June 1997.

Apart from the risk capital provided by the soft loan agencies such as the European, Nordic and Japanese funds just mentioned, various institutions also lend to local development finance institutions to on-lend to their local private enterprises. Many donors have also provided direct assistance to microenterprises through project-centred interventions involving the provision of credit and technical assistance.

Financial institutions and LDCs

From the LDCs' perspective, the key question is the extent to which the above-mentioned institutions have supported private-sector development in their countries and mobilized other resources in the process. In this respect, the overall performance is highly variable. For example, in the case of IFC, only 2.6 per cent of its investment portfolio as at the end of June 1997 was in LDCs (IFC, 1997b), although this figure to some extent underestimates the level of involvement by IFC in these countries, given the small size of the projects in LDCs. The picture looks better if the number of investments is considered: LDCs accounted for 99 (or 9.4 per cent) of the 1,047 investments in the IFC portfolio as at the end of June 1997.

Among the national agencies, some, such as those in Denmark, France and the United Kingdom, have a relatively high share of investments in LDCs in their portfolios, whereas LDCs hardly feature at all in the portfolios of others. Thus, some 15 per cent of the United Kingdom's CDC loan portfolio and almost a quarter of the companies in which CDC has made equity investments are in LDCs (CDC, 1996). Similarly, LDCs accounted for 27 of the loan commitments (21 per cent of the outstanding loan portfolio) of the French Proparco (Proparco, 1996). Twenty-one of the 85 countries in which the German Development Corporation has invested are LDCs. As at the end of 1996, Denmark's Industrialization Fund for Developing Countries and Sweden's Swedfund had invested 19 per cent and 13.5 per cent of their respective portfolios in LDCs. By contrast, some development finance institutions (such as those of Finland and Italy) have made few if any investments in LDCs; nor has the Japanese Overseas Economic Cooperation Fund made any commitments in LDCs in recent years (1992–1996).

A number of factors account for this variable performance among different institutions. One is the close association some of the home countries have with the regions which contain most of the world's LDCs (such as the historical ties of France and the United Kingdom with former colonies, or the aid programmes for eastern and southern Africa in the case of Germany and the Scandinavian countries). A factor which may partly explain the better performance of CDC and Proparco vis-à-vis LDCs is the fact that they do not require the participation of their national investors before they can invest in developing countries. By contrast, most other institutions participate only in ventures set up by their nationals or in which their nationals are significant partners,[8] so that investment by these agencies is driven by the demands of their own national private-sector investors.

A third factor is the flexibility in the share of participation that the agency is allowed when investing in different locations. Most institutions have fixed limits for their loan or equity participation (usually a quarter to a third of total capitalization[9]) in order to generate significant amounts of private investment. It is estimated that for each dollar approved by IFC, a further five dollars are raised from other investors. CDC, despite having formal limits, is more flexible and may actually take a controlling interest in the company. It also mobilizes a significant amount of resources from other development finance institutions. Such flexibility may allow CDC to invest in more difficult locations than other agencies and to maximize private financing, even though the proportion of private finance in the total raised may be lower.[10] The ability to provide equity finance may be an essential prerequisite in itself for supporting joint ventures in LDCs, just as it is in other countries.

A fourth factor is the terms and conditions of loans offered by various agencies. Although most agencies offer long-term loans, their interest rates vary, usually taking into consideration country risk factors. An exception in this respect is Proparco, which can grant loans to foreign borrowers at the same interest rates as those granted to a French company by a French bank, without needing to allow for country risk coverage, because the country risk provisions are borne by Proparco's parent company, the French Development Fund.

Yet another factor is the assistance provided to facilitate the mobilization of funds in local currencies for the benefit of private-sector borrowers. Without such guarantees, these borrowers may not be able to participate in the venture. Both CDC and Proparco provide guarantees to lenders for the reimbursement of both capital and interest.

Last in the list of factors is the extent to which commercial risk guarantees are available when nationals invest in particular locations. Most Governments do not provide such guarantees; the French Government, however, has set up the ARIA (Assurance du risque des investissements en Afrique) guarantee fund, in cooperation with the French Development Fund. ARIA can guarantee up to 40 per cent of loans granted by the Fund (or credit institutions benefiting from refinancing by the Fund) to private French companies or to public enterprises in ARIA-zone countries. Since 1996, ARIA guarantees have also been allowed to cover up to 20 per cent of shareholdings held by private French investors in private enterprises in the ARIA zone, provided that Proparco holds a share in the company for a maximum of seven years.[11]

There are a number of steps that could be taken to enhance support to LDCs. One would be to encourage institutions which provide little or no support to LDCs to extend their coverage to include these countries. In this respect, an example is given by the initiative to extend IFC's reach, launched in early 1997 as a three-year pilot programme to promote private investment in selected countries where difficult country conditions have constrained IFC activity.[12] The initiative currently includes 14 LDCs[13] among the target countries; it would be desirable to extend it to other LDCs which have received little in the way of IFC commitments so far. The IFC target list could be used by other agencies, including the national development finance institutions, to enhance their activities in LDCs as well. Another example of an outreach programme is provided by the Government of Denmark, which has made a capital provision to its Industrialization Fund for Developing Countries for use in low-income countries: moreover, the Fund has adopted an initiative on Africa which will enable it to focus more strongly on the poorest developing countries.

Mobilization of private capital

In addition to participating directly in businesses and thereby mobilizing other sources of finance, IFC plays a particularly important role in directly mobilizing private capital through its loan syndication programme, through underwriting securities issued by companies from developing countries[14] and through the promotion of investment funds. Some national agencies are also involved in the promotion of investment funds.

LDCs would benefit if the distinction between country and project creditworthiness was always clearly drawn.

Syndicated loans

IFC syndicated loans, also known as B-loans, are its principal direct means of mobilizing third-party funds. In the process, IFC acts as a lender of record and thereby extends its "umbrella" to participating financial institutions (IFC, 1997a). Using this method, IFC has successfully secured financing for many borrowers who would not otherwise have had access to long-term funds on reasonable terms from the international financial markets. Over the years, IFC has raised roughly one dollar in syndicated loans for every dollar lent on its own account. However, IFC has played a very limited role in directly mobilizing resources for LDCs through its syndication process. Only $46 million has so far been raised through this process, for six LDCs (this is partly a reflection of the lack of creditworthiness of many LDCs for commercial market-related loans).

However, country creditworthiness is not the same thing as project creditworthiness. For example, there could be a number of private-sector projects earning foreign exchange which could sustain debt without government guarantees. This is an area in which IFC could make special efforts to mobilize finance for LDCs. Its ability to raise financing for companies in LDCs and other developing countries has been greatly enhanced since the bank regulatory authorities in many capital-exporting countries exempted IFC loan participation from country-risk provisioning. Non-bank financial institutions, such as insurance companies, leasing companies and specialized finance companies, also participated in the IFC loan syndication programme. The ability of these investors to provide financing with a maturity of 12–15 years is particularly valuable for infrastructure projects requiring large amounts of long-term finance in LDCs and other developing countries.

Official promotion of investment funds

Specialized agencies can play a critical role in the establishment of the various types of investment funds. IFC in particular has been active in diagnosing the need for funds in the market, assessing their feasibility, identifying and assessing sponsors and managers, structuring the fund with the sponsors, mobilizing funding, and advising and monitoring. Between 1972 and June 1995, IFC invested in or underwrote a total of $786 million in 99 funds that raised $6.2 billion at inception. Over half the commitments were made between 1990 and 1995. However, LDCs have barely featured in the IFC promotion of funds. Only one LDC, Madagascar, has benefited, from two venture capital funds with a total capitalization of $6.6 million, of which the IFC commitment was $0.47 million.

Specialized financial agencies can play an especially important role in launching, advising and monitoring investment and venture capital funds in LDCs.

Of the national agencies, only CDC and OPIC appear to have the necessary capacity to launch investment funds. Most other agencies participate by investing in the funds launched by others. CDC has played an important role in the development of venture capital funds; in 1996, it managed about $230 million in 12 investment funds, with about $108 million of this representing its own contribution. Among the LDCs which have benefited from CDC activity are Mozambique, the United Republic of Tanzania and Zambia. Another CDC initiative, in collaboration with the Commonwealth Secretariat, was the launch of the Commonwealth Private Investment Initiative, under which a coordinated series of regional venture capital investment funds were set up in Africa, the South Pacific and South Asia.

OPIC for its part has been instrumental in the establishment of a number of investment funds targeted at sub-Saharan Africa (e.g. the $120 million New Africa Opportunity Fund set up to make direct equity investments in privately owned businesses in the Southern African Development Community). Legislation introduced in the United States Congress under the proposed Africa Growth and Opportunity bill further calls on OPIC to support a series of new private investment funds worth $650 million that will encourage United States private investment in, among other things, Africa’s infrastructure.

Despite the difficulties in developing investment funds which will benefit LDCs and which are related to the LDCs’ current stage of economic and capital market development, there are a number of steps that could be taken by official agencies to promote such funds. IFC should continue to play a proactive role in the development of portfolio funds in those LDCs which have set up stock markets. Where country funds are not feasible, such funds could be developed on a regional basis, but with a clear focus on LDC pre-emerging markets. The most important role official agencies can play in LDCs is perhaps through the development of venture capital funds, which should be targeted not only at new companies, but also at companies hoping to be listed on a stock exchange and needing expansion capital, as well as small and medium-sized and newly privatized companies. Given the small size of many LDCs, the most obvious way to do this is through the development of regional funds along the lines of those already developed by IFC, CDC and OPIC, but with a clear focus on those countries which have not benefited so far.

In difficult cases, whether at the country level or at the regional level, donor funding could be mobilized to contribute towards management costs. The value of such donor funding lies not only in the way it may kick-start the venture capital industry in the country or region concerned, but also in the additional benefits it brings in the shape of the expertise of the investee firms in strategic and financial planning, marketing and accessing complementary financing; expertise in all these areas is in short supply in LDCs. In addition, as in the case of the Commonwealth Private Investment Initiative, investor participation could initially be sought from a wide range of public agencies, including those from developing countries.[15]

Private equity funds for infrastructure development in LDCs could also be developed along the lines of those proposed by the OPIC initiative for Africa. To be successful in attracting private-sector participation, such development may require much greater participation by public-sector institutions in the initial stages. Regional development banks could play a significant role in establishing infrastructure funds skewed towards the needs of countries which have great difficulty in financing such projects. Donor agencies would also need to support LDCs in developing credible programmes to raise private financing for infrastructure.

D. Private participation in infrastructure projects

In the past, much of the infrastructure in LDCs has been built, owned and operated by government and public entities, and multilateral development institutions as well as bilateral aid agencies have played a major role in providing support for the projects. Public finance constraints and the need to improve, modernize and expand their physical infrastructure (e.g. in the areas of telecommunications, power, water and sanitation, and transport) have led LDCs, like many other countries, to re-examine the role of the State in financing as well as building and operating such facilities. Like other countries, LDCs need to encourage the private financing of infrastructure projects, including through the participation of foreign capital.

LDCs, like other countries, need to actively encourage the private financing of local infrastructure projects.

Private participation in infrastructure projects can take various forms, ranging from management contracts, leasing and build-operate-transfer schemes (including build-own-operate schemes) to buying shares in public utilities which are being privatized. It is the build-operate-transfer schemes and privatization programmes which seem to offer the greatest promise for bringing in significant amounts of investment from abroad. Under such schemes, a private consortium usually raises finance for a large project which it builds and operates for a fixed term at an agreed rate or return, until it is transferred to the public sector; under build-own-operate schemes, the private sector retains equity and an operating interest over the longer term. However, such schemes can be very complex both from a financial and a legal point of view, and this can place major constraints on their use, especially in LDCs. The key problem is to design an appropriate risk-sharing and pricing framework that balances public and private interests and ensures an acceptable rate of return on capital. From the LDCs' point of view, the affordability of services is a key issue, while investors are particularly concerned about the possible reversal of government commitments and contractual obligations regarding essential supplies and purchases of output.

Investors are also concerned about the availability of foreign currency and the foreign exchange risk of the project, as infrastructure projects typically generate local currency revenues. Weak domestic capital markets which are unable to provide long-term financing and have long pay-back periods also represent a major constraint. Moreover, these schemes are something new for most developing countries, particularly LDCs, and to get them off the ground requires considerable expertise, which LDCs do not necessarily have.

In line with the trend towards seeking to increase private participation in infrastructure projects, the international financial institutions have been devising programmes to enhance collaboration with the private sector in such projects. In this context, the significant investment opportunities in various infrastructure sectors in LDCs should not be overlooked (UNCTAD, 1998).

Constraints on private infrastructure financing in LDCs

Political and social risks

It is generally easier for a host country to attract private investment for a project in the industrial, oil and gas or mining sectors than in infrastructure. The goods, raw materials or services produced by an industrial or resource-extracting project can be sold, usually into established markets, and often abroad or to foreign users for foreign currency. The challenge is greater in the case of infrastructure, where the revenue stream is dependent on purchase agreements with the host Government, as is typical in the case of a power plant, or on the uncertainties of local consumer demand (e.g. for a toll road or tele-communication system).

Investment in LDC infrastructure projects – as opposed to resource-extracting ventures for example – typically creates revenue streams in local currencies, and therefore carries transfer and exchange rate risks.

One major factor that affects all FDI is the political stability of the country concerned, and this is particularly so in the case of investment in infrastructure in LDCs, as the return on investment is inevitably long-term. In addition, the fact that the Government or other public entities will need to be involved in any project concerning public infrastructure, and the public nature of such projects, means that these projects are highly susceptible to government interference. However, many LDCs have recently become more stable politically, and protection against the expropriation or nationalization of foreign investments now exists in the form of bilateral treaties or international conventions.

The evolution of legislation also shows that liberalization and privatization are becoming a general trend in most, if not all, LDCs, and that the major political risk is no longer the risk of expropriation or nationalization but rather the non-traditional political risk of non-fulfilment by public authorities of their contractual obligations, either willingly or as a result of the unavailability of funds or foreign currency.

Infrastructure projects also face the “social risk” of being rejected by the society they are seeking to benefit. In this respect, the affordability of services and the related payment risks are perhaps the primary issue in LDCs, where the vast majority of the population is poor and often still living at subsistence level. Price increases in services which were formerly publicly provided (and which may have benefited from pricing and subsidy policies to ensure access for all) may make such services unaffordable for part of the population and therefore politically unacceptable.

Another aspect of social risk is the fact that the involvement of the private sector in public infrastructure projects usually results in job cuts in public utilities, as a result of increased productivity. This may also generate resistance, particularly from organized labour. The lack of local sponsors able or willing to invest in infrastructure projects and the arrival of private foreign investors to take control of essential public services that were previously operated by the Government or a public entity may be construed by local people as an abandonment by the State of part of its sovereignty and a loss of political power by the Government. In addition, the private sector may be accused of "skimming off the cream", taking all the potentially profitable projects and leaving only the least economically attractive projects to be carried out by the State. In such cases, social acceptance can be fostered by encouraging the participation of competent local contractors and investors in open and transparent procurement proceedings.

All the above-mentioned factors may render recourse to private financing for infrastructure projects difficult in some LDCs if social resistance generates political or administrative resistance. Although the current environment in developing countries is favourable to private foreign investment in general, attitudes towards foreign investment in public services may be more reserved. Before taking any decisions on such investment, therefore, the Government must be fully convinced that participation of private investors is the best way to finance necessary infrastructure projects and will be of long-term benefit to the country (UNCTAD/UNIDO, 1997; UNCTAD, 1998).

Differences of opinion often arise between investors and LDC Governments concerning the way in which exchange rate risk should be shared.

Transfer and exchange rate risks

Many infrastructure projects typically do not generate foreign currency through exports and therefore are prone to high cross-border risks. There are problems with the availability, convertibility and transferability of sufficient amounts of foreign currency to repay foreign loans, pay part of the variable operating costs in foreign currency and pay dividends on investment to the foreign sponsors. There are also exchange rate risks, since exchange rate changes can have an important effect on the profitability of the project for the developers.

Although most Governments have now removed formal restrictions on the repatriation of earnings, countries facing balance-of-payments difficulties may be forced to allocate scarce foreign exchange to certain companies, with the result that the right to remit profits cannot be implemented in practice. This problem can be solved by liberalizing the foreign exchange markets, making it easier for investors to repatriate earnings. Although this may involve an increase in the cost of obtaining foreign exchange, it has been found to improve accessibility. Unfortunately, in the past the operation of such free markets has sometimes been suspended, thereby reducing investor confidence in the schemes. Infrastructure projects with large amounts of foreign debt may be particularly prone to such transfer risks. One solution to this problem is to establish a currency convertibility fund, as was done in the case of the Songo Songo project in the United Republic of Tanzania, where the International Development Association (IDA) provided a contingent loan aimed at mitigating currency convertibility risks, with MIGA administering the fund itself.

The key problem, however, is exchange rate risk. Investors are not only concerned about getting sufficient returns in local currency but also in dollars, as foreign debt and equity are denominated in foreign currency. They have therefore sought tariff structures which accommodate these concerns. From the Government's point of view, exchange rate risk is seen as a normal commercial risk. However, the tariff changes required because of currency depreciation may be so large as to create political resistance and call into question the credibility of an otherwise well-intended tariff policy.

These considerations highlight the importance of initially targeting those activities which generate hard-currency revenues, such as ports, airports or export-oriented power projects. Telephone networks may also give access to foreign currency, but most of the necessary basic infrastructure (energy, water and roads) does not give such access. Among the activities that do not generate foreign exchange but which require substantial amounts of foreign capital, Governments could target those where the political economy of tariff regulation raises fewer risks. For example, tariff increases in telecommunications, freight transport and the bulk supply of power or water to a utility may be politically less sensitive than those in retail electricity, water and passenger transport. More mobile technologies, such as cellular telephony and placing power plants on barges, may also mitigate investor risk.

Multilateral institutions may need to help LDC Governments to identify and target low-risk activities. Together with other donors, they should also consider whether mechanisms can be devised for exchange rate insurance and risk-sharing, especially when the risk concerns large-scale devaluation. For example, could mechanisms similar to those dealing with currency convertibility risks be devised to deal with such risks?

Regional trading arrangements can facilitate the rationalization of large-scale infrastructure projects across participating countries.

Small size of markets and regional projects

Because of the small size of LDCs' markets, some infrastructure projects may not be viable at a country level. For example, one of the main constraints on private investment in the power sector in sub-Saharan Africa is the small size of the national power markets. In these circumstances, regional projects may provide a solution. Moreover, many LDCs are landlocked, and projects to facilitate transit transport in these countries necessarily have to be conceived in a regional context. Regional trading blocs can be an important means of attracting domestic-market-oriented FDI to LDCs as they allow transnational corporations to rationalize their production facilities across participating countries and realize economies of scale.

Although the results of regional integration efforts have been disappointing in many respects so far, the growing trend towards trade and investment liberalization should facilitate the process. There are already a few examples of successful regional cooperation involving private participation. One is the development of the Maputo corridor between Mozambique and South Africa. This cross-border initiative entails three major infrastructure projects: the dredging and rehabilitation of Maputo port, where container terminals will continue to be contracted out to private enterprises; a new $139-million private toll road between Maputo and Witbank, under a 30-year concession, with 90 per cent of the financing coming from the private concessionaire; and a new rail route to Johannesburg operated by a private company.

South Africa's State-owned power utility is also paving the way for a more unified African power market and already 10 countries,[16] four of them LDCs, have been interconnected and a further five,[17] including four more LDCs, are expected to be connected in the future. The interconnection grid should open up enormous opportunities for private power producers to exploit the untapped hydroelectric potential of the region.

Such regional projects also bring new challenges. The more countries there are participating in a project, the more time and resources are needed to bring it to completion. Inconsistencies between the legal and regulatory frameworks of the participating countries could give rise to problems, and intergovernmental agreement would be needed on fiscal matters. Furthermore, the risks of changes in the law, policy reversals, political violence and other unforeseeable events are multiplied.

Financing issues

Revenues and payment by end-users

The private sector will only be willing to finance infrastructure projects if they generate a sufficient and stable cash flow and the necessary foreign currency is available to service any loan and pay returns to investors. The revenue may come from end-users or from the Government or public body concerned, or a combination of these (take-or-pay agreements, guarantee of minimum purchase of output through an "offtake" agreement, guarantee of minimum revenue, subsidies, etc.), but it needs to be sufficient to cover the operating costs of the project, to reimburse debts and to allow a reasonable return on investment for the promoters, commensurate with the level of risk undertaken.

Once major infrastructure projects in LDCs become operational, consumers may need to be educated as regards the actual costs of the services that they are using.

Policies on pricing and payment by end-users need to be carefully considered. In many LDCs, a significant portion of the population may be unwilling or unable to pay, or may not be used to paying, the market price for public services. In rural areas, for example, water is usually considered a natural resource and is not paid for, while in urban areas, water may be paid for but the price may not cover the actual cost of water distribution and purification. The same applies, to a lesser extent, to electricity in the developing world, where electricity prices have lagged behind the costs of supply and have depended heavily on government subsidies. Subsidies constitute a significant disincentive to energy efficiency in the industrial and commercial sectors, where typically 70 to 80 per cent of the total power supply is consumed. Usually, energy subsidies are advocated as a benefit to the poor. In practice, little of the subsidized electricity reaches lower-income households, as only a few of them have access to electricity, particularly in Africa. In fact, because the poorest people often live in rural areas, they usually have to depend on more expensive and lower-quality forms of energy (United Nations, 1996).

Roads are an example of a public service that the public is not used to paying for. Ordinary roads in most countries are not perceived as service goods and there is no clear pricing system for them. Road users generally do not pay directly for the use of roads (though they may pay for the use of highways, which are practically non-existent in LDCs), and expenditure on roads is financed from general budgets. Road users do pay various taxes on vehicles and fuel, but this revenue is often, if not always, treated as general tax revenue and not applied specifically to the funding of road construction, maintenance and repair. Even road funds do not, at the moment, ensure the proper allocation of sufficient funds (Heggie, 1995).

Turning over infrastructure construction or management to the private sector will often lead to price increases in services that previously benefited from a pricing and subsidy policy which allowed the price to be set at a level that was affordable to the consumer but that was not sufficient to cover the actual cost. The investment required to improve services or carry out repair work leads to increased costs and may lead to significant price increases. The cost of financing will also affect the final price of a service. The more difficult and risky the projects (and most LDC infrastructure projects are both difficult and risky), the higher the rate of return expected by private investors and the rate of interest charged by commercial banks. In all cases, the financial charge for commercial loans will be higher than the concessional loans offered to the public sector, and it is only through savings achieved by the judicious selection of investment and procurement methods and by improving productivity and efficiency in the service that these higher charges can be minimized. The involvement of official agencies, as well as providing reassurance to private investors and commercial banks who are considering participating in the financing of a project, may be able to offer longer maturities and concessional interest rates. Their involvement could therefore help to reduce the overall cost of a project and make the price of the service affordable.

If it is assumed that in LDCs the economic benefits of a service would normally exceed the users' capacity to pay, it may only be possible to recover costs over a period of time through progressive tariff increases. In such cases, support schemes which provide performance-based fiscal rewards could be particularly helpful. Under such schemes, donor institutions pay the provider of the private infrastructure services an amount proportional to the quantity of service actually provided (measured in number of kilowatt-hours, cubic meters of drinking water, etc.). This kind of scheme could prove to be a powerful incentive for private operators. To promote high standards and high collection rates, fiscal awards should be paid only when the service is of satisfactory quality and is actually paid for by users. A decreasing subsidy scheme, matching progressively increasing tariffs, as has been used in the water sector in Guinea, could then follow. A solution would need to be found for poor households who are willing and able to pay for the variable costs of basic public services (e.g. water and electricity) but unable to afford high fixed costs (e.g. of connections).

Finance packages for infrastructure projects

The amount of capital required for infrastructure projects is usually very large, while the economic life of such projects calls for different tiers of capital, including very long-term capital. In the case of many developing countries, including LDCs, because of the thinness of their domestic capital markets, this would mean raising a substantial part of the capital from external sources. However, access to capital markets providing long-term capital resources is limited, especially for LDCs, while the debt situation in many of these countries and the structural adjustment programmes adopted to redress related imbalances in their economies severely restrict recourse to non-concessional financing.

A significant equity contribution is likely to be needed in privately funded projects. While the concession holder and other domestic and foreign participants generally contribute a significant part of this, the remaining portion needs to be raised from the domestic and international stock markets, which in the case of practically all LDCs means it must be raised from international sources. The problem is that raising equity in the international stock markets for new infrastructure projects in developing countries would be highly restrictive. It is in this respect that private equity funds for infrastructure assume particular importance, although such funds for LDCs would require a far higher degree of participation by official agencies in the initial stages.

Although a significant amount of capital has been raised through the sale of bonds (i.e. debt finance) by newly privatized corporations, especially in Latin America, bond finance is generally not possible for new projects in low-income countries, and LDCs are also generally considered uncreditworthy for commercial bank financing. Nevertheless, the following possibilities for raising bond finance in conjunction with official or officially supported financing and guarantees can be distinguished:

- Export credit agencies can be a major source of debt finance for meeting the cost of equipment. Major export credit agencies have now established separate project finance departments and provide guarantees or credit on a project finance basis in addition to their traditional operations. Project-financing is based on an analysis of the cash flows of projects rather than on government guarantees, and export credit agencies provide parallel loans on a limited recourse basis in tandem with other financing. However, in accordance with OECD guidelines, these agencies do not meet the full cost of equipment, so that project sponsors would still need to meet 15 to 20 per cent of the cost by way of a down payment in foreign currency before they could access the export credit.

- For many infrastructure projects, the role of IFC as a lender of record can be crucial in mobilizing additional resources through its syndicated credit programme. This could tap both normal commercial bank loans as well as long-term finance from non-bank financial institutions. Regional development banks which lend to the private sector could also use their co-financing programmes with private commercial banks to mobilize additional resources.[18]

- As commercial banks do not lend for longer maturities, the partial credit guarantee programmes of the World Bank and regional development banks may serve to extend the maturities of loans. A partial credit guarantee covers a designated part of the debt service (interest and/or principal), with payments usually falling due during the later maturities.

- Multilateral agencies and bilateral donors, which have been the traditional source of very long-term financing, could continue to play this role by adapting such funding to suit private-sector needs. In Bangladesh, the Government has set up the Private Sector Infrastructure Development Fund with the support of an IDA credit granted in 1997 and funding from two other donors, Canada and the United Kingdom. It is modelled on a similar fund launched in Pakistan, which lent at commercial rates of interest with maturities of 23 years and a grace period of seven years. The Bangladesh fund will also provide long-term debt financing for privately sponsored infrastructure; it is part of a project aiming to promote greater private-sector participation in the power, gas, water supply, telecommunications and transportation sectors. The fund is expected to facilitate better risk-sharing between private sponsors and the Government, as well as to play a catalytic role in attracting other sources of commercial and institutional finance, such as export credit agencies and multilateral and bilateral sources. The fund is a useful model which could be followed by other LDCs.

Finding long-term capital for major infrastructure projects in LDCs is difficult, but pre-investment costs associated with small projects are such that many are not even considered by multilateral lending institutions.

Project size and financing mechanisms

Finance packages for large-scale infrastructure projects of obvious long-term economic and commercial interest (such as the Maputo corridor project, the

Lesotho highlands water scheme and large hydropower projects), however complex, may be easier to put together than finance packages for small projects in LDCs. Small projects, while requiring more modest levels of funding, may require a level of pre-investment that is too high for the project to be viable for a foreign investor, or they may be too small to be considered by the multilateral lending institutions. Different methods have been used or are being tried to overcome the problem of project size. For example, the European Bank for Reconstruction and Development is developing a method for financing small and medium-sized enterprises in countries in eastern Europe that includes a regional venture fund and funding through local banks, and might very well be adaptable to small infrastructure projects in LDCs (for details, see UNCTAD, 1998, p. 110).

Multilateral financial institutions could adapt various methods of wholesale investment (combining equity investment, co-financing and bank-to-bank loans) to invest in local banks for subsequent onward investment in small infrastructure projects which could be replicated in different countries. If this type of approach is taken, a training programme and technical assistance will be required to enable local financing institutions to structure the project finance arrangements properly, together with the local granting authority and sponsors. The proactive involvement of the Government in such projects would also be required, and established guidelines for procurement and a clear policy on the private financing of infrastructure projects would need to be followed (see UNCTAD, 1998, pp. 110–111).

E. Donor support for private participation in infrastructure projects

As the international financial institutions seek to adapt their roles and extend their activities beyond traditional lending by developing collaboration with the private sector, they have started to develop specially targeted programmes to support private participation in infrastructure projects. Thus the World Bank recently formulated an action programme, presented at its annual meeting in September 1997, to facilitate private involvement in infrastructure. The Bank's private-sector arm, IFC, has taken the lead in promoting private participation in infrastructure, and has undertaken pioneering work in developing new financial instruments and extending advisory services in this area. The potential of IFC as a partner in the area of infrastructure development should be of special interest to LDCs, particularly as it is shifting its focus from large projects to smaller investments in newer market segments, and is seeking to reach new countries. Telecommunications is one of the key areas attracting IFC support, especially in countries with poor access to international capital; it recently approved a project in the United Republic of Tanzania to build and operate a public data communications network for domestic and international services.

The regional bank of most interest to LDCs, the African Development Bank, has adopted a new strategy for private-sector development, one of the major elements of which is the search for a more catalytic role in mobilizing private resource flows through such mechanisms as the co-financing of infrastructure investments. Infrastructure development is also being given priority in the private-sector operations of the Asian Development Bank; examples of such projects undertaken in LDCs include hydropower plants in the Lao People's Democratic Republic and Nepal.

Interest in private participation in infrastructure projects has also been shown by other financial institutions, as witnessed by the proposed OPIC fund for infrastructure development in Africa. In Japan, a working group on private infrastructure development submitted its final report to the Ministry of Finance in 1997 and made a number of recommendations on bilateral action to promote private capital flows to this sector, including: (1) extending and strengthening official support schemes; (2) formulating private infrastructure support programmes; and (3) cooperating to develop financial and capital markets in developing countries (Japanese Working Group on Private Infrastructure Development, 1997; Overseas Economic Cooperation Fund, 1997). Private-sector institutions have also suggested new approaches to strengthen partnerships between the international financial institutions and private investors, giving special attention to infrastructure projects.

It is important that the programmes now being developed to boost private finance for infrastructure development should pay due attention to LDCs and their special needs for regulatory frameworks, technical assistance in the design of projects, and guarantees and long-term financing for infrastructure projects. The World Bank, the Asian Development Bank and the Inter-American Development Bank have all offered partial risk guarantees to cover specific risks arising from the non-performance of government contractual obligations that could affect the viability of infrastructure projects. However, these guarantees have so far been available only to countries which are eligible for non-concessional lending on terms of the type used by the International Bank for Reconstruction and Development, thus excluding all IDA-only countries (including LDCs) from benefiting from them. Recognizing the problem, the World Bank proposed two types of guarantee in its 1997 action programme:

Although a number of institutions offer partial guarantees to cover specific risks arising from government action, or inaction, these guarantees have not generally been available to LDCs.

- Guarantees provided by the International Bank for Reconstruction and Development for IDA-only countries for enclave projects that earn foreign exchange: this type of guarantee would cover the risks of government action that might interfere with the functioning of a project. Additional financial security (e.g. depositing revenues in escrow accounts and maintaining a high level of reserves) would also normally be required.

- Guarantees backed by IDA resources in IDA-only countries under a pilot programme: such guarantees could help to cover the risks of government action in projects that do not earn foreign exchange.

Such mechanisms would certainly help in filling gaps in existing instruments, especially as they affect IDA-only countries and LDCs. Similar programmes by other financial institutions, such as the regional banks, could also be useful. However, the problem is not simply one of mechanisms that guarantee government policy and regulation. In addition to the constraints discussed above, the contracting and bidding costs for pioneering infrastructure projects can be very high, sometimes exceeding 10 per cent of total project costs (as compared with the normal 3–5 per cent). High project costs and poorly defined project parameters can also result in expensive financing terms. The World Bank action programme also contains proposals to address these constraints with the aim of lowering contracting and bidding costs and easing financing terms.

It is essential that these various actions – the preparation of country framework reports, the provision of advisory services and the exchange of information – are extended to LDCs. Without a special focus on the poorer countries, support measures could easily be restricted to the larger and higher-income countries which are already spontaneously attracting interest from private investors; this has often been the case with previous measures to promote private investment in developing countries.

Priorities for further action

Official agencies appear to have so far provided relatively little specific support to LDCs. The provision of political risk insurance to these countries is affected by the limited demand for such insurance in LDCs. Official participation by international agencies or the national agencies of OECD members in private-sector businesses in LDCs is affected by, among other things, the lack of any systematic monitoring of support to these countries, the concentration of the work of different agencies in different geographical areas, and the limited demand from private national investors in OECD countries. Investment funds have mostly bypassed LDCs because of underdeveloped stock markets and the riskiness of establishing venture capital funds in small and relatively unknown markets. While a significant amount of technical assistance has been provided to LDCs, such support to the private sector is hampered by bureaucratic procedures and the lack of clearly defined long-term objectives.

The pursuit of private financing to build or improve the infrastructure in developing countries and official support for this objective are of recent origin. Many problems have been encountered, including poor policies and regulation, the vulnerability of projects to changes in government policies, transfer and exchange rate risks, and difficulties in accessing long-term capital. For LDCs some of these problems are particularly acute; they also face additional problems, such as the small size of their markets and the fact that they cannot afford privately provided services.

Official assistance is needed to provide leverage in the mobilization of private finance in LDCs.

On the basis of the analysis presented in this chapter, three priorities for further action to help LDCs to attract private investment can be identified:

- A much more proactive role by official agencies in supporting private businesses and mobilizing additional finance;

- A much stronger partnership between the public and private sectors to promote infrastructure development; and

- A more active role by official agencies in promoting regional integration and regional projects.

F. Conclusion

The level of private foreign investment in LDCs is far lower than it might be. Although a number of institutions have been created to support such investment in developing countries in general, they do not seem to have been particularly effective in directing private finance to LDCs. While aid funds or public resources may initially have been used for setting up some of these institutions, their operations are not necessarily financed by official development assistance. For instance, OPIC is a self-sustaining agency that operates at no net cost to the United States taxpayer. On the other hand, many of the programmes identified as necessary for mobilizing more private resources to LDCs, and which could be reproduced on a wider scale, may be eligible for special budgetary allocations –

for instance, targeted investment insurance, risk capital or allocations under various existing or proposed IDA-financed mechanisms.

Perhaps the broader question to be faced is this: does the use of official development assistance to provide leverage in mobilizing private finance amount to subsidizing private investors? At a time when official development assistance is generally scarce and the prevailing development model gives a key role to private initiative and private enterprise in achieving sustainable growth, there may be little alternative but to accept a more prominent role for official development assistance in leveraging private finance. Such a role could be particularly valuable in developing the infrastructure in LDCs, as improved infrastructure facilities can be seen as a precondition for growth and overall development in these countries, and for improving their prospects of attracting private capital. Given that the risks are still high and given the difficulties in generating an adequate return on investment, infrastructure projects in LDCs cannot yet be fully financed from private sources. Moreover, many of these countries need technical assistance and advisory services if they are to set up such projects. Funding on concessional terms or in the form of grants from multilateral or bilateral agencies, partial risk guarantees and special government guarantees and financial support will be needed if the financing of the projects is to be properly structured.

Major initiatives are needed to boost resource flows to LDCs as globalization proceeds, not least because these countries face the risk of further marginalization. One way in which the international donor community can help to boost these flows is to strengthen official support for the mobilization of private finance for investment projects – particularly infrastructure projects – in LDCs.

Notes

1. Estimate based on UNCTAD data on FDI inflows compared with net disbursements of official development assistance recorded by the OECD Development Assistance Committee.
2. See part three of UNCTAD, 1996, and part two, chapter 3, of this *Report*.
3. See UNCTAD, 1998, for a detailed description of the structure of the equity funds most appropriate for LDCs.
4. Following the UNCTAD/UNIDO pilot seminar in June 1997, Trigone Capital Finance SA, a Geneva-based financial company, was to launch a new open-ended investment fund for Africa, the Global African Development Fund, in May 1998. With an initial capital of $15–20 million, the fund's target size is $200 million. The objective of the Fund is capital appreciation over the medium to long term, mainly for investment in traded debts and stocks of African countries. Fifteen per cent of its net asset value will be allocated to direct investment in the capital of young enterprises in the continent.
5. When MIGA was set up, it was seen essentially as a complement to other public and private insurers, especially to compensate for some of the asymmetries in the national and private markets.
6. The LDCs covered by this initiative are Benin, Burkina Faso, the Central African Republic, Chad, Equatorial Guinea, Ethiopia, Guinea, Guinea-Bissau, the Lao People's Democratic Republic, Madagascar, Mali, the Niger, Togo, Uganda, the United Republic of Tanzania, Yemen and Zambia.
7. The MIGA convention provides for the establishment of a sponsoring trust fund under which one or more MIGA countries (the sponsors) can undertake the financing of a trust fund which MIGA can then use to finance insurance coverage for investments specified by sponsors, which it has already done in the cases of Bosnia and Herzegovina and the West Bank and Gaza.
8. In the case of Germany, these partners have to be European.
9. For example, IFC limits the total amount of debt and equity financing it will provide to a single project to 25 per cent of the total estimated project costs. It may provide up to 35 per cent of the equity provided it is not the largest shareholder. The size of IFC

investments ranges from $1 million to $100 million. Similarly, CDC normally invests between $5 million and $60 million, but not more than 30 per cent of total capitalization.

10. It is estimated that for every four dollars put up by CDC and its associated development finance institutions, a further three is raised from private investors.
11. Loans and shareholdings of between one million and five million French francs are eligible for ARIA guarantees.
12. In addition to an enhanced field presence of IFC staff in these regions and technical assistance, IFC has created a $40-million small-enterprise fund to support small and medium-sized enterprises in these countries.
13. Cambodia, Cape Verde, the Central African Republic, Chad, Equatorial Guinea, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, the Lao People's Democratic Republic, Mali, Mauritania and Mozambique.
14. As this concerns mainly the companies in the more mature emerging markets, it is not considered below in the context of LDCs.
15. In addition to the investment from CDC, the Commonwealth Africa Investment Fund set up under the Commonwealth Private Investment Initiative has attracted investment from government pension funds and investment agencies in Botswana, Brunei, Malaysia, Mauritius, Singapore, South Africa and Zimbabwe. For the Kula Fund for the Pacific, the cofinanciers are the Asian Development Bank, the European Investment Bank and Proparco.
16. Botswana, the Congo, the Democratic Republic of the Congo, Lesotho, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe.
17. Angola, Kenya, Malawi, Uganda and the United Republic of Tanzania.
18. The Asian Development Bank's Complementary Financing Programme is a case in point.

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Part Two

Trade, Investment and the Multilateral Trading System

Part Two

Introduction

The paradox of the continuing marginalization of LDCs in a rapidly integrating world economy poses a unique challenge to policy makers, at both the national and international level. As LDCs' growth rates lag behind those of other developing countries and their share of world exports and imports continues to fall, the special and differential treatment measures incorporated into various Uruguay Round agreements and two of the Ministerial Decisions adopted by the Trade Negotiations Committee (the "Decision on Measures in Favour of Least-Developed Countries" and the "Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries") have acquired greater significance. Several factors have, however, militated against LDCs in their attempts to take advantage of the opportunities provided by the multilateral trading system, including their limited capacity to participate effectively in WTO.

The implementation of the Uruguay Round agreements poses a great challenge to many LDCs because of their low level of human development and weak institutional and administrative capacities. A fundamental problem is that LDCs still have difficulty understanding the basic tenets of the agreements. LDC officials have also had difficulty with the implementation of some agreements and the implementation of LDCs' other obligations as members of WTO. Consequently, LDCs have not been able to participate meaningfully in preparatory work on the built-in agenda on agriculture and services, or in ongoing discussions on the so-called new issues, namely, investment, trade and environment, government procurement and competition policy.[1]

This part of the Report *selectively addresses some of these issues. Chapter 1 describes the state of implementation of the Uruguay Round agreements in LDCs, and how the implementation of the agreements and provisions in favour of LDCs affects their market access opportunities. Chapter 2 discusses the issues involved in acceding to WTO for the significant number of LDCs that do not belong to WTO, including those at various stages of accession. Chapter 3 looks at the role of the modern service sector in LDCs as they diversify their economies and become integrated into the global economy, and chapter 4 considers the interface between trade and the environment in LDCs within the context of the multilateral trading system.*

Developing countries, as a group, were more involved in the Uruguay Round of trade negotiations than in the previous seven rounds of the General Agreement on Tariffs and Trade (GATT) negotiations. Nevertheless, it is widely believed that the developing countries, particularly LDCs, need to participate more effectively in WTO and its various organs if they are to ensure that the evolving multilateral trading system takes account of their development and trade interests, and that any potential conflicts between their broad development objectives and the pursuit of trade liberalization at the global level are minimized. The pursuit of these objectives raises two important questions: How can LDCs' participation in WTO, especially in the forthcoming reviews on agriculture and services, be enhanced? And what contributions can LDCs themselves make towards the ongoing study process dealing with new issues? The concluding chapter looks at these questions and explores the way forward for LDCs in the multilateral trading system.

[1] Enhanced market access for LDCs' exports, which is an equally important issue, is not addressed in this part of the *Report* as it has been dealt with at many international conferences in recent years.

Implementation of the Uruguay Round Agreements

Chapter

1

Much of the pre– and post–Uruguay Round literature has concentrated on the benefits that would accrue to the world as a whole and to different groups of countries as a result of the successful conclusion of the Uruguay Round of trade negotiations. The speed and scope of implementation of the Uruguay Round agreements by both the developed and the developing countries has received little attention in the debate on their impact on LDCs. However, the first WTO Ministerial Conference, held in Singapore in December 1996, has highlighted the serious problems being encountered by developing countries in implementing the agreements. During the Conference, it emerged that the manner in which developed countries implemented the agreements and fulfilled other obligations they had undertaken during the Uruguay Round could have implications for the market access of developing countries.

The objective of this chapter is to review the experience of LDCs in implementing the Uruguay Round agreements, the problems they have faced and the likely effect on their trade and development of the implementation of the agreements by the developed countries. It is only now that the full implications of some of the decisions taken during the negotiations are becoming evident. In section C, therefore, ways to enhance the participation of LDCs in the multilateral trading system are discussed, through possible changes to specific agreements (i.e. through policies other than technical assistance programmes). The discussion then moves on to the policy implications of the foregoing analysis.

The market access opportunities of LDCs may be affected by the way in which developed countries implement their Uruguay Round commitments.

A. Implementation of the Uruguay Round agreements by LDCs

Since the coming into force of the Uruguay Round agreements and the establishment of WTO in January 1995, LDC members of WTO have made varying, generally limited progress in their attempts to fulfil their membership obligations.[1] For a variety of reasons, many of them have been unable to fulfil their obligations in full and on time. The non-compliance of LDCs has been most noticeable in the fulfilment of their procedural notification obligations. The implementation of specific agreements has also suffered from a variety of constraints, ranging from a shortage of skills, making it difficult to draft or upgrade legislation and regulations, to weaknesses in institutional infrastructure, making it difficult to implement policies and commitments.

Compliance with notification requirements

Notification requirements oblige WTO members to report progress in implementing commitments undertaken with regard to the Uruguay Round agreements. The requirements are essentially a device to ensure transparency in members' trade policies as well as to enable WTO to monitor the extent of compliance with the various agreements by its members. It is almost impossible to assess the level of compliance of LDCs with their notification requirements because of the sheer number of notification requirements and the different types of notification involved. There are three types of notification:

(1) *Ad hoc notifications,* in connection with a specific action;

(2) *One-time notifications,* to document the existing situation in a member country on the date when an agreement comes into force in that country, or within a specific period calculated from that date; and

(3) *Regular or periodic notifications,* at semi-annual, annual, biennial or other intervals.

There are about 175 notification obligations listed in annex 1A of "The Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations": 26 of these are considered to be of the regular type (WTO, 1996a). Added to these are 40 other notification obligations required under the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement). In all, there are 215 notification obligations for WTO members. An analysis of the one-time and regular types of notification submitted 22 months after the coming into force of the Uruguay Round agreements (i.e. as at 31 October 1996) reveals a great variance in the compliance rates for members from both developed and developing countries, with only a few exceeding 50 per cent. Exact compliance rates are difficult to calculate as not all members are obliged to respond to all notifications at the same time (WTO, 1996a, p. 13). Nevertheless, compliance rates for LDCs were substantially lower than those for other members. Except in a few cases (e.g. in the case of the Agreement on Implementation of Article VII of GATT 1994 (Customs Valuation), where compliance rates ranged from about 30 to 50 per cent), the compliance rates for LDCs were below 16 per cent.[2] In several cases there had been no response at all from LDCs.[3] Indeed, at the first WTO Ministerial Conference, it was noted that compliance with notification requirements by LDCs was unsatisfactory, and that an extension of the time-limit for implementation might be necessary.

Notification requirements make an important contribution to the transparency of the multilateral trading system, but their administrative burden weighs especially heavily on LDCs.

Several reasons have been put forward for the low rates of compliance with notification obligations by WTO members as a whole. First, the agreements had been in place for a relatively short period (just over a year) and members had other obligations to meet as a result of their entry into force. Second, reporting systems for notification procedures had not been installed (and have still not been installed in most cases). And, third, many members were unable to mobilize the necessary resources for coordination, both in WTO and in their capitals. The situation is exacerbated by three other factors: several members do not have missions in Geneva; officials in some capitals are unaware of specific WTO obligations, in particular officials in ministries which are far away from offices dealing with WTO matters (WTO, 1998a, p. 13); and notification requirements are complex (and in a few cases duplicative).

It must be stressed that while these factors explain the low response rates for all members, they affect LDCs more than other members. For example, few LDCs are represented in Geneva, where WTO has its offices and organizes its meetings: only 12 of the 29 LDC members of WTO had missions in Geneva as at mid-1997,[4] and practically all the small island developing economies are represented at WTO from their missions in Europe or from their capitals. Furthermore, a large number of developing-country missions in Geneva are not adequately staffed to cover effectively all scheduled WTO meetings, of which there were about 40–45 in the average working week in 1995–1996 (Michalopoulos, 1998, pp. 9–11). The most constraining factor for LDCs' participation in WTO deliberations is, however, their shortage of skills in international trade, trade negotiations and related areas.

Overall, the non-compliance of LDCs does not reveal any clear trend, which would seem to suggest that the reasons for non-compliance are of a general nature, that is, they are linked to their least developed status. In a few cases, LDCs appear to have fulfilled notification obligations in those sectors which are more important to their export trade: for example, Bangladesh, Burkina Faso, Myanmar and Zambia have fulfilled their notification obligations under article 6.1 of the Agreement on Textiles and Clothing.

Enacting new legislation and creating institutions requires specialized legal and administrative skills, which are in limited supply in many LDCs.

Falling behind with their notification requirements may entail losses for some LDCs, as they may be unable to take advantage of transitional provisions in specific agreements. For example, of the 23 developing-country members that made notifications under article 5.1 of the Agreement on Trade-Related Investment Measures (the TRIMs Agreement) in order to benefit from the five-year transitional period (the period is seven years for LDCs), none were LDCs (WTO, 1996b).

Implementation of specific agreements

In addition to the problems discussed above, LDCs have to enact new legislation in order to bring domestic legislation into conformity with WTO provisions and set up new institutions, or restructure old ones, to fulfil new tasks. They also have to eliminate, within a given time-frame, any trade measures which are inconsistent with the Uruguay Round agreements. All these requirements impose heavy demands on LDCs, particularly those where staff are poorly paid and the administrative machinery is weak. Moreover, many LDCs are experiencing severe difficulties in meeting the demand for specialized skills such as legal and administrative skills, since they do not themselves have the necessary resources to hire staff with these skills from the developed world without external assistance.

In many areas covered by the TRIPS Agreement, most LDCs have no previous domestic legislation, so that compliance is likely to be a particularly costly proposition.

This is particularly true in the case of the TRIPS Agreement, which entails significant changes in the administration of intellectual property rights, judicial procedures and customs administration. The fact that most LDCs have no previous legislation in many areas covered by the Agreement (e.g. geographical indications, plant varieties and other biological resources) has exacerbated the problem. Indeed, for some areas covered by the Agreement (e.g. integrated circuits and undisclosed information, or trade secrets) there were no international instruments before the TRIPS Agreement (Correa, 1997). Many LDCs are also likely to face huge administrative constraints and costs in their attempts to fulfil their commitments under the Agreement as the systems to protect intellectual property rights in many of them are rudimentary (UNCTAD, 1996, pp. 19–20). The huge amount of resources required for building up the necessary administrative capacities to ensure effective protection of intellectual property rights in LDCs with weak administrative capacities will almost certainly absorb investment capital and create or worsen financial imbalances, which will in turn depress private investment and economic growth (Vocke, 1997, p. 7).

Drawing up and implementing domestic legislation for the Uruguay Round agreements as a whole has proved particularly difficult for most African LDCs:

they have to adapt their trade regulatory regimes to the new rules in the area of customs valuation, anti-dumping, subsidies and countervailing measures, import licensing procedures, and sanitary and phytosanitary measures. It was noted by WTO that the implementation of transparency provisions under the Agreement on the Application of Sanitary and Phytosanitary Measures had been identified as a serious problem for many LDCs, owing to infrastructure shortcomings as well as the deficient functioning of regulatory bodies; it was also noted that this problem would apply to other agreements as well, but by mid-1996 no LDC had requested exemption from the obligations of the agreement on sanitary and phytosanitary measures (WTO, 1996b). UNCTAD's own research suggests that LDCs have difficulties in implementing virtually all the Uruguay Round agreements (see table 11). There have been suggestions that several agreements are being implemented by the developed countries in a manner that is not entirely consistent with the development interests of LDCs. For instance, the implementation of the agreements on textiles and clothing, anti-dumping, sanitary and phytosanitary measures and technical barriers to trade have created significant unforeseen problems for LDCs.

The difficulties experienced by LDCs in implementing the Uruguay Round agreements could be compounded by new obligations arising from the conclusion of the built-in agenda and, in the medium term, by new issues being added to the trade agenda. Indeed, the capacity of LDCs to take on new commitments and obligations in the short to medium term is very limited.

LDCs' difficulties in implementing the Uruguay Round agreements could be compounded by new obligations arising from the conclusion of the built-in agenda and the introduction of new issues.

In the meantime, in the process of implementing the current agreements, LDCs may want to pay particular attention to a few issues which could make a significant difference to the domestic impact of the agreements. First, the definitions of certain terms and procedures in some of the agreements provide a flexibility which should be exploited before practices become established and before terms and procedures are elaborated by the respective WTO councils or committees and dispute settlement panels. Second, LDCs need to monitor closely the implementation of those agreements that are of vital importance to them (e.g. the agreements on textiles and clothing, and agriculture) and the provisions on special and differential treatment and technical and related assistance by developed countries, to ensure that these are implemented as stipulated. Third, LDCs should bring to the notice of WTO any difficulties they encounter in implementing the agreements or fulfilling their notification obligations; this would help them to establish a case for simplifying and reducing these obligations as part of the built-in agenda, or as and when future agreements are negotiated. Finally, LDCs should participate actively in different WTO bodies, to ensure that the emerging interpretations and practices regarding provisions in the agreements do not result in increased obligations or a dilution of the rights of LDCs (South Centre, 1998).

B. Issues arising from the implementation of the Uruguay Round agreements by developed countries

Another set of problems for LDCs arises from the way in which specific agreements or the agreements as a whole are being implemented by the developed countries. The problems are:

- Developing countries are sometimes forced to assume obligations beyond their commitments in WTO;

TABLE 11: SUMMARY OF LDCS' TECHNICAL ASSISTANCE NEEDS RELATED TO THE URUGUAY ROUND AGREEMENTS

Area/agreement	Specific issues raised
Overall implementation	• Training personnel in trade policy analysis and in coordination, and implementation of trade policy • Training officials in trade negotiation, and in interpretation and implementation of all agreements • Trade Point Centre and infrastructural support (fax, computers and Internet connections) • National Trade Resource Centre to access information on export markets, prices, foreign direct investment/joint ventures, etc. • Implementation unit to coordinate activities of various ministries
Agriculture	• Tariffication of non-tariff barriers and calculation of aggregate measurement of support • Legality of subsidies for poor farmers and export crops
Anti-dumping	• Drafting legislation • Explaining the Agreement and procedures for taking safeguard action or lodging complaints about dumping with WTO • Educating business people on the information needed to initiate the anti-dumping process and on possible safeguards
Customs valuation	• Explaining the Agreement to customs officials and business people and implementing WTO valuation system • Training of customs officials and provision of equipment to facilitate customs procedures • Revenue impact of the Agreement as "uplift of tariffs" by inspection companies will be illegal
Import licensing procedures	• Designing and installing new system
Technical barriers to trade	• Assessing information on international standards • Local application of international standards • Setting up an inquiry point
TRIPS	• Impact on the development of local technological capability • Explaining Agreement to, and training, officials • Establishing new system for intellectual property rights (registration and administration of patents, trademarks, copyrights, etc.) incorporating separate and independent existing and new agencies • Training, equipping and setting up of reinforcement agency
TRIMs	• Explaining Agreement to officials • Phasing out inconsistent policies
Sanitary and phytosanitary measures	• Explaining Agreement to exporters • Training and testing laboratory equipment to ensure products meet requirements of export markets • Setting up of national inquiry point
Accession	• Assistance/advice in acceding to WTO
Miscellaneous	• Supply-side constraints (institutional, management, finance and physical infrastructure, etc.) • Trade and export development (trade diversification, marketing, trade support services, quality, product development, packaging, etc.) • Enhanced utilization of Generalized System of Preferences (GSP) schemes and concessions under the Fourth Lomé Convention • Greater private-sector involvement in trade policy formulation and implementation • Regional integration

Source: Field data from UNCTAD Uruguay Round project, and WTO (1997a).

- Pressure is put on developing countries not to make full use of the transitional periods or time-bound derogations granted to them;

- Agreements are implemented by developed countries in a manner which delays improvements in market access for developing countries until the very last minute;

- Developed countries have been slow to undertake or implement autonomous measures (or utilize “best endeavour clauses”) which would be to the advantage of developing countries.

Pressure to assume obligations beyond commitments

The Uruguay Round agreements define specific or minimum obligations for WTO members with respect to each agreement and their membership of WTO. As long as these obligations are fulfilled, members are not in breach of the agreements and cannot be sanctioned. Nevertheless, there have been reports that developing countries have in several instances been required during bilateral negotiations to assume obligations over and above the minimum specified in the agreements. For example, WTO disciplines under the Agreement on Government Procurement (which at present is a plurilateral, not multilateral, agreement) are reportedly being imposed on acceding developing countries, although there is no obligation for these countries to accept such disciplines. Developing countries are also being forced to provide for intellectual property rights protection beyond the minimum stipulated in the TRIPS Agreement.[5]

In sectoral negotiations, developing countries have the option of opening up fewer sectors and restricting liberalization to fewer types of transactions. Despite this, the developed countries have been demanding a higher degree of liberalization of these sectors in developing countries.

Incomplete use of transitional periods or time-bound derogations

Transitional periods for LDCs and other developing countries have been provided for in some agreements for a variety of reasons: first, to give them time to make any necessary changes in their legislation; second, to enable them to establish the necessary institutional and administrative infrastructure; and, third, to allow them to make the changes needed to minimize any economic disruption or losses associated with fulfilling their obligations as members of WTO.

Several developing countries, especially those acceding to WTO, have reportedly been denied this time-bound derogation. In the area of intellectual property rights, it has been reported that pressure has been exerted on some developing countries to amend their relevant laws before the expiry of the transitional period (Correa, 1996), which is 1 January 2000 for developing countries and 1 January 2006 for LDCs.

Delays in enhancing opportunities for market access

In a few cases, developed countries have implemented their obligations under specific agreements in such a way as to delay for as long as possible the benefits of enhanced market access opportunities for developing countries. This is particularly true in the case of the Agreement on Textiles and Clothing. A technical loophole in this Agreement is being exploited by the developed countries to delay the integration of items restricted under the Multi-Fibre Arrangement (MFA) into the WTO disciplines until the final stage, that is, 1 January 2005, when the entire textile and clothing sector is to be fully integrated into GATT 1994. Under the Agreement on Textiles and Clothing, importers (i.e. mostly developed countries) have the discretion to decide which products to integrate at each of the first three (of four) stages of integration, provided that they meet the mandatory percentage to be integrated (i.e. 16, 17 and 18 per cent of 1990 import volumes, respectively). This has given rise to a phenomenon termed "end-loading" or "backloading", whereby the integration of the products for which the developed countries face the greatest competition from developing countries is delayed until the final stage of integration. This delay is

TABLE 12: RESTRAINED TEXTILES AND CLOTHING PRODUCTS INTEGRATED BY MAJOR IMPORTERS
(as percentage of 1990 imports)

	Volume of restrained trade integrated		Total
	Stage 1	*Stage 2*	
Canada	0.27	2.05	2.32
European Union	-	3.15	3.15
Norway	-	-	-
United States	-	1.30	1.30
Total	0.27	6.50	6.77

Source: Textiles Monitoring Body notifications reported in Ahmad, 1998.

TABLE 13: TOTAL NUMBER OF MFA QUOTAS ELIMINATED BY MAJOR IMPORTERS[a]

	Total no. of quotas	No. of quotas eliminated[b]		
		Stage 1	*Stage 2*	*Stages 1&2*
Canada[c]	295	6	22	28
European Union	219	0	14	14
Norway[d]	53	0	0	0
United States	750	0	2	2
Total	1 317	6	38	44

Source: Textiles Monitoring Body notifications reported in Ahmad, 1998.

a Table does not include the abolition of quotas under article 2.15 of the MFA.

b Number of quotas includes sub-limits and quotas for members who joined WTO after January 1995. Article 2.1 notifications in respect of such members are made after they accede to WTO.

c Canada, in addition to its integration programmes, has removed quotas on women's and girls' blouses, shirts and ensembles, children's blouses and shirts, and certain outer garments for babies; it also raised the quota levels by 10 per cent for winter outerwear from January 1998.

d Norway's integration programmes did not include any restrained products because Norway eliminated a number of quotas pursuant to article 2.15 of the Agreement on Textiles and Clothing. By the end of 1998, Norway should have eliminated all its quotas except for three, on imports of fishing nets from Indonesia, Malaysia and Thailand.

particularly significant since the list used contains a significant number of products not restrained under the MFA.[6]

In the first stage, the mandatory integration of 16 per cent of 1990 import volumes was attained without any restricted item being integrated except for work-gloves by one country. Likewise, an evaluation of the products integrated in the second stage reveals little meaningful enhancement of market access for developing countries. As at the beginning of 1998 (i.e. the second stage) when a third of the 1990 import volumes of textiles and clothing had been integrated into GATT disciplines, only around 7 per cent of items restricted under the MFA had been integrated (table 12). In terms of MFA quotas, the United States, the European Union and Canada had eliminated only 44 of their total of 1,264 quotas by the second stage of the integration process (table 13).

Furthermore, the available evidence suggests that the transitional safeguard mechanism provided for under article 6 of the Agreement on Textiles and Clothing is being misused by importing countries. This article provides for new discriminatory restrictions lasting up to three years during the transitional period if the importing country can prove a case of "serious damage" to its domestic industries directly attributable to textile and clothing imports from a specific country. However, several such safeguard mechanisms have reportedly been deployed by importing countries without adequate proof of serious damage to their domestic industries. These actions have mainly been supported by the "low price factor" argument, to the neglect of other more important factors (Shahin, 1996, p. 7). While none of the safeguards applied so far have involved exports from LDCs (WTO, 1998a, p. 12), it is important for LDCs to be vigilant to forestall any such action being applied to their exports.

Considering the misapplication of the transitional safeguard mechanism and the reluctance to integrate products which come under MFA restrictions, it has been observed that the developed countries are perhaps not fully reconciled to their commitment to subject textiles to the normal WTO disciplines.[7] Hence it is necessary to remain vigilant to ensure that there is no slackening of the process of liberalizing international trade in textiles and clothing. Some sceptics have expressed doubts about the full integration of the sector into WTO disciplines even after the 10-year transitional period. It should be pointed out that even some LDCs, for example Bangladesh, stand to lose from the scrapping of the MFA (see box 4).

In the area of services, GATS provides for four different modes of supply: (1) cross-border supply; (2) consumption at source; (3) commercial presence; and (4) movement of natural persons. However, negotiations have stalled on the last mode of supply, which is of vital interest to developing countries.

The tariffication process (i.e. the conversion of non-tariff barriers into tariff equivalents) in the Agreement on Agriculture has attracted severe criticism because it has resulted in prohibitive tariffs, ranging from 200 to 500 per cent. Thus, while the substitution of price-based border measures has enhanced the transparency of trade barriers at the border, the resulting tariffs are effectively prohibitive.[8] Because of its non-product-specific nature, the aggregate measurement of support has also been applied by the developed countries in such a way as to reallocate domestic agricultural support to sensitive sectors.

Box 4: Phasing out the Multi-Fibre Arrangement: challenges for the Bangladesh clothing industry

The Multi-Fibre Arrangement (MFA), primarily intended as a means of regulating imports from developing countries in order to protect textile industries in industrial countries, has also proved to be a useful tool for developing countries with fledgling textile and clothing industries. Through its allocation of quotas, it reduced the market power of developing countries (particularly large Asian countries) with an established textile and clothing sector in favour of new producers. One of the countries to have benefited from this arrangement is Bangladesh, which in less than 15 years has been able to develop, almost from a standing start, a clothing industry which now accounts for 70 per cent of its foreign currency earnings; by comparison, jute now accounts for only 8 per cent of its foreign currency earnings, down from around 50 per cent in the 1970s. Clothing exports from Bangladesh are rising at a rate of about 15 per cent a year, and accounted for $3.5 billion in 1997. This phenomenal growth is partly due to the MFA quotas and the market access the country enjoys in the European Union as a result of its LDC status under the Generalized System of Preferences (GSP) scheme.

Despite this extraordinary growth, 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. In particular, the clothing industry in Bangladesh lacks what are known as “backward linkages”, and it will need to source its fabric and other inputs locally by investing in yarn-spinning and textile mills. At present, 60 per cent of its inputs are imported, which is both time-consuming and expensive. If the industry’s high dependence on imports could be reduced, it would be able to compete more effectively on delivery times and price.

The phasing-out of the MFA, combined with the erosion of GSP preferential margins as a result of the overall tariff reductions under the Uruguay Round, is likely to increase South–South competition in the textile and clothing industry. Bangladesh is likely to be particularly hard hit, since more efficient producers from China, India, Pakistan, Sri Lanka and other south-east Asian countries produce higher-quality clothes and their clothing industries benefit from significant downstream integration. For example, when Canada last year removed cotton T-shirts from MFA restrictions, about 95 per cent of the Canadian orders were switched from Bangladesh to Chinese producers.

In Bangladesh, the phasing-out of the MFA will have repercussions beyond the economic sphere, not least because the clothing industry has contributed to some significant social changes in the country, mainly by drawing into work many women from rural areas who had never worked before: it is estimated that 90 per cent of the sector’s 1.4 million employees are women. Not only are these women better off financially as a result of this development, but they are also better integrated in the socio-economic fabric of the country, and their status has been enhanced in an otherwise male-oriented Islamic society.

These considerations, as well as the difficulties of restructuring the industry within the next six years so that it will be competitive under the new arrangements, lie behind Bangladesh’s desire for changes in the programmed phasing-out of the MFA. The Ministry of Commerce and Industry plans to request a 30 per cent increase in the quotas of Bangladesh and other LDCs, and a rescheduling of the phasing-out to some time after the present target date.

New investment will be critical to the restructuring of the industry in Bangladesh, but it will be difficult to attract given the problems with the country’s stock market and its weak financial institutions. Ironically, the planned phasing-out of the MFA may deny Bangladesh much-needed new investment in its clothing industry, as the incentives for “quota jumpers” to set up in third countries are whittled away.

Source: Financial Times, 5 May 1998, “The garment industry: sector gets a rude shock”.

Unwillingness to undertake autonomous measures

There are three broad groups of provisions in favour of developing-country members. First, developed countries are expected to implement several provisions in the Uruguay Round agreements in favour of LDCs and other developing countries. These are the special and differential treatment measures provided for in specific agreements and contained in two ministerial decisions, the Decision on Measures in Favour of Least Developed Countries and the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries.

Second, under part IV of GATT 1994 (articles 36, 37 and 38), which deals with trade and development, developed-country members have undertaken to take account of the special development needs or problems of the developing countries in the course of implementing their own commitments.

Third, there are the provisions that call on members autonomously to take into account the trade interests of developing countries in the course of implementing the agreements. The WTO Action Plan for LDCs, which was adopted at the first WTO Ministerial Conference and part of which was operationalized in the Integrated Framework for Trade-Related Technical Assistance, including for Human and Institutional Capacity-Building, to Support Least Developed Countries in Their Trade and Trade-Related Activities, approved at the subsequent WTO High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development, also contains provisions in favour of LDCs which are essentially autonomous in nature.

WTO developed-country members have demonstrated their firm commitment to special and differential treatment, but, significantly, the relevant provisions to back this lack contractual status.

There is no meaningful information available on the level of implementation of the third group of provisions (WTO, 1998a), almost certainly because no reporting system has been established for such autonomous policies or actions. The commitment to special and differential treatment expressed by the developed countries in the first and second groups of provisions is firm, concise and clear, but the provisions lack contractual status and have therefore been largely ignored by the developed countries. Information provided by WTO to its Committee on Trade and Development suggests that the level of implementation of provisions in favour of developing-country members has been uneven, and on the whole low (see table 14).[9]

In 1996, there had been no autonomous advanced implementation by developed-country members of tariff and non-tariff concessions on products of export interest to LDCs, although the Ministerial Decision on Measures in Favour of Least Developed Countries called for this (WTO, 1996b). However, prior to the WTO High-Level Meeting in 1997, Switzerland notified WTO of its offers of preferential market access to LDCs. During the High-Level Meeting itself, Canada announced that within the context of simplifying its tariff, it would be bringing forward to 1998 most of its Uruguay Round tariff reductions scheduled for implementation on 1 January 1999. At the same meeting, 13 developing- and developed-country members, including the European Community, announced steps they would be taking, or had taken, to improve preferential market access for products of export interest to LDCs (WTO, 1998a).

LDCs' exports are covered by a number of preferential market access schemes. Nevertheless, discrimination – in the form of peak tariffs and tariff escalation – persists against those products or sectors viewed as "sensitive" by the developed countries.

Since the High-Level Meeting, WTO has received notifications from Turkey and the European Community concerning additional preferential tariffs being applied as from 1 January 1998 to LDCs' exports. These cover 250 products at the 12-digit level in the case of Turkey. From the same date, the European Community will levy zero duties on a large number of industrial products previously excluded from its Generalized System of Preferences (GSP) scheme, and will also introduce tariff reductions on agricultural products previously excluded from the GSP, in line with the preferences of the African, Caribbean and Pacific group of States. Thus, 99 per cent of LDCs' exports will now enter the European Community market duty-free (WTO, 1998b).

While tariff escalation has generally been reduced, a number of product chains of export interest to LDCs and other developing countries continue to face tariff escalation (e.g. cocoa pastes, coffee extracts, crude vegetable oil, leather, fish and fish products). Peak tariffs have also persisted. Compared to products from the developed countries, discrimination persists against those products or sectors deemed "sensitive" by the developed-country members, and there have been greater tariff reductions for non-LDC exports of dairy products and animal feedstuffs (to the Japanese market) and orange juice and dairy products (to the United States market) than for LDC exports.

C. Enhancing LDCs' participation in the multilateral trading system

A distinction needs to be drawn between technical assistance that is aimed at improving LDCs' ability to cope with the demands of WTO membership and the potential of the agreements themselves to accommodate LDCs' interests and the particular development-related challenges they face.

Efforts to facilitate the participation of LDCs in the multilateral trading system have been primarily directed at technical assistance programmes aimed at developing the human and institutional capacities in LDCs to cope with the demands of the Uruguay Round agreements. Other alternatives have not received the attention they deserve. One such alternative is to review the agreements to make them "user-friendly" for LDCs. This section attempts to identify those aspects of specific agreements which may have adverse impact on LDCs' effective participation in the multilateral trading system and on their development prospects. Bearing in mind that negotiations on the built-in agenda are due to reopen at the end of 1999, suggestions are made on how such reviews might address LDCs' concerns as well as plug the technical loopholes currently being used by the developed countries to their own advantage.

The discussion below is intended to illustrate the kind of analysis that should be undertaken for those agreements that LDCs have found constraining, or simply discriminatory, namely, those on agriculture, textiles, TRIMs, subsidies and anti-dumping.[10] Indeed, it would be worthwhile for LDCs to set up a mechanism to promote understanding of specific agreements, especially with regard to their impact on LDCs, explore a range of issues in the agreements that might negatively affect their development prospects, and consider how these could be addressed within the framework of the agreements. This would be a major change of approach, since, to date, assistance provided to LDCs to facilitate their integration into the multilateral trading system has been limited to technical assistance programmes. That is, assistance has been based on the unstated, but false, premise that all the agreements are perfect, and that it is LDCs' institutions and policies that need to be improved if LDCs are to take advantage of the opportunities presented by the agreements.

Agriculture

There is some leeway, albeit very limited, in the Agreement on Agriculture for LDCs to use domestic support policies to develop their agricultural sectors. Domestic support measures which are regarded as non-trade-distorting have been categorized as "Green Box" policies, and are exempted from domestic reduction commitments. In addition, some production support policies are exempt from the calculation of a country's total current aggregate measurement of support; they include agricultural input subsidies to low-income or resource-poor producers and investment subsidies (article 6, annex 2, of the Agreement on Agriculture). LDCs can also continue to provide product-specific and non-product-specific domestic support provided the total value of such support is less than 10 per cent of the farm-gate value of agricultural output in any one year (UNCTAD, 1997, pp. 49–62; Gayi, 1998).

Table 14: Summary of WTO provisions in favour of developing countries, including LDCs, and their implementation

Location	Nature[a]	Provision	Implementation
Understanding on Balance-of-Payments Provisions of GATT 1994			
Para. 8	Flexible	Simplified consultation procedures may be held in the case of LDCs.	Bangladesh held consultations under this provision; the Committee on Balance-of-Payments Restrictions has determined that full consultations would be desirable for the country.
Agreement on Agriculture			
Preamble	Endeavour	In implementing commitments on market access, developed countries will take fully into account the particular needs and conditions of developing countries by providing for a greater improvement of opportunities and terms of access for agricultural products of particular interest to these countries, including the fullest liberalization of trade in tropical agricultural products and products of particular importance to the diversification of production from the growing of illicit narcotic crops. Account may also be taken of concessions and other liberalization measures implemented by developing countries.	Schedules of developed countries show commitments of greater-than-average reductions in tariffs on products of interest to LDCs such as tropical agricultural products, and often speedy implementation of the reductions.
Article 15.2	Derogation	The Agreement exempts LDCs from making commitments to reduce export subsidies and domestic support.	This treatment is reflected in all schedules of LDCs.
Agreement on the Application of Sanitary and Phytosanitary Measures			
Articles 10.1 and 10.2	Flexible	Consideration of special needs of developing countries, especially of LDCs, in the preparation and application of sanitary and phytosanitary measures. Longer time-frames for compliance with new sanitary and phytosanitary measures regarding products of interest to developing countries.	The notification procedure allows developing countries to identify where they may have problems and request a phased introduction where this is possible.
Article 10.3	Derogation	With a view to ensuring that developing countries are able to comply with the Agreement, the Committee on Sanitary and Phytosanitary Measures is enabled to grant to such countries, upon request, time-limited exceptions from obligations, taking account of their financial trade and development needs.	No developing country has requested any exceptions.
Article 14	Derogation	LDCs may delay application of provisions of the Agreement for five years following the entry into force of the WTO Agreement.	LDCs have taken account of this provision.
Agreement on Textiles and Clothing			
Article 2.18	Endeavour	The annual quota growth rates in the quota carried over from the former Multi-Fibre Arrangement should be advanced by one stage for all exporters whose restrictions represent 1.2 per cent or less of the total volume of the restrictions applied by an importing member as from 31 December 1991.	Annual growth rates were advanced by one stage for Lesotho and Myanmar by Canada, and for Haiti by the United States.
Article 6.6 (a)	Endeavour	Significantly more favourable treatment to LDCs than that prescribed in article 6 regarding the application of transitional safeguards.	No safeguard action involving exports of LDCs has been notified.
Agreement on Technical Barriers to Trade			
Article 12.8	Derogation	With a view to ensuring that developing countries are able to comply with the Agreement, the Committee on Technical Barriers to Trade is enabled to grant, upon request, specified time-limited exceptions from obligations, taking account of the special problems, the special development and trade needs and the stage of technological development of developing countries, especially of LDCs.	No developing country has requested any exceptions.
Article 11.8	Assistance	Priority should be given to the needs of LDCs in providing the advice and technical assistance provided for in articles 11.1 to 11.7.	At the First Triennial Review in December 1997, the Committee on Technical Barriers to Trade agreed that technical assistance should be provided to members requesting it, especially to LDCs. Further implementation pending.
Article 12.7	Assistance	In determining the terms and conditions of technical assistance, account shall be taken of the stage of development of the members requesting it, and in particular of LDCs.	As for article 11.8 above.
Agreement on Trade-Related Investment Measures			
Article 4	Derogation	A developing country can deviate temporarily from a general provision requiring that no member will apply any trade-related investment measure that is inconsistent with the provisions of article III or article XI of GATT 1994, to the extent and in the manner permitted by article XVIII of GATT 1994, the Understanding on Balance-of-Payments Provisions of GATT 1994, and the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes.	LDCs have this right.
Article 5.2	Derogation	Seven-year transitional period to eliminate prohibited trade-related investment measures for LDCs (under article 5.3 the period can be extended upon request).	Uganda is benefiting from this provision.

Table 4 (cont.)

Location	Nature[a]	Provision	Implementation
Agreement on Implementation of Article VI of GATT 1994 (Anti-Dumping)			
Article 15	Endeavour	Special regard should be given by developed countries to the special situation of developing countries when considering the application of anti-dumping measures. Possibilities of constructive remedies will be explored before applying anti-dumping duties where they might affect the essential interests of developing countries.	Only the legislation of one WTO member explicitly reflects this provision. No LDC has anti-dumping measures.
Agreement on Implementation of Article VII of GATT 1994 (Customs Valuation)			
Article 20.1	Derogation	The Agreement reconfirms the developing countries' right to delay application of its provisions for up to five years.	Invoked by 12 LDCs.
Article 20.2	Derogation	Delayed application of computed method.	Invoked by 11 LDCs.
Annex III.1	Derogation	If the five-year period provided for under article 20.1 is not sufficient, developing countries can request an extension.	The original five-year period delay has not lapsed in any cases.
Annex III.2	Derogation	Reservation concerning minimum values.	Invoked by nine LDCs.
Annex III.3	Derogation	Reservation concerning reversal of sequential order of the application of deducted value (article 5) and computed value (article 6).	Invoked by eight LDCs.
Annex III.4	Derogation	Developing countries may make a reservation with respect to use of unit price if no sale has taken place in the condition as imported (article 5.2).	Invoked by seven LDCs.
Article 20.3	Assistance	Developed countries should provide technical assistance to developing countries on a request basis.	Technical assistance has been provided, mainly by the World Customs Organization.
Agreement on Import Licensing Procedures			
Article and 2.2, footnote 5	Derogation	Developing countries may delay the application of obligations relating to automatic import licensing by not more than two years from the date of entry into force of the WTO Agreement.	Three LDCs (Bangladesh, Burkina Faso Myanmar) have invoked this provision.
Article 3.5 (j)	Endeavour	Better treatment in the allocation of quotas administered through an import licensing system when it concerns products originating in developing countries, particularly LDCs.	Pending.
Agreement on Subsidies and Countervailing Measures			
Article 27.2	Derogation	The prohibition of export subsidies contingent upon export performance will not apply to LDCs. When an LDC has reached export competitiveness in one or more products, export subsidies on such products should be phased out over a period of eight years.	LDCs have this right; no LDC has yet notified WTO that it has reached export competitiveness.
Article 27.3	Derogation	The prohibition of subsidies contingent upon the use of domestic rather than imported goods will not apply to LDCs for a period of eight years from the date of entry into force of the WTO Agreement.	Pending; LDCs have this right.
Article 27.11	Threshold	Any countervailing duty investigation will be terminated if: (a) the overall level of subsidies granted upon the product in question does not exceed 3 per cent of its value calculated on a per unit basis (*de minimis* provision) for LDCs (this provision will expire eight years from the date of entry into force of the WTO Agreement, whereupon the threshold will be 2 per cent); and (b) the volume of the subsidized imports represents less than 4 per cent of the total imports for the like product in the importing signatory country, unless imports from developing-country signatories whose individual shares of total imports represent less than 4 per cent collectively account for more than 9 per cent of the total imports for the like product in the importing country.	Five WTO members have legislation which reflects this provision. No LDCs have countervailing measures.
Agreement on Safeguards			
Article 9.1	Threshold	Safeguard measures shall not be applied against products from a developing country as long as its share of imports does not exceed 3 per cent, provided that developing countries with less than a 3 per cent share collectively account for not more than 9 per cent of total imports of the product concerned.	WTO members who have applied safeguard measures (Argentina, Brazil, the Republic of Korea and the United States) have notified the exemption of developing countries' exports which are below the specified threshold. The legislation of other WTO members also reflects this provision.
Article 9.2	Flexible	Developing countries have the right to extend the period of application of a safeguard measure for up to two years beyond the maximum period of eight years which applies to other WTO members. They also have the right to apply a safeguard measure again to an imported product previously subject to such a measure after a period of time equal to half that during which such a measure has been previously applied, provided that the period of non-application is at least two years.	LDCs have not invoked safeguard measures.

Table 4 (cont.)

Location	Nature[a]	Provision	Implementation
General Agreement on Trade in Services			
Article IV.3	Flexible	Special priority shall be given to LDCs in the implementation of increasing participation (para. 1) and establishment of contact points (para. 2). Particular account shall be taken of the serious difficulty faced by LDCs in accepting negotiated specific commitments in view of their special economic situation and their development, trade and financial needs.	LDCs had one year from the signing of the Final Act in Marrakesh to submit their final schedules on initial commitments. This provision was also taken into account in the negotiations on basic telecommunication services and financial services. Further implementation is pending.
Article XXV.2	Assistance	The WTO secretariat shall provide technical assistance to developing countries.	The WTO secretariat has provided such assistance.
Annex on Telecom. para. 6	Endeavour	Members shall give special consideration to opportunities for LDCs to encourage foreign suppliers of telecommunications services to assist in the transfer of technology, training and other activities that support the development of their telecommunications infrastructure and expansion of their telecommunications services trade.	Pending.
Agreement on Trade-Related Aspects of Intellectual Property Rights			
Article 66.1	Derogation	Ten-year transition period, except for articles 3 to 5 (on national and most-favoured-nation treatment, among other things), from the date of application (one year after the date of entry into force of the Agreement); the period may be extended upon request.	LDCs have this right.
Article 66.2	Assistance	Incentives to enterprises and institutions in developed countries for the purpose of promoting and encouraging technology transfer to LDCs.	Pending.
Article 67	Assistance	Technical and financial cooperation in favour of developing countries and LDCs, including the preparation of legislation.	Technical assistance has been provided by WTO and the World Intellectual Property Organization (WIPO).
Understanding on Rules and Procedures Governing the Settlement of Disputes			
Note: No details are given on the implementation of the Understanding, except in the case of article 27.2, because no LDCs have been involved in dispute settlement proceedings.			
Article 4.10	Endeavour	In consultations, members should give special attention to the particular problems and interests of developing-country members.	
Article 8.10	Endeavour	When a dispute is between a developing and a developed country, the panel will, if the developing country so requests, include at least one panelist from a developing-country member.	
Article 12.10	Endeavour	In the context of consultations involving a measure taken by a developing country, the parties may agree to extend the periods set for the establishment of panels.	
Article 12.11	Endeavour	Where one or more of the parties is a developing country, the panel's report will explicitly indicate the form in which account has been taken of relevant provisions on differential and more favourable treatment for developing countries under the agreements covered.	
Article 21.2	Endeavour	In monitoring the implementation of recommendations and rulings, particular attention should be paid to matters affecting the interests of developing countries with respect to measures which have been subject to dispute settlement.	
Articles 21.7 and 21.8	Endeavour	If the case is brought by a developing country, the Dispute Settlement Body, in considering what appropriate action might be taken, will take into account not only the trade coverage of measures complained of, but also their impact on the economy of the developing countries concerned.	
Article 24.1	Endeavour	In disputes involving a measure taken by an LDC, particular consideration is given to the special situation of the LDC at all stages of the dispute and due restraint is exercised in using the dispute settlement mechanism.	
Article 24.2	Endeavour	In disputes involving LDCs, where a satisfactory solution has not been found in the course of consultations, the Director-General or the Chairman shall offer, upon request, their good offices, conciliation and mediation before a request for a panel is made.	
Article 27.2	Assistance	The WTO secretariat shall provide qualified legal advice and assistance to developing countries in the event of a dispute.	Two consultants are available.

Table 4 (cont.)

Location	Nature[a]	Provision	Implementation
Trade Policy Review Mechanism			
Section D	Flexible	LDCs might need to show flexibility in compiling their report, which is due approximately every six years; assistance from the WTO secretariat should be available, particularly for LDCs.	The secretariat has provided such assistance.
Decision on Measures in favour of Least Developed Countries			
Para. 2 (ii)	Endeavour	Autonomous implementation, in advance and without staging, of Uruguay Round concessions on tariffs and non-tariff measures.	At the High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development in October 1997, Canada announced it would speed up its implementation of tariff reductions. Further implementation pending.
Para. 2 (ii)	Endeavour	Consideration to be given to improving preferential treatment for products of particular export interest to LDCs.	At the High-Level Meeting, 13 members announced new or additional preferential market access measures for LDCs which they had taken or proposed to take.
Para. 2 (v)	Assistance	Increased technical assistance in developing, strengthening and diversifying production and export bases, including those of services.	Pending; the High-Level Meeting endorsed the Integrated Framework for Trade-Related Technical Assistance to be implemented by ITC, IMF, UNCTAD, the United Nations Development Programme (UNDP), the World Bank and WTO.
Para. 3	Endeavour	The problems of LDCs shall be kept under continuous review and continuous efforts shall be made to take positive measures to facilitate the expansion of their trading opportunities.	Pending; the High-Level Meeting encouraged all WTO members to keep under active review all options for improving market access for LDCs.
Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net Food-Importing Developing Countries			
Para. 3 (i)	Endeavour	Periodical review of the level of food aid by the Committee on Food Aid under the 1986 Food Aid Convention.	Food Aid Convention being renegotiated (it has been extended until June 1999) to take into account the recommendations of the first WTO Ministerial Conference in Singapore.
Para. 3 (ii)	Endeavour	Guidelines to ensure that an increasing proportion of basic foodstuffs is provided.	It was agreed at the first Ministerial Conference that the recommendations should include guidelines to ensure that an increasing proportion of food aid is provided to LDCs and net food-importing developing countries.
Para. 3 (iii)	Endeavour	Consideration to be given to requests for the provision of technical and financial assistance to improve agricultural productivity and infrastructure.	The first Ministerial Conference called on developed countries to continue giving full consideration to such requests.
Para. 4	Endeavour	To ensure that any agreement relating to agricultural export credits makes appropriate provision for differential treatment in favour of LDCs and net food-importing countries.	Ministers reaffirmed this commitment at the first Ministerial Conference.
Para. 5	Endeavour	Possibility of drawing on the resources of international financial institutions in cases of short-term difficulties in financing normal levels of commercial imports.	At meetings of the Committee on Agriculture, the World Bank and the IMF reported that they were in a position to meet relevant requests from existing resources.

Source: WTO, 1998a.

[a] *Note on the nature of the provisions:*

Derogation	Time-limited or other derogations, or longer periods for implementing obligations
Threshold	More favourable thresholds
Flexible	Flexibility in obligations and procedures
Endeavour	Best endeavour clauses
Assistance	Provisions on technical assistance

The rules on the reduction of market access barriers, domestic support and export subsidies are such that the developed countries which have had very high barriers in these areas are allowed to maintain them at high levels after the mandatory reductions for a period of six years. However, the requirement that the current aggregate measurement of support should not exceed the base aggregate measurement has created severe difficulties for LDCs. This is because almost all LDCs provided no domestic support for export subsidies during the 1986–1988 base period, and therefore declared a zero base aggregate measurement of support, as a result of which support related to that measure is restricted to the minimum level of 10 per cent. In other words, the developed countries can continue to subsidize their farmers to produce for domestic consumption and exports, while LDCs cannot.

This incipient anomaly could be reversed through a commitment by the developed countries to completely eliminate domestic support and export subsidies at a specific date in the future (e.g. by 1 January 2005). Furthermore, considering the importance of the agricultural sector to LDCs as a source of food and livelihood for the majority of their people, there is a need for flexibility in the use of support related to the aggregate measurement. This could take the form of raising the minimum level from 10 per cent to about 25 per cent of the farm-gate value of agricultural output in any one year for LDCs.

The provisions in the Agreement on Agriculture relating to the food security needs of LDCs and other developing countries are at present quite restrictive. Budgetary allocations could be made to fund subsidized food for the poor and operate foodstock-holding programmes for food security purposes. However, in addition to transparent and objective criteria for operating such programmes, the price differential (i.e. between the acquisition price and external reference price) has to be accounted for in the aggregate measurement of support.

There is a need for flexibility with regard to staples in the Agreement on Agriculture. A direct and less cumbersome mechanism to provide for the food security needs of LDCs would be to exclude staple foods, or food products for domestic consumption, from disciplines on import control and domestic support, especially since LDCs may be unable to pay for food imports to feed their vulnerable groups at critical times because of the competing demands for their foreign exchange, or because they are short of foreign exchange. In addition, the provision on net food-importing countries could be made more pragmatic by, for example, inserting a specific provision in the Agreement to establish a fund to finance food imports. Contributions could be made to the fund by developed countries which are net exporters of agricultural produce.

Textiles and clothing

One way to resolve the problems arising from the implementation of the Agreement on Textiles and Clothing would be to limit, with immediate effect, the products to be integrated to those currently restricted under the MFA (i.e. remove non-restricted items from the annex). This could be combined with a provision to the effect that 51 per cent of such products should be integrated in the third stage of the integration process. To guard against the possibility of requests by the developed importing countries for an extension of the integration programme, those countries should be requested to design a structural programme for the sector, to be deposited with the Textiles Monitoring Body, which would be charged with their periodic review.

Trade-related investment measures

Considering the developmental objective, in particular that of encouraging backward and forward linkages in the domestic economy, which underscores the domestic content requirements in developing countries, LDCs could be excluded from the discipline on domestic content requirements contained in article 3 of GATT 1994. This could be effected through an understanding introduced into the TRIMs Agreement or through an enabling amendment.

Subsidies

The kind of subsidies typical of developed countries (subsidies for research and development, the development of disadvantaged regions and adaptation to environmental standards) are not actionable under the Agreement on Subsidies and Countervailing Measures. On the other hand, the kind of subsidies mostly used by developing countries (for the development of industrial production and export) are actionable. This imbalance could be redressed by categorizing the subsidies used by developing countries for product and export development as non-actionable ones.

The Agreement on Subsidies and Countervailing Measures does not always accommodate differences in the kind of subsidies typical of LDCs and developed countries.

Anti-dumping

LDCs can incur huge costs defending themselves against dumping charges in developed countries. This is because the anti-dumping rules are based on the practices of developed countries and are very complex, and because gathering data on the facts of the case can be a cumbersome and costly process, especially when the country is obliged to hire expensive legal experts to defend itself. An additional problem for LDCs is that the subject of anti-dumping has effectively been barred from the WTO dispute settlement process since the role of panels in anti-dumping cases is severely restricted.

Anti-dumping has been a major concern of LDC officials because of their perception, justified or not, that their domestic industries have been destroyed by the predatory practices of firms from developed countries. In the southern and eastern African region, for example, several LDCs have complained about firms from a more advanced developing country which have allegedly dumped goods in their markets to the detriment of local industries, while this country has kept its markets off-limits through a labyrinth of tariff and, mostly, non-tariff measures. This is thus one area that requires urgent action to halt the process of de-industrialization which is alleged to be taking place in the economies of several LDCs as a result of trade liberalization attributed to the Uruguay Round agreements.

Some experts have also expressed concern about the spread of contingent protection regimes, especially the anti-dumping regimes, which constitute a threat to the effective implementation of the Uruguay Round agreements and future liberalization initiatives.[11] It has been argued that action should be taken to strengthen the disciplines in these areas before such regimes become established under the current rules (François and McDonald, 1996; see also François, McDonald and Nordström, 1996).

The WTO secretariat operates a programme of assistance and training workshops on the use of contingency trade remedies for developing-country members, new users of anti-dumping measures and countries acceding to WTO. The programmes are financed through grants and assistance in kind by

Governments and institutions, including the Governments of Australia, Finland, Mexico, New Zealand, Norway, Switzerland and the United States. WTO itself has organized specialized seminars to explain exporters' rights and obligations in anti-dumping and countervailing duty investigations, as well as country-specific training programmes (WTO, 1998d). While the usefulness of these programmes to beneficiary countries cannot be contested, more direct measures are probably called for to reduce the threat to LDCs' export interests of safeguard measures and countervailing duties under the anti-dumping agreements, although no LDC has yet been the target of such measures.

The interests of LDCs could be protected if anti-dumping cases were brought under the normal dispute settlement mechanism. Moreover, anti-dumping actions should only be entertained in clearly defined and very strict circumstances; that is, domestic industries in developed countries should be discouraged from initiating the anti-dumping process on inadequate grounds. The following suggestions may be useful in attaining these objectives:

- Article 17.6 of the Agreement on Implementation of Article VI of GATT 1994 (Anti-Dumping) should be removed;
- Where allegations concern imports from LDCs, strict parameters and criteria should be applied to determine the existence of dumping, and no anti-dumping process should be initiated if they are not met;
- There should be provisions for penalties for domestic industries found to have repeatedly initiated the anti-dumping process on flimsy grounds: alternatively, LDC defendants could be compensated in such cases.[12]

While some of these suggestions to make the Uruguay Round agreements more "LDC-friendly" would require amendments to specific agreements, others would not. For example, the elimination of domestic support for agriculture by the developed countries would not require any amendments to the Agreement on Agriculture: the developed countries would just have to submit schedules as provided for by article 4 of the Agreement. On the other hand, the suggestion that staple foods in LDCs should be excluded from the disciplines on import control and domestic support may require an additional provision in the Agreement to be effective; alternatively, it could be effected by an appropriate clarification in the implementation of articles 3 and 4 of the Agreement (Das, 1998).

D. Policy implications

LDC members of WTO are experiencing great difficulties in trying to fulfil their obligations and commitments. In a few cases their problems have been exacerbated by the manner in which the developed countries are implementing, or not implementing, their own commitments. Yet the international community (at the bilateral and multilateral levels) has recognized the need to help LDCs to integrate effectively into the multilateral trading system, as evidenced by the plethora of conferences and technical assistance programmes. To date, there are, however, few programmes which actually address the needs of these countries as they themselves perceive them. This situation raises two basic questions. First, are there any policy reforms regarding the implementation of the agreements that could facilitate the participation of LDCs in the multilateral trading system? And, second, what can LDCs themselves do to facilitate their own integration into the multilateral trading system?

Policy reforms to facilitate the integration of LDCs into the multilateral trading system

Notifications

Several LDCs have complained about duplication in, and the complexity of, the notification process. The Working Group on Notification Obligations and Procedures, after examining the issue, observed that duplication or overlapping of notification obligations was not widespread, and that where duplication existed it was minor in scope or related to one-time notifications which did not merit any changes (WTO, 1996a). Nevertheless, since several LDCs have experienced difficulties and fallen behind in their notification obligations, the issue deserves to be looked at again, as whatever problems they are experiencing may be of a general and complex nature related to the notification system as a whole.

In the meantime, given the low rate of compliance by LDCs with their notification obligations (a fact acknowledged by the Working Group itself), there is a need to step up training, on the basis of the existing handbook on notifications, to help them to understand and fulfil these obligations. WTO and other international organizations should also take prompt action to provide assistance in setting up administrative reporting systems in LDC capitals to handle notification obligations.

Accession

Accession to WTO is an important issue for about 20 LDCs who are not yet members. It usually takes quite a long time for countries to accede to WTO, and it is essential to ensure that the process does not put further strain on the scarce professional skills and weak administrative and institutional structures in LDCs. There is scope to reduce the obligations the accession process entails for LDCs without necessarily compromising the transparency and integrity of the entire process (see part two, chapter 2).

The WTO secretariat, with the cooperation of WTO members, has taken the initiative to streamline the accession process for LDCs as much as possible on two fronts. The first involves ensuring that the maximum amount of work is completed between meetings of the Working Party on Accession in order to keep the number of meetings to an absolute minimum. The second involves efforts to speed up the bilateral market access negotiations through the early submission and negotiation of offers from LDC Governments. More significantly, the WTO secretariat has been providing focused technical assistance to developing countries from the earliest stage of their accession process (WTO, 1998c, p. 7).

Implementation

The implementation of the Uruguay Round agreements by LDCs and other developing countries should be one of the priorities of WTO. Incorporating the so-called “new issues” into the trade agenda as quickly as possible will overtax LDCs and the international community, and may impair the credibility of the multilateral trading system. This is particularly so because LDCs and other developing countries, which make up about two-thirds of the membership of WTO, are not up to date with their obligations, and several are not in a position to implement their existing obligations without significant external technical and financial assistance. It is in the interests of WTO to ensure that the majority of its members fulfil all their obligations and commitments rather than take on more obligations they cannot all fulfil. Slowing the pace of the consultation process on the new issues would not only benefit the poorer countries, but would also ensure that the issues were thoroughly researched before being brought up for negotiation in WTO or other more appropriate forums. This approach would offer three other advantages: developing countries would be fully committed to, and actively participate in, the work of WTO; subjects peripheral to trade could be referred to the appropriate institutions; and there would be a better understanding of, and cooperation on, subjects referred to WTO.

It would be worthwhile to devote some resources to monitoring the implementation of the Uruguay Round agreements and to evaluating their impact, to determine whether the anticipated positive impacts are being attained, especially in the case of the poorer countries. If not, then remedial action (e.g. amendments to existing agreements) could be implemented before it is too late. One or two priority sectors could be identified for each LDC for long-term policy-oriented technical assistance in an attempt to maximize the benefits each one derives from the agreements. These should be sectors in which each country has some existing or potential comparative advantage.

The built-in agenda and new issues

LDCs would benefit from enhanced transparency in the processes through which the WTO negotiating agenda is determined.

Suggestions or proposals by developing-country members are mostly reactions to issues raised by the developed countries, and are often limited to special and differential treatment measures, such as time derogations or time-bound exemptions from multilateral obligations. It is important for LDCs and other developing countries to become more proactive in raising fundamental issues on the content or nature of specific agreements, while bearing in mind the basic objective of maintaining flexibility in the use of policy instruments tailored to help them to attain their development priorities.[13] The rules would discriminate less against the interests of these countries if they were designed to support the building of their export supply capacities so as to enhance their competitiveness in global markets, develop their human resources, enhance their technological capabilities and allow them to exploit their natural comparative advantages.[14]

Developing countries, and LDCs in particular, have to take an active part in the next phase of negotiations, due to start at the end of 1999 as part of the built-in agenda. These negotiations will be crucial for developing countries as they cover, *inter alia*, agriculture, the most important sector for most LDCs, and services, a sector in which several LDCs have the potential to develop into major export earners (see part two, chapter 2). Despite the progress made in liberalizing the agricultural sector during the Uruguay Round negotiations, international trade in agriculture is still far from transparent, considering the domestic support the agricultural sector continues to receive in developed countries, particularly in the European Union, whose Common Agricultural Policy emerged from the negotiations relatively intact.[15]

The negotiating agenda is likely to be loaded with new issues such as trade and investment, international trade and competition policy, trade and environment and, possibly, government procurement and contentious issues such as trade and corruption. The negotiating agenda appears to be already fully loaded, and the LDCs and other developing countries are already stretched beyond their institutional, human and financial resources. Nevertheless, it would be unrealistic for LDCs to foreclose the discussion on these subjects until a later date. In the meantime, the subjects need to be thoroughly studied before being formally included in the trade agenda. For example, the WTO Committee on

Trade and Environment is currently discussing a work programme on trade and environment. Until some form of agreement is reached, WTO might want to prioritize the implementation of the agreements and the negotiations on the built-in agenda. It is crucial to make a clear distinction between issues on which there is a commitment (i.e. the implementation of the Uruguay Round agreements and the built-in agenda) and those for which there is no commitment at present (i.e. the new issues).

Market access

With regard to overall trade liberalization, future negotiations will have to tackle industrial tariff reductions, especially considering that tariff peaks and tariff escalation persist in several sectors of export interest to developing countries generally and to LDCs in particular. Negotiations on industrial tariff reductions could be fashioned along the lines of those for services and agriculture. The persistence of tariff peaks and tariff escalation could be tackled by applying a rigid formula to tariff reductions (François and McDonald, 1996, pp. 3–6). Considering that autonomous offers on market access remain vague, and have to date been notified to WTO in only a few cases, contractual status for these offers is probably warranted in order to guard against future withdrawal, or unforeseen changes, that would make such access non-transparent and unstable. Alternatively, WTO could consider establishing a transparent reporting system for special and differential treatment (i.e. autonomous offers or policies in favour of LDCs, including those contained in part IV of GATT 1994). The WTO Committee on Trade and Development already monitors the implementation of the provisions in the Uruguay Round agreements in favour of developing-country members, and could be assigned this responsibility.[16] This would assist WTO in evaluating the level of special and differential treatment, and help it to determine the extent to which the concerns of LDCs (and other developing countries) are being addressed by the developed-country members.

Stringent, binding WTO disciplines should be introduced to facilitate the removal of the remaining barriers to market access that adversely affect LDCs' export interests.

Policy reforms in LDCs

The policy changes recommended above will not make a perceptible impact on LDCs' trade unless their Governments commit themselves to creating an enabling environment for promoting trade, investment and private-sector growth – experts often attribute up to 80 per cent of the problems of trade to inappropriate policies (WTO, 1997b, p. 21). To create such an environment would require domestic policy reforms in several areas, including the following:

LDCs have recognized that they need to adopt a proactive approach to their integration into the trading system.

- Macroeconomic and trade policy to enhance the external orientation of economies in consonance with the provisions of the Uruguay Round agreements;

- Human resource development to produce a skilled, educated and adaptable labour force capable of adapting new technologies and integrating them into the productive process: an educated labour force is one of the key factors in the ability of a country to increase the proportion of value-added products in its total exports – a shift from primary exports to labour-intensive manufactures, or from assembly operations to a modern technology-based export sector, is the key to success in the global market place (WTO, 1997b, p. 21);

- Technology to cope with the initial problems of the TRIPS Agreement and to develop local technological capacity;

- A modernized agricultural system to increase output for domestic consumption and diversify production for export (UNCTAD, 1996, pp. 10–12).

While LDC Governments have been under pressure from the developed countries to increase their commitments under the Uruguay Round agreements, it is important to note that the agreements do not require LDCs to open up their economies immediately or completely. LDCs have the leeway to choose both the speed and degree of liberalization that best match the level of development of their economies (WTO, 1997b, p. 21). There is therefore a need for coordination and collaboration between reform programmes to ensure that other international institutions (such as the World Bank and the IMF) do not demand greater liberalization of LDC economies than these countries are committed to as members of WTO. In fact, there have been two positive developments in this regard. In fulfilment of the Marrakesh ministerial mandate to work for greater coherence in global economic policy-making, cooperation agreements between the three institutions just mentioned have been negotiated, which provide for, *inter alia,* enhancing the exchange of information among the three organizations, attendance at each other's meetings and the pursuit of mutually consistent and supportive policies (WTO, 1996c). Also, at the second WTO Ministerial Conference, held in Geneva in May 1998, WTO, the IMF and the World Bank pledged themselves to working together "to improve the coherence of international economic policy-making with a view to maximising the contribution that an open, rule-based trading system can make to fostering stable growth for all economies at all levels of development" (WTO, 1998e).

Reform initiatives need to be premised on the idea that it may not be appropriate for LDCs to open up their economies immediately or completely, at least in the short to medium term.

E. Concluding remarks

It is important to emphasize that the benefits of the Uruguay Round of trade negotiations do not automatically follow from a country's membership of WTO; they are contingent upon the quality of the implementation of obligations and commitments. LDCs, particularly those in Africa and the net food-importing countries, are adjudged to have benefited the least from the Uruguay Round agreements, partly because of their weak integration into the multilateral trading system. They risk being marginalized further if they are unable to implement effectively their WTO commitments, and so cannot utilize the opportunities offered by the multilateral trading system. Calls for higher priority to be given to the implementation of the Uruguay Round agreements, and for technical assistance programmes to enhance the participation of LDCs in the multilateral trading system, are therefore in order. Issues for which there are commitments by all WTO members, including LDCs, should take precedence over those for which there are no commitments (i.e. the new issues).

While significant progress has been made in the last three years in implementing the Uruguay Round agreements, there have been serious delays in putting into effect the special and differential treatment measures and other provisions in favour of LDCs and other developing countries. The delays are in no small measure due to the wide-ranging nature and complexity of the concepts, principles and rules of WTO instruments (WTO, 1996d). To a large extent, therefore, the traditional supply-side constraints of LDCs, which have been exacerbated by issues directly evolving from the implementation of the agreements, have yet to be adequately addressed. To do so would require action on several fronts: first, the reaffirmation and expeditious implementation of the Ministerial Decision on Measures in Favour of Least Developed Countries; second, greater disclosure and transparency in the application of that decision and of the WTO provisions on special and differential treatment for LDCs and developing countries; and, third, and most importantly, adequate and tangible support for the Integrated Framework for Trade-Related Technical Assistance.

The LDCs need to be reminded that special and differential treatment measures, including GSPs, are merely interim measures designed to enable them to bridge the development gap, and should be regarded as such. In the long run, LDCs' effective participation in the multilateral trading system is perhaps more dependent on the programmes undertaken by LDCs themselves to make their production more competitive than on external factors. To become more competitive will entail developing and implementing sound macroeconomic policies and sectoral programmes within the overall WTO framework, so that LDCs can develop both their static and dynamic comparative advantages to the full. Those LDCs in which reforms are already under way need to review and deepen them, particularly in areas which would enable them to improve their overall macroeconomic and socio-political situation and attract both domestic and foreign direct investment into their tradeable sectors with a view to diversifying and increasing their export trade.

In the final analysis, special and differential treatment measures are merely interim measures.

Notes

1. The 29 LDC members of WTO as at October 1997 were: Angola, Bangladesh, Benin, Burkina Faso, Burundi, the Central African Republic, Chad, the Democratic Republic of the Congo, Djibouti, the Gambia, Guinea, Guinea-Bissau, Haiti, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, the Niger, Rwanda, Sierra Leone, Solomon Islands, Togo, Uganda, the United Republic of Tanzania and Zambia. As at May 1998, the following eight LDCs had observer status at WTO: Bhutan, Cambodia, Cape Verde, Ethiopia, the Lao People's Democratic Republic, Nepal, the Sudan and Vanuatu.
2. This observation is based on a rough calculation of compliance rates for specific notification procedures as at 31 October 1996 (WTO, 1996a). The compliance rate for each notification was calculated as the number of countries (or LDCs) that had fulfilled that obligation as a percentage of the total number of countries (or LDCs) that should have submitted notifications (i.e. excluding those to which the obligation does not apply). Shahin (1966, p. 6) reports that the notification response rate for developing countries is less than 25 per cent.
3. For example, in the case of article 18.2 of the Agreement on Agriculture, articles 7.3 and 1.4 (a) / 8.2 (b) of the Agreement on Import Licensing Procedures, and annex 3 (c) of the Agreement on Technical Barriers to Trade.
4. As at May 1998, 16 LDC members of WTO and four other LDCs with WTO observer status had missions in Geneva.
5. The attitude of the United States Government, which threatened Argentina (and Andean Group countries) with trade retaliations in order to force it to pass legislation on intellectual property rights without making use of the transitional period, contrasts with the attitude of the European Union, which agreed to allow Turkey a delay until 1 January 1999 before it has to confer patent protection on pharmaceuticals (see Correa, 1996, p. 10)
6. Calculating the proportion for integration at each of the three stages (before full integration) is based on a list of almost 800 tariff lines at the six-digit level of the Harmonized System nomenclature. However, this list includes a huge number of products not actually covered by MFA restraints (e.g. silk or certain jute items) which constitute more than a third of the volume of 1990 imports in the world's major markets: 37 per cent in the United States, 34 per cent in the European Union, and 47 per cent in Canada.
7. An analysis of the implementation of the Agreement on Textiles and Clothing by major textile and clothing importers (namely, Canada, the European Union and the United States) concluded that the Agreement "is not headed in the direction of ultimate and

complete quota phase-out, and WTO members need to get the Agreement back on track" (Baughman et al., 1997, p. 432).

8. Canada declared a Uruguay Round tariff of 38 per cent for beef and veal while the estimated *ad valorem* tariff equivalent for the base period 1986–88 for these products was 2 per cent. The European Union's declared tariff for dairy products during the Uruguay Round was 288.5 per cent, but the estimated *ad valorem* equivalent tariff for the base period 1986–1988 was 177 per cent. Both developed and developing countries are alleged to have adopted this practice (Hathaway and Ingco, 1995, cited in Canadian International Development Agency, 1996, p. 4).
9. The activities listed by WTO as being in implementation of the provisions in articles 36, 37 and 38 of GATT 1994, part IV, include those which have had little impact on LDCs' trade in the past, such as Generalized System of Preferences (GSP) schemes (which have sometimes been ineffective because of the way in which they have been operated by the developed countries), and those which have yet to take off, such as the preferential market access measures announced for LDCs during the High-Level Meeting. Other activities listed include the schemes under the Global System of Trade Preferences among Developing Countries (GSTP), the reduction of tariffs on tropical products during the Uruguay Round, and the work of the International Trade Centre UNCTAD/WTO (ITC).
10. The analysis in this section is based on Das (1998), who makes essentially the same argument in the case of developing countries; see the same source for similar discussions on balance-of-payments provisions, services and TRIPS.
11. A review of anti-dumping actions between 1 July 1996 and 30 June 1997 reveals that as at 30 June 1997 a total of 938 anti-dumping measures (definitive duties or price undertakings) were in force. This excludes the measures taken by four countries which initiated a total of 19 anti-dumping actions but did not submit a list of measures in force as at 30 June 1997. The United States initiated almost one-third (305) of all measures in force, followed by the European Commission and Mexico, with 157 measures and 100 measures, respectively. There was, however, no anti-dumping measure in force against any LDC as at this date (WTO, 1998c, annex C, pp. 14–20).
12. While the first two suggestions will need an appropriate provision in the Agreement to be effective, the third suggestion may only require a decision in the Committee on Anti-Dumping advising members to have a suitable penal provision in their domestic law.
13. This has been described as the development of a "positive agenda" by the developing-country members of WTO.
14. The Ministerial Meeting of the Organization of African Unity/African Economic Community, convened in Harare from April 6 to 9, 1998, made similar recommendations.
15. The opportunities for LDC agriculture in the multilateral trading system and the possible impact of the Agreement on Agriculture are discussed in UNCTAD, 1997, pp. 49–62).
16. Alternatively, this responsibility could be assigned to the Sub-Committee on Least-Developed Countries.

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LDCs and Accession to the World Trade Organization

Chapter 2

The economic and institutional integration of LDCs in the world economy and international trading system is a major challenge to the international community. These countries risk being further marginalized in the liberalized global economy unless they can adapt to the new competitive international environment. To do this, LDCs will need to take action, with the active support of the international community, in the following areas: improving their domestic supply response; improving market access; and strengthening their capacity for participation in the multilateral trading system, including accession to WTO by those LDCs which are not WTO members.

Of the 48 LDCs, 29 are WTO members and eight are observers, of whom four are in the process of accession. Thus, for as many as 15 LDCs, the question of becoming WTO members and beginning the accession process will have to be addressed sooner or later. This chapter examines the issues involved in this process. Section A argues the general case for LDCs to join WTO, and enumerates the potential benefits and opportunities resulting from accession. Section B outlines the responsibilities which acceding LDCs will have to undertake to become WTO members and enjoy those benefits and opportunities, explains the accession process and examines past experience of accession. Sections C and D examine more closely different issues in the accession negotiations, and section E describes the positive impact which the accession of LDCs to WTO would have on the organization and the international trading system as a whole; it also makes some suggestions for a fast-track accession process for LDCs.

Membership of WTO allows countries to design their development strategies and trade policies in a more predictable and stable trading environment, and provides them with opportunities to increase and diversify exports.

A. The case for LDCs to join WTO

One of the most conspicuous outcomes of the Uruguay Round negotiations was the establishment of WTO to provide the common institutional framework for the conduct of trade relations among its members in matters related to the agreements and associated legal instruments included in the annexes to the Agreement Establishing the World Trade Organization (the WTO Agreement). The establishment of WTO has completed the transition from a trading system which largely restricted itself to policies at the border to one which also covers most aspects of domestic policy-making affecting international trade and competition in goods and services.

Membership of WTO allows countries to design their development strategies and trade policies in a more predictable and stable trading environment. The increased market access resulting from the implementation of the Uruguay Round agreements provides opportunities to increase and diversify exports. Membership provides an instrument to advance the trade and economic interests of members through effective participation in the WTO multilateral trade negotiations, thus obviating the need for a series of periodic bilateral trade agreements with trading partners.

The potential benefits for developing countries, including LDCs, arising from their accession to WTO and from the results of the Uruguay Round agreements derive from:

- Trade liberalization, in the form of most-favoured-nation (MFN) tariff reductions, the conversion of non-tariff barriers on agricultural products into bound tariff rates, the reduction of export subsidies and trade-distorting domestic support for agriculture, the phasing-out of the MFA, and the elimination of voluntary export restraints and other "grey area" measures;

- Strengthened disciplines with respect to the application of non-tariff measures, notably contingency protection measures such as safeguards, anti-dumping and countervailing measures;

- Enhanced transparency and stability in their own trade regimes, which increases efficiency, helps lock in economic reforms and enhances their ability to attract foreign direct investment;

- Specific provisions for differential and more favourable treatment, in terms of market access thresholds for contingency actions and more extended time-limits and flexibility in implementing the commitments;

- Clear rules for trade in agriculture and services and for intellectual property rights, which prevent unilateral actions; and

- A strengthened dispute settlement mechanism.

A distinction needs to be drawn between the various opportunities engendered by WTO and LDCs' capacity to seize them.

The degree to which an acceding country can realize these benefits depends on its ability to:

- Identify and take advantage of trading opportunities;

- Fulfil its multilateral trade obligations;

- Formulate and pursue development strategies within the framework of those obligations;

- Defend its acquired trade rights; and

- Set trade objectives and pursue them effectively in trade negotiations.

Thus, translating these benefits into concrete trade advantages requires action to be taken by Governments with the active support of the business community. LDCs are particularly poorly equipped in terms of institutions and human and financial resources dedicated to this objective.[1]

Although the Uruguay Round agreements have provided multilateral trade rules and disciplines of greater stringency, many of these agreements and the relevant implementing legislation of the major trading nations have limited these benefits to WTO members. This puts those LDCs which currently are not members of WTO at a disadvantage and poses new challenges to policy makers in these countries. In some cases, tariff concessions, services commitments and other aspects of the trade regimes of WTO members will be extended to non-members under existing regional and bilateral agreements. However, in other instances, countries which currently are not members of WTO will be at an even greater disadvantage. In fact, most acceding countries appear to be motivated by the specific disadvantages of non-membership, as well as the adverse image, particularly for potential investors, of remaining "outside the system". For example, areas where non-membership could have an immediate trade impact include the following:

- *Textiles and clothing:* non-member countries will not benefit from the Agreement on Textiles and Clothing, in particular from the phasing-out of the MFA and non-MFA type of quotas against textile and clothing products, or from the increases in growth rates for the quotas of the products still under restrictions during the 10-year transition period. Furthermore, non-member countries can be, and have been, faced with new restrictions applied to their exports of textiles and clothing without any time-limits.

- *Agriculture:* in most cases, non-member countries will not benefit from the current minimum access opportunities available to WTO members under the Agreement on Agriculture and the market access schedules of WTO members. On the other hand, their exports of agricultural products will be subject to high tariff rates as a result of tariffication by WTO members. While the Agreement on Agriculture prohibits the application of quantitative restrictions on imports of agricultural products from WTO members, the legislation implementing the Uruguay Round adopted by some major trading countries preserves their previous practice of imposing quantitative restrictions on imports of agricultural products from non-member countries.

Many of the opportunities engendered by WTO are contingent upon membership of the Organization; this entails high opportunity costs for non-members.

- *Anti-dumping and countervailing measures:* under the agreements on anti-dumping and on subsidies and countervailing measures, all WTO members are entitled to an injury test in anti-dumping and countervailing duty investigations. However, according to the implementing legislation of some of the major trading countries, the injury test will not be applied to products imported from non-member countries. Furthermore, certain non-member countries find themselves facing discriminatory anti-dumping measures designed to deal with non-market economies, against which there is little they can do.

- *Safeguard measures:* the basic provisions of the Agreement on Safeguards (i.e. the MFN application of safeguards with clearly defined, limited exceptions, the phasing-out of voluntary export restraint arrangements, strict procedures for consultations and notification in applying safeguard measures) do not apply to non-members, which may increase discrimination against them in the international trading system.

B. The current process of accession and past experience

WTO members undertake to comply with the rules and disciplines of the multilateral trade agreements which bear directly on their trade policies and practices. The accession process is a unilateral procedure in the sense that all requests and demands are made by WTO members to the acceding country. The requirement is that the acceding country should conform to the rules of the Uruguay Round agreements and should pay a "membership fee" in terms of specific concessions on tariff rates, commitments on agricultural subsidies and commitments on trade in services, to "pay" for its right to enjoy the benefits of liberalization achieved in previous multilateral trade negotiations. The acceding country is not entitled to request additional benefits or concessions in excess of those stipulated in the Uruguay Round agreements, including tariff concessions and commitments in services from WTO members. On the other hand, it is entitled to full WTO treatment; WTO members that maintain discriminatory measures against the acceding country are obliged to remove them upon accession of the country concerned unless special provision is made in the protocol of accession or a non-application clause is invoked (article XIII of the WTO Agreement).

The acceding LDCs will need to prepare or adapt existing laws and regulations for compliance with the obligations established in the various agreements, such as the TRIPS Agreement, the Agreement on Preshipment Inspection and the Agreement on the Application of Sanitary and Phytosanitary Measures. The transitional periods provided for in the Uruguay Round agreements allow for time to make domestic adjustments as long as early advantage is taken of these provisions. In order to meet transparency obligations for a number of agreements, inconsistent domestic regulations have to be notified to WTO.

All these obligations require LDCs to develop and strengthen institutional and human capacities and trade-related information management in order to formulate and manage legislation implementing the complex set of agreements. Acceding LDCs will have to prepare themselves for participation in trade negotiations conducted on an ongoing basis under the existing and future work programme of WTO. This is particularly challenging for LDCs in view of the fact that only 16 LDC members of WTO have permanent missions in Geneva (as at May 1998), and these are small and expected to cover the activities of other organizations as well.

Once it joins WTO, the new member is required not only to have notified WTO of its policies at the time of accession, but also to undertake with the secretariat periodically (usually every six years for LDCs) a comprehensive review, under the Trade Policy Review Mechanism, of the member's trade and trade-related policies and practices, again in a set format. The information required for each review is substantial, ranging from the current tariff schedule that is applied, recent trade flows on a tariff line item basis, procedures for customs valuations and administration, specifications for marks of origin, and a revised description of the country's trade legislation, policies and implementing institutions.

There are other notification requirements as well. For example, all State trading enterprises (even those not engaged in international trade) must be notified to the WTO Council for Trade in Goods. Any trade restrictions imposed or changed for balance-of-payments reasons or for sanitary or phytosanitary reasons must be reported to WTO. Technical standards that differ from accepted international standards also have to be notified, as do conformity assessment procedures.

The general rule governing accession is provided in article XII, paragraph 1, of the WTO Agreement, according to which a State or separate customs territory may accede to WTO on terms to be agreed between it and WTO members (see box 5). This means in practice that, while the rules and disciplines of multilateral trade agreements provide reference levels for obligations, many issues under those agreements may be subject to negotiations and pressures from WTO members in the accession process. The WTO secretariat has prepared a note on procedures for negotiations under article XII, which sets out procedures to be followed in WTO and during accession negotiations.[2]

Box 5: Provisions of article XII of the Marrakesh Agreement Establishing the World Trade Organization (WTO)

Article XII: Accession

1. Any State or separate customs territory possessing full autonomy in the conduct of its external commercial relations and of the other matters provided for in this Agreement and the Multilateral Trade Agreements may accede to this Agreement, on terms to be agreed between it and the WTO. Such accession shall apply to this Agreement and the Multilateral Trade Agreements annexed thereto.
2. Decisions on accession shall be taken by the Ministerial Conference. The Ministerial Conference shall approve the agreement on the terms of accession by a two-thirds majority of the Members of the WTO.
3. Accession to a Plurilateral Trade Agreement shall be governed by the provisions of that Agreement.

Note: The acceptance of the plurilateral agreements is not obligatory for WTO members, but in the course of accession it is likely that major WTO members will insist that an acceding country make a commitment at least with regard to the Agreement on Government Procurement.

So far, no LDC has acceded to WTO under the provisions of article XII of the WTO Agreement, although some are in the process of doing so (Cambodia, Nepal, the Sudan and Vanuatu). The challenge facing these countries is to ensure that they are given full access to all the special and differential measures in favour of LDCs. Their access to these measures should be specifically recognized in the protocol of accession or the report of the Working Party on Accession.

Technically, WTO accession negotiations (following the application of an acceding country and the establishment of the Working Party on Accession, including adoption of its terms of reference and nomination of its chairman) consist of three interrelated tracks: (1) the systemic or multilateral track; (2) the "market access in goods" track; and (3) the "specific commitments in services" track.

LDCs acceding to WTO have little leverage when negotiating the terms of their accession with existing member States; the initial challenge facing them is thus to ensure that they obtain maximum advantage from the provisions on special and differential treatment in various Uruguay Round agreements.

The systemic or multilateral track provides for the consideration of the foreign trade regime and economic system of an acceding country and its compatibility with the multilateral trade agreements on the basis of the submission by an acceding country of its memorandum on the foreign trade regime and subsequent rounds of questions and answers; it also provides for the formulation of the Working Party's report and the protocol of accession, which set out detailed terms of accession. The memorandum must include all the items that appear in the regular reports as part of the WTO Trade Policy Review Mechanism. Background sections include information on the economy and domestic economic policies, detailed statistics on foreign trade and investment, an outline of the legislative and bureaucratic frameworks for making and enforcing policies affecting foreign trade, and a copy of all the laws and regulations affecting trade with at least a summary of each in one of the WTO official languages (English, French or Spanish). The more substantive sections cover every current and agreed future policy measure affecting trade in goods, foreign investment policy and regulations, the trade-related intellectual property regime, the trade-related service regime, and any bilateral or plurilateral trade or economic integration agreements to which the country is a signatory. In addition the currently applicable tariff schedule in the detailed nomenclature of the Harmonized Commodity Description and Coding System (HS) must be attached.

This track is conducted on a multilateral basis with the participation of all interested WTO members, although some issues regarding the trade regime may require informal bilateral or plurilateral negotiations between the acceding country and individual WTO members. Acceding countries should be prepared for a substantial number of very detailed questions from WTO members on any aspect of trade and economic policies and legislation, accompanied by requests to provide full copies of relevant national legislation and regulations in one of the official languages (see box 6).

In the "market access in goods" track, concessions are negotiated in the area of trade in goods (mainly in the form of relevant reductions and bindings of import tariffs). The negotiations are carried out on a bilateral basis with the acceding country's main trading partners (its principal suppliers). The list of agreed concessions is tabulated and forms an integral part of the protocol of accession; the concessions, including specific concessions on agriculture (i.e. market access, export subsidies and domestic support), are extended on an unconditional MFN basis to all other WTO members.

In the "specific commitments in services" track, negotiations on commitments on trade in services are also conducted bilaterally and result in a schedule of commitments in tabular form annexed to the protocol of accession. The schedule is also extended to other WTO members on an MFN basis.

Once the negotiations on the schedules on goods and services are concluded and the Working Party on Accession has completed its mandate, it submits its

Box 6: Information required for the systemic or multilateral track of accession negotiations

In current accession negotiations, many detailed questions have been submitted in the following areas, among others:

- Pricing practices and regulations
- The taxation system
- Subsidies to specific sectors of the economy, particularly in agriculture
- The foreign investment regime
- The balance of payments
- Customs import tariffs, including any preferential tariffs, customs fees, tariff exemptions, etc.
- Safeguard measures and other trade remedies (anti-dumping and countervailing measures)
- Import licensing
- Export regulations
- State trading enterprises
- Standardization and certification of imported goods
- Sanitary and phytosanitary standards
- Foreign exchange operations
- Statistics and publications systems relating to foreign trade
- The system for the protection of intellectual property rights

In addition, it is to be anticipated that many detailed questions will be submitted on the regulation of trade in services in general, as well as on the individual service sectors such as financial services, basic telecommunications, transport and professional services. The majority of questions are likely to be submitted by the major trading countries. Furthermore, the acceding countries are requested to respond to several WTO notification requirements, while some WTO members request that responses to all WTO notifications should be submitted. When the examination of the foreign trade regime is sufficiently advanced, members of the Working Party on Accession may initiate bilateral market access negotiations on goods and services. It is understood that fact-finding work on the foreign trade regime and the negotiating phase can overlap and proceed in parallel.

The Working Party usually meets twice a year, but the frequency of its meetings depends largely on the speed and comprehensiveness of the applicant's responses to the questions raised. Delays tend to be the result of the applicant's weak institutional capacity and subsequent difficulties in providing responses, as well as of the merging of fact-finding about policies into the next phase of the process, namely, negotiations on how existing policies need to be changed to ensure conformity with WTO rules.

report, together with the draft decision and protocol of accession, to the WTO General Council/Ministerial Conference. Following the adoption by the General Council/Ministerial Conference of the report of the Working Party and the approval of the draft decision by a two-thirds majority of WTO members, the protocol of accession enters into force 30 days after acceptance by the applicant, either by signature or by deposit of the instrument of ratification, if parliamentary approval is required.

Given the enhanced opportunities and obligations associated with WTO membership, it is perhaps not surprising that accession to it has become considerably more complex than accession to its predecessor, GATT.

Accession to WTO involves a process which is considerably more complex and difficult than the process for accession to GATT 1947. The WTO multilateral trade agreements involve more stringent and detailed rules and disciplines covering trade in goods, and the scope of such rules and disciplines has been expanded to cover trade in services (which covers investment, transport, communication, the movement of natural persons and so on) as well as the protection of intellectual property rights. Acceding countries are required to accept all the multilateral agreements. Only the two remaining plurilateral agreements, the Agreement on Trade in Civil Aircraft and the Agreement on Government Procurement, are formally optional, but, as described below, their acceptance by acceding countries has also been treated as a matter for negotiation by major WTO members.[3] The new rules and disciplines intrude further into areas traditionally perceived as areas of domestic policy. In addition to bringing their trade regime into conformity with the multilateral disciplines, acceding countries are required to negotiate concessions on the reduction and binding of tariffs, specific commitments on agricultural subsidies and commitments on trade in various services sectors. Moreover, the attitude of the major trading countries vis-à-vis acceding countries has become more demanding, thus effectively raising the "standard of accession". Some have taken the position that acceding countries should accept a level of obligation higher than that accepted by the original members of WTO. In practice, this has meant that acceding countries have had to accept a degree of tariff bindings and commitments on services comparable to that of the most advanced countries, that they have not been able to benefit from all the relevant provisions in favour of developing countries and economies in transition, and that they have been required to accept one or both of the plurilateral agreements.

C. Approach to the accession negotiations

Accession is not an end in itself; it should be but one aspect – albeit an important one – of a well-designed LDC development strategy.

Accession to WTO must be seen not as an end in itself but as a key element in the pursuit of national development policy objectives. These objectives should be clearly defined before beginning the accession process, so that the terms of accession, notably the specific concessions and commitments relating to foreign access to markets for goods and services, as well as other commitments under the Uruguay Round agreements (for example, on agricultural and industrial subsidies, trade-related investment policies and intellectual property rights), fall within the parameters of these policies. Accession, if it is to be achieved on balanced terms, should be recognized as a difficult and complicated process, which may be lengthy and may require high-level preparations, coordination among government agencies and a broad political consensus if the candidate for accession is to pursue and defend its national interests effectively. Accession will also require tough negotiations with major WTO members. Such negotiations involve strategic and long-term issues which could affect the trade and development policies of the countries concerned for years to come. While their status may be the subject of negotiations with major WTO members, acceding LDCs should ensure that specific reference is made to their LDC status in the Working Party report.

In conducting the bilateral tariff negotiations, a number of specific considerations should be borne in mind with regard to the base rate, initial negotiating rights, export duties and taxes, and schedules of commitments on trade in services.

Base rate

WTO members will argue that the currently applicable tariff should provide the basis for negotiations, i.e. that tariff reductions and bindings should be at levels equal to or less than the current rates. In some acceding countries, however, the current rates reflect the conditions of structural adjustment programmes and may be lower than those required to permit the development of viable industries. Acceding countries may seek to negotiate "ceiling" bindings, i.e. tariff bindings in excess of the actual applied rate, or tariff quotas at lower rates.

Countries which are neither the principal nor substantial supplier of a product for which bound tariff rates are being renegotiated may seek initial negotiating rights which allow them to claim compensation for the nullification or impairment of the benefits they enjoy as WTO members.

Initial negotiating rights

Normally negotiating rights on a specific tariff item go to the country with a "principal supplier" interest (i.e. the country from which the largest share of imports originates) and, as a result of the Uruguay Round, to the countries most dependent on the export of the product concerned, as well as to countries with a "substantial supplier" interest. The former countries (and to a lesser extent the latter countries) have the right to be compensated should the importing country concerned decide to renegotiate bound tariff rates on the product concerned or take other action nullifying or impairing the benefits to the WTO member concerned. Countries which do not constitute the principal supplier of the product concerned may also seek "initial negotiating rights", which also give them the right to compensation even though they may be a minor supplier of the product affected by the tariff increase.

Export duties and taxes

The WTO obligations with respect to duties and quantitative restrictions are essentially symmetrical in the sense that quantitative restrictions on both imports and exports are prohibited, with certain exceptions, by article XI of GATT 1994, while export and import duties are permitted, but may be reduced and bound in the course of negotiations. In practice, negotiations have focused on concessions with respect to import duties, and, with very few exceptions, no export duties have been bound.

Some acceding countries have been requested to eliminate all export duties. It should be borne in mind that this is a very onerous and unique concession in the sense that, with the exception of several tariff lines in one or two countries, no WTO member has ever bound any export duties or limited its freedom in any way in this respect.

Schedules of commitments on trade in services

The acceding country's memorandum on the foreign trade regime should provide detailed information on the service sectors, in terms of market access, national treatment and MFN treatment. The general obligation under GATS is to provide unconditional MFN treatment with the possibility of scheduling a limited number of exemptions, in principle for a period not exceeding 10 years. GATS does not contain obligations on market access and national treatment; such commitments are the subject of bilateral negotiations, the results of which are included in the GATS schedule of commitments of the acceding country. The commitments could cover only a few sectors or a few activities in each sector and relate to only a certain mode of supply (there are four modes of supply: cross-border, consumption abroad, commercial presence and movement of natural persons). The schedules of commitments derive from articles XVI and XVII of GATS, which define the concepts of market access and national treatment, as well as article I, which defines the four modes of supply, and the annexes on the movement of natural persons and telecommunications. Once a country has decided to include a sector or subsector in its schedule, it must indicate any impediments to market access or national treatment. It should be noted that the measures affecting market access are clearly defined in article XVI of GATS.

A country in the process of accession should undertake a thorough study of its service sectors, in particular to identify: (1) the service sectors which are sensitive and which it does not wish to include in its schedule of commitments; (2) sectors in which it has achieved a degree of competitiveness allowing it to open up the sector with limited threat to its domestic producers; and (3) services where it may wish to invoke MFN derogations. Most developing countries have bound the cross-border mode of supply in a few subsectors, given that they profit very little in this mode in terms of the transfer of technology and know-how, and have given priority to their commitments in the commercial presence mode of supply, with the necessary limitations and qualifications listed in article XVI:2 of GATS (where six categories of restrictions are listed) with regard to, say, joint ventures, which allow a country to receive investment at the same time as it develops its own domestic service capacity. There is also the possibility of scheduling additional commitments, relating to qualifications, standards and licensing matters, for example. However, it should be noted that where no commitments exist, members are free to change their regulations. When an authorization is required for the supply of a service, decisions have to be made "within a reasonable period of time" after the submission of an application under domestic laws and regulations. In addition, the competent authority has to provide, upon request, information concerning the status of the application without undue delay.

LDCs seeking to develop a strategy for the negotiation of services commitments might benefit from studying the market access obligations assumed by other WTO members – especially developing countries.

Studying the commitments made by other countries, in particular those made by developing countries, would help an LDC to define its strategy for the negotiation of service commitments, as well as provide a list of the type of qualifications and limitations that could be made in relation to national treatment and market access. It should be noted that developing countries have been very cautious in including sectors and subsectors and service activities in the schedule of commitments, and whenever they have made commitments, they have been subject to major limitations and qualifications. A possible approach is to see the bilateral tracks of accession negotiations as a package, i.e. not to separate negotiations on goods and services, but to seek trade-offs between concessions in one area (e.g. telecommunications) while preserving a certain level of protection in another (e.g. agricultural products). It should be recalled that GATS does not as yet contain an operational emergency safeguard mechanism to limit injury to domestic producers in the case of excessive increases in imports (this is currently being negotiated).

During the accession negotiations, major trading partners will ask for market access and national treatment in a wide range of services of interest to them. Experience has shown that telecommunications, financial services (including banking and insurance), and business and professional services are of particular importance to them.

As noted above, accession negotiations on trade in services follow a two-tier process covering: (1) the multilateral consideration of the services regime as part of the memorandum on the foreign trade regime and the subsequent question-and-answer procedure in the Working Party; and (2) bilateral negotiations, which start after the acceding country has submitted its initial offer on commitments in services and requested bilateral consultations. In the multilateral stage of negotiations, most questions that WTO members pose are aimed at identifying current regulatory measures (and the substance of any such measures planned for the near future) which prevent services from being provided by foreign firms or across borders or which discriminate against locally established firms with foreign ownership. Most questions relate to information on the criteria for issuing licences or requirements for registration, where objectivity and the absence of discretionary measures is sought. In this sense, in the case of negotiations on services, the question-and-answer procedure in the Working Party is much more relevant to the bilateral negotiations of commitments than in the case of goods, in that the information on services provided to the members of the Working Party may include the information members need to formulate requests for sectoral or subsectoral commitments.

In this context, it should be noted that the WTO secretariat has circulated a document describing the information to be provided on policy measures affecting trade in services to allow specific commitments on trade in services for bilateral negotiations to be tabled.[4] Previously, acceding countries had used the same approach to scheduling initial offers on commitments in services as the countries that negotiated GATS, the techniques of which are explained in a note on the scheduling of initial commitments in trade in services.[5] Apart from other differences of a more technical nature, this document introduced a completely new requirement, according to which the acceding country has to indicate the laws and regulations pertaining to each and every restriction that might be included in the schedule of specific commitments.

Acceding countries have found preparations for and the conduct of negotiations in the area of trade in services particularly difficult and demanding. Their regulatory regimes governing a wide range of economic activity are subject to negotiation, and effective mechanisms have to be established to coordinate the numerous government departments involved. For the purposes of accession to WTO, identification of the relevant service sectors could be based either on the rather general GATS Services Sectoral Classification List[6] or the more detailed Draft Central Product Classification of the United Nations.[7]

D. Issues in the multilateral track of accession negotiations

In the multilateral negotiations, the room for manoeuvre is fairly small and is mostly limited to the length of phase-in periods, the possibility of the temporary maintenance of practices not in conformity with the multilateral trade agreements, the acceptance of plurilateral agreements, and so on. In the bilateral part of the process, the acceding country has a much greater margin for manoeuvre and an authentic process of negotiation takes place, within the limitation that the acceding country's concessions are unilateral in nature (i.e. it cannot request concessions from WTO members).

The more stringent and detailed rules and disciplines in the Uruguay Round agreements have only limited flexibility and require more concessions from acceding countries with regard to the reduction and binding of tariffs, specific commitments in agriculture (improved market access and the reduction of domestic support and export subsidies) and commitments in trade in services. In addition, the acceding countries have been requested by major WTO members to accept obligations extending beyond those contained in the multilateral trade agreements, or to undertake specific commitments with respect to measures which fall outside the scope of those agreements (e.g. privatization).

The remaining two plurilateral agreements were not multilateralized during the Uruguay Round, and thus the rights and obligations contained therein apply only to their signatories. However, as part of their general approach to acceding countries, some WTO members have been insisting that the acceding countries agree to accept, or at least enter into negotiations to accede to, the Agreement on Government Procurement and, in some cases, the Agreement on Trade in Civil Aircraft. Some of the countries which have acceded to the WTO have made commitments in this regard.[8]

Some acceding countries have been urged to accede to the two remaining plurilateral agreements.

National treatment

Another concern of WTO members has been the principle of national treatment, a cornerstone of the WTO system for imports of goods. As provided for in article III of GATT 1994, national treatment requires that foreign products should be treated on a basis no less favourable than that for domestically produced products. The principle has two main areas of application: (1) the laws or regulations affecting the sale, processing and use of products; and (2) taxation. The aim is simply to prevent the imposition within the importing country of what would amount to a protective tariff.

In accession negotiations, WTO members have been particularly vigilant with respect to value-added or excise taxes which they consider to discriminate against imported products, or between products from different sources. As a result, acceding countries have undertaken commitments to equalize taxation of domestic and imported products either upon accession to WTO or within a very short time (e.g. six months or one year) thereafter.

Other duties, charges and fees

Many countries impose various kinds of duties and charges on imports in addition to the ordinary customs duties which are allowed by article II of GATT 1994. Some of these may be considered as, effectively, supplementary protective duties. The aim is mostly to increase government revenue where tax evasion and the inefficient collection of taxes are a widespread problem in the domestic sector. Following the Uruguay Round Understanding on the Interpretation of Article II:1 (b) of GATT 1994, WTO members are now required to bind these other duties and charges. Governments may also charge fees to cover the cost of facilities and formalities involved in the importation of goods; customs user fees or the cost of collecting import statistics are examples of such fees (detailed rules can be found in article VIII of GATT 1994). A similar provision in article V (which requires Governments to give freedom of transit for goods) governs any transit charges. Charges under article V are covered by the MFN rule. The issue of such fees arises in almost all cases of accession, with the result that acceding countries undertake either to eliminate such fees or to bring them into line, upon accession, with article VIII of GATT 1994.

Balance-of-payments restrictions

During the Uruguay Round negotiations a large number of developing countries stopped invoking article XVIII, which had been used to justify their use of quantitative restrictions. Furthermore, the Understanding on Balance-of-Payments Provisions of GATT 1994 tightens up the monitoring of the application of this article and commits all members to giving preference to price-based measures rather than quantitative restrictions in applying balance-of-payments restrictions. However, nothing in the Uruguay Round altered the right of members to have access to the balance-of-payments provisions of articles XII (for developed countries) and XVIII:B (for developing countries). Care should be taken that nothing is inserted in the terms of accession of LDCs which could undermine this right.

Trade-related investment measures

The TRIMs Agreement prohibits certain investment measures, including those which are mandatory or enforceable under domestic law, or compliance with which is necessary to obtain an advantage which has the effect of contravening the obligations of GATT 1994 with respect to national treatment and the prohibition of quantitative restrictions. The type of measures specifically prohibited includes those which require the purchase or use by an enterprise of products of domestic origin, including when related to the value or volume of exports by the firm concerned (i.e. “local content” requirements). The other measures specifically prohibited are those which restrict the firm concerned to the importing of foreign products as inputs in its production, whether related to its exports or its foreign exchange earnings (“trade balancing” requirements), or which restrict exports by the firm.

Despite the narrow scope of the TRIMs Agreement, some WTO members are seeking commitments from acceding countries which touch upon their investment policies in general. They appear to be seeking commitments with respect to other investment requirements which are not specifically prohibited (e.g. export performance requirements not linked to import volumes), and even to obtain commitments from the acceding countries to grant national treatment to foreign investors. The WTO rules cover only national treatment for goods (not for investment), prohibiting only those investment measures which have the effect of contravening this requirement. Acceding countries have been asked to provide extensive information on their foreign investment laws, going much beyond the scope of the TRIMs Agreement. As terms of their accession, most newly acceded countries guaranteed full consistency with the TRIMs Agreement upon accession; only one country (Ecuador) managed to negotiate a transitional period (in this case, until 1 January 2000) to achieve such consistency.

Import licensing

The Agreement on Import Licensing Procedures recognizes that import licensing procedures can have acceptable uses – including as a means of collecting import statistics or implementing quantitative restrictions in situations where these are permitted within WTO – but also that their inappropriate use may impede the flow of international trade. The Agreement embodies, *inter alia*, the principle of transparency, whereby all information relevant to the administration and functioning of the licensing systems, whether they are automatic or not, shall be available to any WTO member upon request.

In their memorandum on the foreign trade regime, acceding countries have to reply to a very detailed questionnaire on import licensing procedures.[9]

State trading enterprises

Under the provisions of GATT 1994, countries are free to establish and maintain State trading enterprises. The aim of article XVII is to ensure that trade conducted by State trading enterprises is subject to the same degree of discipline as trade conducted by private firms, and contains obligations with respect to non-discrimination, negotiations to limit or reduce obstacles to trade, the preservation of the value of concessions, import and export restrictions made effective through State trading operations, and transparency, through detailed notification requirements.

The Understanding on the Interpretation of Article XVII of GATT 1994 provides a working definition of State trading enterprises. The disciplines of this article apply to enterprises which, in the exercise of their exclusive or special rights or privileges, can influence the level or direction of imports or exports through their purchases or sales; thus it is the enjoyment of exclusive or special rights or privileges to enterprises, not government ownership per se, which brings enterprises within the scope of this article.

The applicability of article XVII of GATT, governing State trading, is not determined by the ownership of an entity but by the conditions and manner in which it operates.

State trading enterprises engaged in agricultural trade are also subject to the disciplines contained in the Agreement on Agriculture. The Agreement covers measures provided by or through State trading enterprises; WTO members are required to submit notifications indicating their compliance with the commitments of the Agreement.

Acceding countries have not always clearly understood that ownership is not the criterion under article XVII, but rather the conditions and manner in which the enterprise operates. Thus privatization or transforming an enterprise into a joint stock company or allowing it to operate within special funds does not change its position as a State trading enterprise if it still enjoys exclusive or special rights or statutory or constitutional powers through which they influence, with their purchases or sales, the level of imports and exports. State-owned enterprises which do not enjoy special rights and privileges do not fall within the disciplines of article XVII.

WTO members have paid special attention to all kinds of monopolies which exist in acceding countries in the fields of production, distribution and foreign trade, often relating these questions to State trading as well as to government procurement. Detailed questions on product coverage and operational policies (particularly pricing), as well as on the country's intentions with regard to abolishing monopolies, will be submitted by WTO members during the accession process. Requests for additional information on agricultural products are particularly common. Acceding countries have to demonstrate that mark-ups on State-traded imports of agricultural products do not discriminate against those products, and that they are not circumventing their export subsidy commitments. Finally, reflecting concerns expressed by WTO members that the activities of State trading enterprises may not be sufficiently transparent and may not be in conformity with WTO regulations, acceding countries are being requested to undertake specific commitments (which are included in the protocol of accession) to apply domestic laws and regulations in conformity with article XVII of GATT 1994, the Understanding on that article, and article VIII of GATS.

Industrial subsidies

The Agreement on Subsidies and Countervailing Measures, which covers only industrial goods (basically falling under HS chapters 25–99), contains newly established multilateral rules and disciplines, and associated agreed definitions with regard to subsidies and countervailing measures.

The Agreement contains provisions for special and differential treatment for the least developed and other countries (listed in annex VII to the Agreement) whose GNP per capita is under $1,000 per year. In the context of the above provisions it is very important for acceding countries to fully know and understand these provisions, and to clearly identify their interests and negotiating strategies in this regard. WTO members would not necessarily agree to an automatic extension of these provisions to the newly acceding country. Each such provision should be the subject of negotiation and extensive justification on the part of an acceding country, supported by relevant information and data.

LDCs acceding to WTO should be prepared to explain any strategies that they might have in the area of subsidies, and demonstrate their consistency with the Agreement on Subsidies and Countervailing Measures.

The industrial subsidy programmes and measures of acceding countries generally receive priority attention from major WTO members in multilateral-track accession negotiations, as reflected in the many general questions posed to collect information on the role and objectives of government policies in the area of subsidies, as defined in article 1 of the Agreement, and to identify any specific subsidies, as defined in article 2 of the Agreement. These questions also include requests to provide the Working Party with the full texts, in one of the official WTO languages, of relevant legislation on subsidies, State budgets and any government support programmes for industry, including those designed for individual industries and enterprises. The second round of questions is usually more specific, and is targeted on the identification of applicable mechanisms for providing subsidies, criteria for eligibility, the existence of special economic or institutional links between the Government and enterprises, the relationship between subsidies and exports or imports, the influence of subsidies on pricing policies and the investment regime. At this stage, an acceding country may be requested to classify its subsidies into the three categories defined by the Agreement, namely, prohibited, actionable and non-actionable. The intention is to see whether there are any linkages between subsidies and other aspects of the accession negotiations, such as price regulation, privatization and competition policy, the existence of State trading enterprises, the promotion of exports or import substitution. Another objective is to test an acceding country on its understanding of the Agreement and its obligations. In parallel, questions may be raised on the existence of countervailing legislation and practices or future plans in this regard. Finally, WTO members would identify inconsistencies with the Agreement and seek a clear commitment from the acceding country to eliminate them, preferably before accession to WTO. In addition, any transitional arrangements and their time-frames will also be negotiated. WTO members can be expected to insist on minimal transitional arrangements and time-frames. Their attention will be focused on the elimination of any prohibited subsidies upon accession by a country to WTO. At this final stage, all issues related to the terms of accession should be negotiated; the acceding country, depending on its priorities and strategies in the area of subsidies, should normally insist on maximum use of the flexibility offered by the Agreement.

Agricultural commitments

The Agreement on Agriculture established, for the first time, operational disciplines regulating market access, export competition and domestic support measures. The Agreement covers products in HS chapters 1–24, excluding fish and fish products but including animal- and vegetable-based raw materials and some foodstuff additives. The Agreement provides for a lower level of obligations for developing countries, while LDCs are exempt from most of its obligations.

LDCs are exempt from most of the obligations of the Agreement on Agriculture; this privilege, however, may not automatically be granted to LDCs seeking accession to WTO.

However, a problem that may arise in the accession of developing countries and LDCs is that major WTO members may be very reluctant to grant them automatically the special and differential treatment stipulated in the Agreement. It is likely that each such provision would require tough negotiations and justification on the part of an acceding country. Such a situation, like other aspects of the accession process, will reflect the “dual” legal nature of the accession negotiations. On the one hand, accession is governed by article XII:1 of the WTO Agreement, stipulating that such accession will be on terms agreed by the acceding country and WTO; this means that every issue to do with accession may be negotiated on the basis of the respective positions of an acceding country and interested WTO members. On the other hand, the provisions of the multilateral trading agreements, including the Agreement on Agriculture, should provide a reference for the level of obligations of an acceding country. In this context, it can be expected that major WTO members will insist generally on a maximum level of obligations for an acceding country, irrespective of its development status and needs, in each of the three main components of the Agreement – especially in the case of an acceding country with current or potential export capacities in agriculture, so as not to allow that country extra flexibility to improve its competitiveness in producing and exporting agricultural products.

Contingency protection agreements

The contingency protection agreements – the Agreement on Safeguards, the Agreement on Implementation of Article VI of GATT 1994 (Anti-Dumping) and the Agreement on Subsidies and Countervailing Measures – are not mandatory, in the sense that WTO members are not obliged to apply such measures or to adopt relevant national legislation. However, if a country decides to apply restrictive measures to deal with injury caused by rapidly increasing imports of subsidized or dumped imports, it will have to respect all the relevant provisions of these highly technical agreements, and enact implementing legislation in conformity with these agreements. For example, during accession negotiations WTO members are likely to ask to see existing or draft legislation and will seek a commitment from an acceding country to adapt that legislation in every technical detail to the provisions of the contingency protection agreements.

Trade-related aspects of intellectual property rights

The TRIPS Agreement requires each WTO member to provide specified minimum standards of intellectual property protection, and to enforce these standards through its domestic legal system. The standards involved include, and in some cases go well beyond, the substantive requirements of the main international agreements on intellectual property (the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the Treaty on Intellectual Property in respect of Integrated Circuits and other conventions of the World Intellectual Property Organization (WIPO)).

Enforcement procedures are to be effective, fair and equitable, and must not create trade barriers or encourage abuse. They must be open to review, allow interim measures to be taken to prevent goods from being introduced into commerce after customs clearance, and provide for damages and the seizure and disposal of goods. In this context, major WTO members give priority to the enforcement of border measures against counterfeit goods, as provided for in the Agreement. Counterfeiting or copyright piracy on a commercial scale is to be punished by imprisonment or fines.

Although LDCs have until 2006 to apply most of the provisions of the TRIPS Agreement, any intellectual property protection that they provide before then must be given on a non-discriminatory basis.

For developed countries, the whole TRIPS Agreement has been in force since January 1996. For developing countries, and countries in transition to a market economy, most TRIPS provisions will apply only from January 2000; for LDCs, they will apply from January 2006, with provision for a possible extension of the deadline. However, one aspect of the TRIPS Agreement has applied to all WTO members as from January 1996: whatever intellectual property protection they provide must be given on a basis of MFN and national treatment. This means, for example, that even if a developing country grants patents for only 10 years, it must grant that 10-year protection to all foreign, as well as domestic, patent-holders.

There have been many requests for information and explanations in the area of intellectual property rights during the accession process, as well as very detailed questions on various areas covered by the TRIPS Agreement. The enquiries have concerned both progress in the promulgation of the necessary legislation, and the legislation's scope, applicability and, in particular, conformity with the TRIPS Agreement. Acceding countries have been asked to describe their system for the enforcement of intellectual property rights, including civil and administrative procedures and remedies.

The most important question with regard to compliance with the TRIPS Agreement, however, is not the due promulgation of each relevant piece of law or legal procedures, but the clear pressure from major WTO members to ensure that the acceding countries undertake to comply with all obligations of the TRIPS Agreement upon the date of their accession, regardless of the transitional periods stipulated by the Agreement.

In addition to requiring acceding countries to apply fully all the provisions of the TRIPS Agreement, WTO members require them to provide evidence and justification of enforcement of intellectual property protection. Concerns have also focused on the application of the principle of national treatment in all areas of trade-related aspects of intellectual property rights, the lack of transparency in application and acceptance procedures (especially in the fields of patents and copyrights), and differential procedures and higher fees for foreign patent-seekers.

Non-application clause

Article XXXV of GATT 1947 provided for the possibility that contracting parties could deny GATT treatment to each other, upon the accession of a country; either the acceding country or any of the contracting parties could invoke this article. This provision had its origin in the refusal of India to extend GATT treatment to South Africa under the apartheid regime, and was devised to accommodate similar political situations (although many countries invoked article XXXV against Japan essentially for economic reasons).

The main feature of article XXXV was that it could not be invoked if countries had already entered into tariff negotiations; thus it could not be used as leverage to extract concessions from the acceding country. However, action taken in the GATT Council during the Uruguay Round had the effect of amending this provision to enable countries to invoke it even after they had entered into tariff negotiations with the acceding country. This was carried over into the non-application clause (article XIII) in the WTO Agreement. This places acceding countries at a further disadvantage as compared to GATT 1947, as the threat to invoke the non-application clause can be used as a means of extracting concessions from the acceding country. In addition, it can be invoked even after the acceding country has made specific concessions in favour of the WTO member concerned.

If article XIII of the WTO Agreement, the so-called "non-application clause", is invoked after an acceding country has entered into tariff negotiations with WTO members, it may be used as a means of extracting concessions.

WTO accession and regional integration

The trade relations of an acceding country with its major trading partners will also be scrutinized in great detail, especially if they are conducted on the basis of preferential trade agreements such as free trade areas or customs unions. In this context, an acceding country should be able to explain the relation of such agreements (e.g. with the European Union or with countries in the region) to the relevant provisions of GATT 1994 (article XXIV) and GATS (article V). In such cases, it is to be expected that countries outside the existing regional or preferential agreements will press hard for concessions from an acceding country to reduce the tariff margins and other preferential treatment. If regional trade arrangements are under negotiation, the negotiations should be fully coordinated with the WTO accession process. In particular, if regional or preferential trade options are available, consideration could be given to sequencing the WTO accession negotiations and the regional initiatives on the basis of the relevant interests and level of trade with countries in the region, as it might be preferable to conclude the regional negotiations before beginning the WTO accession process. An acceding country should be prepared to submit texts of any regional trade agreements in one of the WTO official languages.

On the other hand, some acceding countries might give priority to WTO accession if they consider that by becoming a member they can strengthen their negotiating position vis-à-vis the potential regional partner, and gauge more accurately the additional benefits to be derived from the regional or bilateral agreement. The choice of this approach would seem to depend on the relative importance of the market of the acceding countries to the regional partner.

Trade with non-WTO members

Some acceding countries find themselves in the situation where their major MFN trading partners are not members of WTO, and thus the MFN tariff and other concessions will be enjoyed primarily by countries which did not participate in the accession negotiations. Some WTO members have dealt with this situation by seeking "initial negotiating rights" on a wide range of products with the acceding country. On the other hand, the acceding country will be in a position, once it becomes a WTO member, to seek unilateral concessions from its major non-WTO trading partners when they, in turn, seek accession to WTO.

Relations with international financial institutions

A distinction must be made between the temporary structural adjustment programmes that many LDCs are implementing under the guidance of the international financial institutions and the permanent, contractual obligations that they undertake in acceding to WTO.

The majority of the countries currently in the process of accession to WTO are implementing macroeconomic or structural adjustment programmes of the IMF/World Bank. This has complicated their position in the accession negotiations. The conditions imposed on trade regimes by the international financial institutions in some cases greatly exceed those initiated in the WTO obligations, for example, with respect to tariff rates where the countries concerned have been obliged to reduce tariff rates drastically on a unilateral basis, or with respect to subsidies where structural adjustment programmes provide for the elimination of certain generally applicable subsidies which are defined as "non-specific" by WTO and hence non-actionable. The Agreement between the IMF and WTO, which was approved by the WTO General Council on 13 November 1996, provides a broad framework for cooperation between the two institutions. In particular, it stipulates that the IMF will provide WTO, for the confidential use of its secretariat, with staff reports on IMF members seeking accession to WTO, subject to the consent of that member.[10]

It should be noted that the structural adjustment programmes are temporary in nature and that they involve agreements between the Government and the financial institutions involved. By contrast, WTO obligations are permanent, involve contractual rights and obligations with WTO member countries (not WTO as an organization) and cannot be modified without the risk of incurring trade sanctions on the part of trading partners.

WTO members have been tempted to seek bindings from the acceding countries at the tariff rates and subsidy levels imposed by the international financial institutions. However, these rates may not be viable in that they may not enable domestic industries in the acceding countries to survive.

Action at the national level

Accession negotiations and WTO membership will require a considerable strengthening of the national institutional infrastructure in the acceding country.

In order to achieve accession on balanced terms consistent with their trade, financial and development needs, and in order to benefit to the fullest extent from the above-mentioned special provisions, acceding countries should first define their major negotiating objectives, based on a detailed analysis of their basic economic strategies and policies and their conformity with WTO obligations. This is a vital prerequisite for beginning accession negotiations. The analysis should also determine the role of foreign trade and identify the country's major trading partners and any internationally competitive sectors of its economy that could increase export potential; it should recognize the need to protect the country's socially important sectors and "infant" industries. A political consensus should be built up within an acceding country on all issues requiring substantive adaptation of policies and legislation to conform to WTO requirements.

Major efforts should be undertaken to establish effective governmental machinery to support the accession negotiations; the machinery must have adequate authority to coordinate this process among various governmental agencies, as well as with the legislature and trading enterprises. It is also important to be able to meet purely technical and logistical needs, such as the processing of a substantial amount of documentation, including the translation of relevant legislation into the official languages of WTO.

An acceding country should make full use of its observer status in WTO to prepare for negotiations. In particular, attendance at the working parties dealing with other acceding countries will offer first-hand experience of the complexities of the negotiations. The country should also give special attention to informal methods of working with various WTO members, since such methods are customary practice in the organization.

Without the full economic and institutional integration of LDCs into the multilateral trading system, there can never be a truly global trading system.

Accession negotiations and eventual WTO membership will require a considerable strengthening of the national institutional infrastructure in the acceding countries. In the past, many acceding countries discovered only after they had applied for accession that they were too poorly equipped in terms of human and financial resources to meet this challenge. Newly acceding countries need to make a major effort to strengthen their institutions, upgrade their human resources, including through the training of specialists, and improve their information collection, coordination and management. At the same time, acceding countries need the comprehensive and impartial support of the international community in their endeavours.

E. Concluding remarks

Without the full economic and institutional integration of LDCs in the multilateral trading system, there can never be a truly global trading system. The developed countries and the more advanced developing countries have a stake in the future economic performance of LDCs. It is therefore in their interest to help LDCs to accelerate their accession to WTO and participate more fully in its activities. The challenge is to combine within a reasonable time-frame the necessary rigorous observance of multilateral disciplines with a degree of flexibility and understanding for the difficulties and constraints faced by LDCs. The need to facilitate and accelerate the process of accession for LDCs was recognized at the High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development in October 1997, where it was recommended that WTO should further develop its efforts to assist LDCs in the process of acceding to WTO through, *inter alia*, providing focused assistance to LDCs in preparing documentation and in facilitating their market access negotiations in goods and services. The High-Level Meeting also recommended to the governing bodies of multilateral agencies that the agencies should provide technical and, where appropriate, financial assistance to support LDCs' accession to WTO. The second WTO Ministerial Conference, in May 1998, welcomed the progress made with applicants currently negotiating accession and ministers renewed their resolution to ensure that the accession process would proceed as rapidly as possible and welcomed the report of the Director-General of WTO on the follow-up of the outcome of the High-Level Meeting. In his report, the Director-General said that, bearing in mind that WTO accession involved a serious process of negotiation between the acceding country and WTO members, efforts were being made to assist LDCs in the process of accession. In their declaration on the occasion of the second WTO Ministerial Conference, ministers from LDCs urged members to consider introducing some flexibility in WTO rules to enable smooth accession by LDCs; LDCs could perhaps be granted membership on submission of their memorandum on the foreign trade regime and any subsequent clarifications. This issue was also discussed in the WTO Sub-Committee on Least-Developed Countries. There

There may be scope for reviewing the accession process so as to reduce the obligations it entails for LDCs without necessarily compromising the transparency and integrity of the WTO multilateral rules and disciplines.

was general agreement that the WTO secretariat should examine ways of facilitating the accession of LDCs without creating two accession procedures or formulating special terms of accession.

In the light of the above, and the heavy burden which the accession process imposes on the limited human and institutional capacity of LDCs, there would appear to be scope for reviewing the process so as to reduce the obligations it entails for LDCs without necessarily compromising the transparency and integrity of the WTO multilateral rules and disciplines. First, the eligibility of all acceding LDCs for all provisions on special and differential treatment in the Uruguay Round agreements could be unconditionally recognized by WTO members. Second, a fast-track approach could be allowed for LDCs in bilateral negotiations on market access in goods and services, in which WTO members would keep their tariff and services requests to a minimum. In addition, there is an urgent need to increase the technical assistance provided to LDCs by WTO, UNCTAD and other international or bilateral providers of technical assistance; such an increase would, of course, require additional funds.

Notes

1. UNCTAD (1996). "Strengthening the participation of developing countries in world trade and the multilateral trading system" (TD/375/Rev.1), p. 25.
2. WTO (1995). "Accession to the World Trade Organization" (WT/ACC/1).
3. In the interest of economy and efficiency, the International Meat Council and the International Dairy Council agreed to terminate the International Bovine Meat Agreement and the International Dairy Agreement, respectively, at the end of 1997. Parties to the two agreements said that the establishment of the WTO Committee on Agriculture and the Committee on Sanitary and Phytosanitary Measures, which deal with trade policy-related matters affecting agricultural products including meat and dairy products, had called into question the continued usefulness of these particular plurilateral agreements.
4. WTO (1996) (WT/ACC/5).
5. WTO (1993) (MTN.GMS/W/164 and Add.1).
6. WTO (1991) (MTN.GNS/W/120).
7. United Nations (1996). "Draft Central Product Classification" (ST/ESA/STAT/SER.M/77, version 1.0).
8. For example, some newly acceded countries have agreed to notify, upon accession, the Committee on Government Procurement of their intention to accede to the Agreement on Government Procurement, and also to initiate negotiations on accession to the Agreement prior to a specified date. One country (Bulgaria) committed itself to accede to the Agreement on Trade in Civil Aircraft at the time of WTO accession.
9. WTO (1995) (WT/ACC/1), annex 3.
10. WTO (1996) (WT/GC/W/43), p. 5.

Trade in Services: New Opportunities for LDCs

Chapter 3

One of the defining characteristics of globalization has been the growing internationalization of services. Trade in commercial services, which include travel, transport, communications and financial and professional services, accounted for about 25 per cent of world trade in 1996. In the first half of the 1990s, service exports in developing and newly-industrializing regions grew twice as fast as in the developed economies, outstripping growth rates for the export of goods (World Bank, 1997). Developments in communications and information technology, which have facilitated the movement of information and organizational change in the delivery of services, have promoted the growth in trade services (particularly in commercial services) by transnational firms.

Until recently, services were viewed mainly as non-tradeable activities with low growth potential. Now, however, they are seen as having a dynamic role to play in the development process, a change which is related to the transformations brought about by communications innovations. New information technologies have rendered many services increasingly tradeable, with knowledge-intensive services being exchanged through telecommunications networks, and the impact of the information revolution in lowering communication costs is adding a new dimension to global economic integration, with profound implications for LDCs as they seek to enhance their participation in the world economy (Ruggiero, 1997). The notion that growth in the services sector is a post-industrialization developed-country phenomenon is now obsolete. Information, and the modern producer services which it supports, is now one of the key factors in production and, unlike labour and physical capital, it is highly mobile internationally. To compete successfully in the international arena, LDCs need to ensure that producers can access efficient, competitively-priced producer services. The proper integration and utilization of modern, efficient producer services is a key element in determining international competitiveness, both for firms and for the economy as a whole.

Thanks to innovations in communications technology, services are now a vitally important element in the development process.

The increasing importance of global trade in services was reflected in the inclusion of services as a new issue in the Uruguay Round negotiations; the resulting General Agreement on Trade in Services (GATS) set out the main multilateral principles that should govern trade in services, and secured commitments from individual WTO members on the liberalization of the service sector. GATS established a framework for the notification of existing rules, rather than a system of rules for free market access for all forms of international services (Snape, 1998). A sector-by-sector approach has been used to reach agreements for specific services, with an agreement on telecommunications signed in February 1997 and an agreement on financial services reached in December 1997.

GATS has important implications for LDCs, not least because the incorporation of the new issues in the WTO agenda extends the parameters for negotiation to domestic policies and institutions, such as regulation and legal systems, and in this way intrudes on national sovereignty. For trade in services, the barriers to access are not necessarily at the border, but are more likely to involve domestic regulatory policies and legal requirements. GATS, by its very nature, exerts pressure for the international harmonization of domestic systems through the removal of structural impediments to foreign access and presence.

The clear implication is that negotiations will involve more than traditional external barriers, and will deal with matters traditionally dealt with inside national borders (Ostry, 1998). For LDCs, characterized by an underdeveloped service sector still in its infancy, this has important implications for the speed and sequencing of liberalization of that sector.

This chapter offers an analysis of the role of the modern service sector in LDCs as they attempt to diversify their economies and become integrated in the global economy. It looks at the services of current and potential interest to LDCs, with particular attention to tourism, labour and financial services, and considers the implications for LDCs of GATS and the liberalization of the service sector.

A. The role of the service sector

Perceptions about the contribution of services to economic development have changed significantly since the 1980s. Growth in service-sector employment and output, coupled with the impact of technological progress on service industries, has been instrumental in fostering this change (UNCTAD/World Bank, 1994). At the same time, the service sector has become increasingly internationalized, and there is a much higher level of international competition in services. This, in turn, has generated pressure for regulatory reform and greater market access in the sector. Consequently, Governments have become increasingly aware of the major impact that services have on the efficiency, trade performance and development of a country's economy.

The strategic importance of services to LDCs lies in both their potential as direct exports and their role as inputs into domestic production processes.

For LDCs, services are increasingly important both as a direct export and as inputs into the production process. For some LDCs, the export of services is, or has the potential to become, a significant source of export earnings: the Gambia and Maldives are major tourist destinations; Benin and the United Republic of Tanzania earn substantial fees from transit through their ports of the imports and exports of neighbouring countries; and Bangladesh and the Sudan receive substantial remittances from workers living abroad.

The availability of efficient, cost-effective commercial services to domestic producers is an important determinant of competitiveness. Where the domestic economy is unable to provide the quantity or quality of producer services demanded by local producers and exporters, there is an increased demand for the import of these services, resulting in additional pressure on an already fragile balance of payments. Few LDCs are in a position to benefit immediately in a significant way from the export of commercial services, given the weaknesses of LDC firms' financial and human resources and their restricted access to international distribution networks and information channels. Nevertheless, information technology is creating new opportunities for long-distance labour-intensive export activities from developing countries, such as data entry in the Caribbean or software-writing in India (see box 7).

Existing statistics do not capture in full the dynamics of the growing trade in services (UNCTAD, 1996a). Data based on balance-of-payments statistics show only cross-border payment flows, and existing data on foreign direct investment do not provide comprehensive information on the turnover of a country's service suppliers established in other countries or of foreign service suppliers established in a country. Nevertheless, balance-of-payments statistics do provide the basic source of statistical information for measuring international trade in services. Analysis based on these statistics have tended to use "commercial

Box 7: The potential for offshore data entry services in LDCs

The rapid expansion of global trade in services is providing LDCs with greater opportunities to diversify exports, attract foreign direct investment and create jobs. Tourism and data-processing appear to be the services which offer the greatest potential for the development of the service sector in LDCs.

Offshore data entry usually involves the relocation of data entry and routine data-processing work from industrialized countries by firms seeking lower labour costs. It entails high-volume activities which do not necessarily require physical contact with customers, such as processing airline ticket data, retail coupon promotions, credit ratings and population statistics. Data entry and processing do not require a highly skilled workforce and workers (many of whom are women) are able to work from almost anywhere, thanks to the automation of office work and the introduction of sophisticated telecommunication systems with bulk data-transfer capacities. These two technological developments have been taking place since the 1970s, but it was not until the end of the 1980s that the relocation of data-processing began to gather pace, following the development of personal computers and electronic links to mainframe systems. As a result, it is now possible to employ people in labour-intensive computer-programming and data-processing services almost anywhere in the world; they simply keep in touch with head office through computer networks and satellites.

This trend towards offshore data-processing is likely to persist in the foreseeable future for two main reasons. First, the potential of online transmission via telecommunication has yet to be fully exploited, and, second, as the infrastructure for electronic transmission is extended worldwide, the competitiveness of offshore sites is likely to improve dramatically. The trend will be further boosted by the low labour costs in some offshore sites.

While LDCs might appear to have a comparative advantage in the area of offshore data-processing, given their low labour costs and the low skill requirements of the job, they have been unable to fully exploit this advantage. The major constraints on the development of the data-processing sector have been identified as an inadequate telecommunications infrastructure and the lack of funds to upgrade it, and inadequate investment in human resources. There is also a need for effective regulation of monopolies so as to promote efficiency in the provision of services, since the cost of telecommunications is a critical factor in the competitiveness of data-processing services.

By liberalizing trade in services (for example, in the transport, communications and financial services sectors), the Governments of LDCs may be able to attract foreign direct investment, increase domestic competition and improve the overall competitiveness of their service sector. At the same time, these Governments need to invest in upgrading the skills of the workforce, strengthen competition policy, introduce legislation to protect intellectual property rights and modernize the physical infrastructure in order to promote the development of services.

services" to represent trade in services; this category encompasses "shipment", "other transportation", "travel" and "other goods and services".

Commercial services currently account for around a quarter of world exports, having risen from just below 20 per cent in the 1970–1990 period. The composition of world trade in commercial services has also changed over the past two decades. The category "other goods and services" ("other services" for short), which includes trade in financial services, communications, insurance, processing and repair, cultural services, leasing, construction and engineering, consulting, and other professional services, has been the fastest-growing component of world trade in commercial services. In 1996, other service exports accounted for just over 40 per cent of global service exports (IMF, 1997).

Service exports have grown dramatically in recent years, but in almost all LDCs, imports of services are still significantly higher than exports.

For LDCs, service exports contribute, on average, just over 20 per cent of total export earnings (see table 15); however, there is considerable variation from country to country, ranging from 90 per cent in Cape Verde to below 3 per cent in Equatorial Guinea. In five LDCs (Cape Verde, the Comoros, Djibouti, Maldives and Samoa), service exports account for more than three-quarters of export earnings, and in a further five LDCs (Haiti, Kiribati, Mozambique, Nepal and Vanuatu) the share is more than 50 per cent (see table 16).

The aggregate figures indicate that many LDCs have a sizeable involvement in service exports. The sectoral distribution of LDC service exports shows that

Table 15: Share of service exports in total exports

Country	Year	Service exports as % of total exports	Transport	Travel	Others
			as % of total service exports		
Angola	1994	4.7	21.4	0.0	78.6
Bangladesh	1996	13.1	13.2	5.5	81.3
Benin	1994	25.7	56.9	22.5	20.6
Burkina Faso	1994	20.7	11.9	32.6	55.5
Burundi	1995	12.9	12.0	8.4	79.5
Cambodia	1996	20.2	30.5	50.2	19.3
Cape Verde	1995	89.9	56.3	12.9	30.8
Central African Republic	1994	18.5	0.0	0.0	100.0
Chad	1994	28.8	2.0	21.3	76.7
Comoros	1995	75.3	12.4	60.6	27.0
Democratic Republic of the Congo	1996	6.1	46.7	6.1	47.2
Djibouti	1995	81.9	10.8	2.9	86.3
Equatorial Guinea	1996	2.7	-	-	-
Ethiopia	1996	48.4	55.5	9.4	35.1
Gambia	1996	46.4	9.5	64.9	25.6
Guinea	1996	16.3	12.2	5.2	82.6
Haiti	1996	56.9	5.5	87.6	6.9
Kiribati	1994	74.1	11.7	7.4	80.9
Lao People's Democratic Republic	1995	22.1	15.5	52.8	31.7
Lesotho	1994	20.8	8.2	46.0	45.8
Madagascar	1996	36.5	27.0	22.2	50.8
Malawi	1994	5.8	58.6	20.7	20.7
Maldives	1996	75.9	6.4	92.0	1.6
Mali	1994	17.3	38.2	26.9	34.9
Mauritania	1995	5.5	6.5	40.1	53.4
Mozambique	1995	58.9	24.8	0.0	75.2
Myanmar	1992	17.5	2.8	80.7	16.5
Nepal	1996	66.1	10.0	21.2	68.8
Niger	1995	10.4	1.2	21.3	77.5
Rwanda	1993	33.6	33.8	18.1	48.1
Samoa	1996	86.6	2.8	61.2	35.9
Sao Tome and Principe	1990	46.5	12.3	45.6	42.1
Sierra Leone	1994	46.4	12.4	69.0	18.6
Solomon Islands	1992	26.2	10.0	30.1	59.9
Sudan	1996	7.6	1.6	16.6	81.8
Togo	1994	18.3	14.2	32.6	53.2
Uganda	1996	18.5	13.7	81.1	5.2
United Republic of Tanzania	1096	44.3	11.5	77.8	10.7
Vanuatu	1995	74.3	13.6	55.6	30.8
Yemen	1995	8.5	17.3	27.8	54.9
Zambia	1991	6.6	59.0	12.1	28.9
Total		21.4	19.3	34.3	46.4

Source: IMF, *Balance-of-Payments Statistics Yearbook*, 1997.
Note: Data not available for Afghanistan, Bhutan, Eritrea, Guinea-Bissau, Liberia, Somalia and Tuvalu.

TABLE 16: DEPENDENCE ON EARNINGS FROM SERVICE EXPORTS

Country	Year	Service exports *as % of total exports*
Over 75 %		
Cape Verde	1995	89.9
Samoa	1996	86.6
Djibouti	1995	81.9
Maldives	1996	75.9
Comoros	1995	75.3
Between 50 and 75 %		
Vanuatu	1995	74.3
Kiribati	1994	74.1
Nepal	1996	66.1
Mozambique	1995	58.9
Haiti	1996	56.9
Between 25 and 50 %		
Ethiopia	1996	48.4
Sao Tome and Principe	1990	46.5
Sierra Leone	1994	46.4
Gambia	1996	46.0
United Republic of Tanzania	1996	44.3
Madagascar	1996	36.5
Rwanda	1993	33.6
Chad	1994	28.8
Solomon Islands	1992	26.2
Benin	1994	25.7
Less than 25 %		
Lao People's Democratic Republic	1995	22.1
Central African Republic	1994	18.5
Lesotho	1994	20.8
Burkina Faso	1994	20.7
Cambodia	1996	20.2
Uganda	1996	18.5
Togo	1994	18.3
Myanmar	1992	17.5
Mali	1994	17.3
Guinea	1996	16.3
Bangladesh	1996	13.1
Burundi	1995	12.9
Niger	1995	10.4
Yemen	1995	8.5
Sudan	1996	7.6
Zambia	1991	6.6
Democratic Republic of the Congo	1996	6.1
Malawi	1994	5.8
Mauritania	1995	5.5
Angola	1994	4.7
Equatorial Guinea	1996	2.7
Total		21.4

Source: IMF, *Balance-of-Payments Statistics Yearbook*, 1994.
Note: Data not available for Afghanistan, Bhutan, Eritrea, Guinea-Bissau, Liberia, Somalia and Tuvalu.

TABLE 17: NET BALANCE ON SERVICES

Country	Year	Balance on services	Balance on goods and services
		(in millions of dollars)	
Angola	1994	-1 413	150
Bangladesh	1996	-548	-2 803
Benin	1994	-7	-72
Burkina Faso	1994	-82	-211
Burundi	1995	-85	-148
Cambodia	1996	-59	-487
Cape Verde	1995	19	-205
Central African Republic	1994	-81	-65
Chad	1994	-145	-221
Comoros	1995	-15	-58
Democratic Republic of the Congo	1996	-612	-549
Djibouti	1995	64	-107
Equatorial Guinea	1996	-180	-296
Ethiopia	1996	8	-809
Gambia	1996	24	-74
Guinea	1996	-298	-187
Guinea-Bissau	1995	-21	-57
Haiti	1996	-174	-590
Kiribati	1994	0	-21
Lao People's Democratic Republic	1995	-21	-221
Lesotho	1994	-26	-693
Madagascar	1996	-80	-200
Malawi	1994	-212	-488
Maldives	1996	210	36
Mali	1994	-257	-359
Mauritania	1995	-189	-5
Mozambique	1995	-108	-644
Myanmar	1992	70	-35
Nepal	1996	515	-591
Niger	1995	-119	-136
Rwanda	1993	-102	-302
Samoa	1996	31	-50
Sao Tome and Principe	1990	-5	-14
Sierra Leone	1994	-7	-80
Solomon Islands	1992	-42	-28
Sudan	1996	-150	-869
Togo	1994	-5	-42
Uganda	1996	-518	-870
United Republic of Tanzania	1996	-345	-794
Vanuatu	1995	46	-5
Yemen	1995	-411	-422
Zambia	1991	-280	140

Source: IMF, *Balance-of-Payments Statistics Yearbook*, 1997.
Note: Data not available for Afghanistan, Bhutan, Eritrea, Liberia, Somalia and Tuvalu.

"other services" are the largest component, exceeding that of transport and travel, but again there is considerable variation from country to country, from 92 per cent for travel (international tourism) in Maldives, to 59 per cent for transport services in Zambia.

While service exports are a significant contributor to the total export earnings of LDCs, it is also the case that imports of commercial services by LDCs typically exceed exports, and only 9 of the 42 LDCs for which data are available have a surplus on their services account (see table 17).

B. Developing the commercial services sector

The increasing importance of the tradeable services sector is likely to continue, fostered by the underlying long-term trend towards the internationalization of services and by the progressive liberalization of trade in services under GATS. LDCs' capacity to benefit from this continued growth in trade in services, either by expanding their service exports or by improving the competitiveness of domestically produced services and thereby reducing imports, will be determined by the domestic economy's supply capacity, which continues to require strengthening by targeted support measures on the part of the international community. Three service subsectors have potential for further development and growth in LDCs: tourism, labour and financial services.

Tourism

International tourism is an important contributor to employment and foreign exchange earnings in a number of LDCs, including the Gambia, Maldives, Nepal, Samoa and Vanuatu. Several LDCs have succeeded in expanding their export earnings from tourist services by pursuing a tourist development strategy, investing in the supporting infrastructure, and training the labour force.

Capitalizing on LDCs' inherent advantages in the export of tourist services requires effective management, adequate institutional capacity and appropriate human resource development.

Notwithstanding the success of some LDCs in expanding their tourist trade, the long-term sustainability of an international tourist business requires careful planning and export-marketing which is responsive to changing market demands. Niche-marketing is an important aspect of tourist development, and a country needs to identify the segment of the market best suited to developing its comparative advantage. Some LDCs have pursued the mass tourist market, packaging beach vacations designed to serve large numbers of tourists. However, the large influx of tourists, particularly at peak seasons, can put a significant strain on local infrastructural services. Moreover, in the past, this type of tourist development has paid little attention to environmental management and has resulted in extensive environmental damage. Not only the physical environment but also the social environment can suffer from mass tourism, which is frequently accompanied by rising crime rates, prostitution and drug-trafficking.

The Gambia's proximity to Europe and similar time zone have enabled it to develop successfully a mass tourist industry. However, failure to market the distinctive or unique aspects of the country has meant that the industry is now facing competition from other "sun-and-sand" destinations, which can compete effectively in terms of price and quality.

Maldives provides a contrasting example of successful tourist development; it also offers sun-and-sand vacations, but they are targeted at the low-volume, high-cost segment of the market. The disadvantages of its distant location and inconvenient air travel schedules have been overcome by marketing the “away-from-it-all” experience of a Maldives island vacation.

Another segment of the tourist market which offers potential to certain LDCs is ecotourism, which encompasses activities that are based on respect for the environment and do not entail environmental degradation. Ecotourism typically involves the operation of small-scale tours to natural areas or wildlife habitats, and since it is less capital-intensive than mass tourism it offers greater opportunities for local small and medium-sized enterprises. Uganda is an example of an LDC which is successfully developing the low-volume high-value-added ecotourism market, based on the rare wildlife, particularly the gorilla, which inhabits protected areas in the country, and rafting or surfing on the Nile river at the Bujagali Falls. Bhutan and Nepal have been successful in developing the high-value-added market for trekking, although Nepal is now experiencing some of the adverse environmental impacts of over-rapid expansion (see box 8).

The success of the niche-marketing of tourism in LDCs depends very much on effective institutional and management capacity and appropriate human resource development. Access to market information is an essential condition for successful tourist development, but can often only be acquired by collaborating with international tourist service companies, which can supply the necessary technology transfer, training and marketing. Tourism-related services are dominated by transnational corporations, which are the essential intermediaries between the suppliers and final consumers of tourist services (UNCTAD, 1998). Appropriate skills are therefore needed at all levels in the management of the tourist sector and in the provision of accommodation, catering, transport and associated services demanded by international visitors. Many of these services will be provided by the private sector, but permanent dialogue between the Government and those directly involved in the tourist business is of critical importance for the effective development of a sustainable tourist industry (UNCTAD, 1998).

Labour services

The supply of international services will often require the movement of persons and capital, to allow for interaction between providers and consumers: tourism requires movement by the consumer to the producer. For many other commercial services, foreign direct investment provides the mode of supply and has been the main force behind the internationalization of service activities in recent years. (There are exceptions: for example, banking services can be transmitted using telecommunications.)

Labour movement may be the mode of delivery for some internationally traded services; examples include business services such as accounting, consultancy and legal services, where the service is embodied in the human capital. When dealing with labour movements as a mode of service delivery in the context of trade in services, attention is restricted to temporary migration and to situations in which the service-providing persons move to take up jobs that have been identified prior to their relocation. Permanent migration or temporary migration for the purpose of job-seeking are therefore excluded.

Labour-related payments are recorded under three categories in balance-of-payments statistics: labour income, worker remittances and migrant transfers. “Labour income” includes wages, salaries and other compensation received by

Box 8: The tourist industry in Nepal

Landlocked in the Himalayan mountain range, the Kingdom of Nepal, which is world-famous for the beauty of its scenery, is a major tourist destination. It has also been an increasingly popular destination in recent years: arrivals increased by more than 50 per cent to 400,000 between 1990 and 1996. Tourism is one of the major sectors of the Nepalese economy and has emerged as its principal source of foreign exchange, contributing $130 million in 1996 – an increase of 80 per cent over 1993. The sector accounts for 20 per cent of Nepal's total export earnings. The number of hotel beds tripled between 1983 and 1995 to 21,807; about half of the hotels are officially graded, or "starred", hotels. There are at present about 250 trekking agencies and 300 travel agencies operating in the sector, which, together, cater for 70 per cent of tourist arrivals in Nepal.

Thanks to the tourist sector, the country has a growing workforce of highly skilled and multilingual employees whose contribution to the economy is both direct and indirect. While the economy benefits directly from the sale of tourist services, wealth is also created indirectly via linkages and knock-on effects, particularly in the area of small-scale manufacturing and cottage industries and various services at the village level.

Despite the increasing contribution of the tourist sector to the Nepalese economy in recent years, the tourist potential of the country has yet to be effectively developed. The development of the sector is constrained by several factors, including the lack of a coherent tourist policy, pollution in Kathmandu, the poor quality of some tourist services, the unregulated entry of tourist operators, constraints on air access and a lack of concerted marketing efforts as result of inadequate funds and poor organization.

Future prospects

To tap the full potential of its tourist sector and enhance the sector's contribution to its economic growth, employment and foreign exchange earnings, Nepal needs to develop policies which make the sector more competitive. Considering the limited ability of the country to absorb the growing number of tourists and the need to arrest environmental degradation, Nepal could focus its strategies for the development of the tourist sector on the upper end of the market, that is, put the emphasis more on quality and less on the number of tourists. By moving towards environmentally sustainable and high-quality tourism, Nepal may also reduce the competition it faces from similar tourist destinations in the Asian region.

To achieve these objectives, Nepal must first develop an effective strategy to promote itself as a tourist destination overseas, for example, by participating more actively in travel and trade fairs. Second, it must improve access to the country by air; access – which is almost entirely by air through its capital, Kathmandu, with only about 10 per cent of recorded tourist arrivals by road – is proving a critical bottleneck to improving the competitiveness of the Nepalese tourist industry. An air transport policy which opened the market to domestic private companies and foreign airlines would not only greatly facilitate flights into Nepal, but also improve the efficiency of domestic flights to tourist destinations. Third, the tourist infrastructure needs to be upgraded to attract high-spending tourists: this will involve improving airport facilities, raising hotel standards to international level, and enhancing the quality of services by educating and training workers in the sector. Fourth, a serious effort must be made to tackle the pollution in Kathmandu, which is of great concern to tourists. Finally, to modernize its tourist industry, Nepal needs to adopt policies to attract foreign direct investment, particularly through strategic liberalization commitments in its schedule on the tourism and travel, transport, communication and financial services sectors under GATS.

individuals working abroad for less than one year. If a worker stays abroad for one year or more, their transfers are recorded as "worker remittances". The third item, "migrant transfers", records the flows of goods and changes in financial assets associated with international migration.

For the purposes of recording commercial services, only the first item, labour income, is used. However, the distinction between labour income and the other labour-related balance-of-payments items is somewhat arbitrary, insofar as the length of stay of a worker in an overseas country will seldom be known in advance. Accordingly, it is not uncommon for labour-related flows to be reclassified in balance-of-payments statistics. Indeed, it can be argued that for the purposes of gauging the contribution which labour services make to the overall balance of payments, all three categories should be added together.

TABLE 18: LABOUR-RELATED INCOME

Country	Year	Total	Labour income	Worker remittances (in millions of dollars)	Migrant transfers
Bangladesh	1996	1 345	..	1 345	..
Benin	1994	73	..	73	..
Burkina Faso	1994	80	..	80	..
Cambodia	1996	12	2	10	..
Cape Verde	1995	98	2	96	..
Chad	1994	1	..	1	..
Comoros	1995	12	..	12	..
Djibouti	1995	12	11	1	..
Ethiopia	1996	16	16	..	..
Guinea	1996	1	..	1	..
Haiti	1989	123	..	123	..
Kiribati	1994	7	4	3	..
Lao People's Democratic Republic	1995	22	..	..	22
Lesotho	1994	320	320	..	..
Madagascar	1996	11	..	6	5
Maldives	1996	3	3	..	..
Mali	1994	94	..	94	..
Mauritania	1995	5	..	5	..
Mozambique	1995	59	59	..	..
Niger	1995	7	1	6	..
Rwanda	1993	4	..	3	1
Samoa	1996	45	2	43	..
Sudan	1996	221	1	220	..
Togo	1994	10	..	10	..
United Republic of Tanzania	1996	19	19	..	..
Vanuatu	1995	13	..	6	7
Yemen	1995	1 081	..	1 081	..

Source: IMF, *Balance-of-Payments Statistics Yearbook*, 1977.

Table 19: Share of labour-related income in total exports

Country	Year	Total labour income (in millions of dollars)	Share in total exports (in millions of dollars)	(%)
Bangladesh	1996	1 345	4 614	29.2
Benin	1994	73	405	18.0
Burkina Faso	1994	80	272	29.4
Cambodia	1996	12	807	1.5
Cape Verde	1995	98	83	118.1
Chad	1994	1	190	0.5
Comoros	1995	12	46	26.1
Djibouti	1995	12	185	6.5
Ethiopia	1996	16	809	2.0
Guinea	1996	1	761	0.1
Haiti	1989	123	192	64.1
Kiribati	1994	7	24	29.2
Lao People's Democratic Republic	1995	22	440	5.0
Lesotho	1994	320	181	176.8
Madagascar	1996	11	802	1.4
Maldives	1996	3	381	0.8
Mali	1994	94	387	24.3
Mauritania	1995	5	504	1.0
Mozambique	1995	59	411	14.4
Niger	1995	7	321	2.2
Rwanda	1993	4	102	3.9
Samoa	1996	45	75	60.0
Sudan	1996	221	671	32.9
Togo	1994	10	402	2.5
United Republic of Tanzania	1996	19	1372	1.4
Vanuatu	1995	13	110	11.8
Yemen	1995	1 081	2 117	51.1

Source: IMF, *Balance-of-Payments Statistics Yearbook*, 1997.

Table 18 shows the composition and aggregate level of labour-related income flows for LDCs. The information is only available for a limited number of LDCs, but shows the importance, in absolute terms, of worker remittances for some LDCs, particularly Bangladesh, Lesotho, the Sudan and Yemen. Table 19 shows the contribution of total labour income receipts recorded in the balance of payments as a proportion of total exports (total exports include compensation from employers, but exclude worker remittances and migrant transfers). For two LDCs (Cape Verde and Lesotho) labour income credits exceed the value of merchandise and service exports; for a further eight countries the proportion exceeds 25 per cent. For a number of African LDCs, interregional movements of persons create a significant flow of labour income and contribution to foreign exchange receipts (Saasa, 1996).

The importance for a number of LDCs of earnings from labour services provides support for the argument made by developing countries during the Uruguay Round negotiations, particularly with regard to GATS, that non-permanent labour movements (encompassing skilled and non-skilled labour, intra-firm transferees and self-employed service providers) should be included in the negotiations to provide symmetry in the treatment of internationally mobile factors of production. This would ensure not only that LDCs were able to develop their export opportunities in the area of labour services, but also that temporary labour could enter LDCs in support of foreign direct investment inflows.

Financial services[1]

The financial sector has a strategic role to play in any economy, especially a least developed one.

The financial sector performs a number of essential functions in economic development: mobilizing savings, allocating credit among competing borrowers, providing a payment mechanism for commercial transactions and spreading risk. The growth of the real economy is dependent upon the efficient supply of these services by the financial sector.

Historically, these essential financial services were supplied by domestic financial institutions. Often, these institutions were inefficient, providing poor services at high cost. The public-sector financial institutions, particularly in countries where they enjoyed monopoly powers, were often highly inefficient. Inefficiencies can result from lack of competition in financial markets, pervasive political interference in publicly-owned institutions, poor management, shortage of skilled staff, a lack of incentives for staff to perform their duties diligently, or failure to invest in the upgrading of technology.

More recently, the increasing globalization of the world economy has been accompanied by a rapid growth in trade in financial services, to support the growth in international trade and investment. While LDCs have generally failed to benefit directly from globalization, in terms of improving their export performance significantly, they could benefit from increased access to efficient financial services and from the competitive stimulus which the liberalization of imports of these international services may give to domestic suppliers. The liberalization of trade in financial services could promote the development of the financial sector in LDCs and assist them in integrating into the world economy. On the other hand, the unplanned, premature or uncoordinated liberalization of trade in financial services would involve a number of risks which would pose major challenges to the economic management of a country.

In analysing the role of financial services, a useful starting point is to consider the contribution the sector makes to the overall GDP of the country. It should, however, be noted that not all countries report data for the financial services sector separately. In some cases, the sector's contribution to GDP is reported as a residual along with other items, while in others it is combined with other sectors such as real estate, so that it is difficult to isolate the contribution made by financial services alone.

There are a number of additional problems in estimating the contribution that the financial services sector makes to the GDP of a country. Since the contribution cannot be identified directly, the value of the transactions has to be inferred from the service charges levied for financial services. The estimation of the contribution of banking services, for example, relies on the intermediate charges, such as the spread between lending and deposit-taking, fees associated with letters of credit, bankers' acceptances and foreign exchange transactions. Similarly, the contribution of securities is estimated from fees on brokerage, underwriting, derivatives and so on. The contribution of insurance services is valued as the difference between gross premiums and disbursements on claims. This procedure for accounting for financial services in GDP, however, must be treated with some degree of caution, as it overstates the contribution of financial services in inefficient markets where costs and service charges are high.

With these important caveats, a number of conclusions can be drawn from the data that are available. First, there are significant variations among different countries, including the industrialized, developing and least developed countries, in the contribution that the sector makes to overall GDP. In 1995, for example, the sector's contribution of 2.5 per cent in Canada compares with 13.3 per cent in Switzerland. Similarly, its contribution of 2.9 per cent in Colombia in 1995 compares with 12 per cent in Singapore. Among the LDCs for which data are available, the contribution ranges from 1 per cent in the Lao People's Democratic Republic and Myanmar to 10 per cent in Nepal (see table 20).

Table 20: Contribution of the financial services sector to GDP in selected LDCs

Country	1980	1985	1990	1995
Bangladesh	2.8	3.3	4.4	14.7[a]
Bhutan	6.4	6.4	7.8	5.3[b]
Kiribati	2.7	7.4	8.0	7.3[c]
Lao People's Democratic Republic	..	2.1	1.1	1.1
Mozambique	..	..	4.7	6.6
Myanmar	2.2	2.3	0.5	1.1
Nepal	8.4	9.0	9.5	10.0
Samoa	..	8.8	9.0	9.6
Solomon Islands	1.9	2.7	3.8	3.3
Tuvalu	..	..	8.7	9.5[c]
United Republic of Tanzania	..	..	6.3	6.3
Vanuatu	..	..	8.8	9.5
Zambia	..	..	2.4	3.2

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries,* 1996; IMF country reports.

a 1994
b 1992
c 1993

Second, most countries have seen an increase over time in the contribution made by the sector, although the rate of increase has varied significantly. In most developing countries there appears to have been a significant rise in the contribution made by the sector. Among the LDCs for which data are available, however, it seems that the increase in the contribution made by the sector in general has been modest, and in some cases there has in fact been a slight decline.

It is in terms of the financial depth of the markets that LDCs differ significantly from other countries. The financial depth of the market is used to indicate the extent to which an economy relies on the formal banking sector in financial intermediation. One simple measure for comparing LDCs with other countries is to examine the ratio of demand and time deposits in deposit money banks to GDP. In 1996, for 9 of the 19 LDCs for which data are available, this ratio was below 20 per cent and for a further five LDCs, it was below 30 per cent (see table 21). These ratios are generally lower than those in the sample of other low-income countries included in the table (e.g. India's ratio was 44 per cent), and significantly lower than those of a sample of middle- to high-income developing countries or territories, such as China, Hong Kong (China), Singapore, Thailand and Malaysia, whose ratios were above 70 per cent. In some industrialized countries, such as Japan and the United Kingdom, the ratios are over 100%.

The low ratios in LDCs can be partly explained by the fact that consumers in these countries are poor and keep their money in cash to meet their everyday needs, and continue to hold most of their assets outside the banking system, in the informal sector. The higher ratios for the middle- to high-income developing countries indicate a much greater reliance in these countries on financial intermediation by the banking system.

Another indicator of financial depth is the ratio of claims on the private sector to GDP. Claims on the private sector include the claims of all financial institutions, which in the case of practically all LDCs are synonymous with claims by deposit money banks on the private sector. It is therefore a good indicator of the role that the banks and other financial institutions play in financial intermediation by lending to the private sector. On the basis of this indicator, the role of the banking sector in most LDCs looks generally weak. The majority of LDCs have ratios below 10 per cent, and their ratios for claims on the private sector are lower than their ratios for demand and time deposits. By contrast, in the middle- to high-income developing countries the ratios of claims on the private sector to GDP are significantly higher, in some cases exceeding the ratios of demand and time deposits to GDP.

The discrepancy between the two indicators can be partly explained by the high share of government borrowing in total credit. In some cases (e.g. Bangladesh or Ethiopia, which have very low ratios of claims on the private sector to GDP), this discrepancy is so large that deposit money banks are likely to be ineffective in financial intermediation.

There is a dearth of reliable data on trade in financial services. For cross-border trade in financial services, the standard source of data is the annual IMF publication, *Balance-of-Payments Statistics*. However, data from this source generally reflect the information on insurance attached to goods that are exported and imported. Data on cross-border trade in other financial services are only reported for a limited number of countries.

TABLE 21: FINANCIAL INTERMEDIATION BY DEPOSIT MONEY BANKS IN SELECTED LDCS AND OTHER COUNTRIES OR TERRITORIES

(as percentage of GDP, 1996)

Country/territory	Demand and time deposits	Claims on the private sector
LDCs		
Angola	32.2	20.6
Bangladesh	17.7	1.7
Benin	26.9	6.5
Burkina Faso	11.0	12.9
Central African Republic	5.0	5.3
Equatorial Guinea	0.1	0
Ethiopia	27.7	2.9
Gambia	20.6	13.9
Guinea-Bissau	9.3	7.9
Haiti	25.9	13.7
Lao People's Democratic Republic	11.8	9.1
Lesotho	33.5	18.0
Madagascar	47.9	34.3
Malawi	13.5	4.2
Maldives	65.0	34.9
Mali	15.1	2.7
Mauritania	13.5	22.9
Mozambique	32.6	17.5
Nepal	27.0	24.2
Other low-income countries		
Côte d'Ivoire	18.5	19.1
India	44.5[a]	29.7[a]
Kenya	39.1	28.2
Pakistan	33.0	26.6
Zimbabwe	22.6	21.5
Other developing countries or territories		
Hong Kong, China	169.3	162.0
Malaysia	78.1[a]	65.2[a]
Republic of Korea	41.8	65.7
Singapore	76.6	96.0
Thailand	72.3[a]	98.0[a]
Industrialized countries		
France	68.7	86.1
Germany	59.6	104.9
Japan	102.4	115.1
United Kingdom	105.1	122.9
United States of America	28.1	111.0

Source: IMF, *International Financial Statistics,* February, 1998.
a Figures refer to 1995.

Information available on cross-border trade in insurance flows for LDCs indicates that as a group these countries annually imported on average $350 million of insurance services over the five-year period 1991–1995 (see table 22). This was about 4.1 per cent of their annual imports of all services and about 1.2 per cent of their total imports of goods and services. There was only a small variation across countries, with insurance imports ranging between 0.1 and 3.7 per cent of total imports of goods and services. In this respect, the situation of LDCs appears little different from that of many other countries whose proportions of insurance imports in relation to total imports are very low – well below 1 per cent in the case of some of the major industrialized countries.

With very limited exports of insurance services, LDCs annual average net balance in the period 1991–1995 for insurance services was negative by an amount of about $315 million, or about 6.6 per cent of their total services balance and about 6.1 per cent of their current account balance. The situation varied across countries depending on their service and current account deficits.

Governments and the informal banking sector are the prime actors in the financial sector of many LDC economies.

Data on the supply of other forms of financial services are not readily available. The growing importance of having a commercial presence in foreign markets, via subsidiaries, branch offices or equity participation, might be inferred from indicators such as the degree of foreign market penetration. Although there is no systematic information on the degree of foreign penetration in the banking and insurance businesses in most developing countries, including LDCs, some very tentative inferences can be drawn on the basis of the presence of foreign firms, especially those concerned with banking, in LDCs. In a large number of LDCs, banking was dominated during the colonial period by a small number of banks with their head offices in the metropolitan countries. The main product offered by these banks was short-term finance and letters of credit to a small number of prime borrowers. When former colonies gained their independence, a number of local banks were established, and most of the foreign-owned banks already present were also locally incorporated.[2] This is still the situation in a number of LDCs (e.g. the Gambia, Sierra Leone and Zambia), where foreign banks have continued to share most of the banking business with local banks. In some countries (e.g. the United Republic of Tanzania), foreign banks were nationalized and merged into a single bank, while in others (e.g. Malawi), foreign banks gradually withdrew, leaving the entire banking business in the hands of local banks. More recently, following liberalization, some foreign banks have returned to, or new banks have established themselves in, a number of countries, although local banks often continue to predominate. In some countries (e.g. Djibouti and the Gambia), banks from neighbouring countries (Ethiopia and Somalia in the case of Djibouti, and Senegal in the case of the Gambia) also play a significant role in the banking business. Some offshore banks such as the Bank for Credit and Commerce International and Meridian also operated in a number of LDCs, but when they collapsed in the early 1990s their operations were either wound up or acquired by local interests.

Thus, the banking situation in LDCs could be reasonably described as one where either local banks or a combination of local and historically long-established foreign banks predominate. Where new banks have entered these countries, they have so far tended to limit themselves to specialized operations, without setting up countrywide networks of branches to conduct retail banking.

TABLE 22: LDCS' TRADE IN INSURANCE SERVICES

Country	Insurance services debit			Insurance services balance		
	Average 1991–1995 (in millions of dollars)	*As % of total service imports*	*As % of total imports*	*Average 1991–1995 (in millions of dollars)*	*As % of service account balance*	*As % of current account*
Angola	-44.47	2.5	1.3	-33.00	2.0	4.8
Bangladesh	-46.04	4.6	0.9	-45.66	10.2	1 164.8
Benin	-8.60	7.5	1.3	-8.60	63.3	40.2
Burkina Faso	-9.10	4.5	1.4	-9.10	6.5	18.2
Burundi	-3.76	3.2	1.3	-3.60	3.6	12.3
Cambodia	-5.17	4.0	0.6	-5.17	7.2	9.0
Cape Verde	-0.21	0.6	0.1	0.23	1.0	1.3
Central African Republic	-11.10	8.3	3.7	-7.93	8.9	1.7
Chad	-9.90	4.6	2.2	-9.25	5.2	1.2
Comoros	-1.34	3.0	1.4	-1.34	6.8	15.0
Djibouti	-8.43	8.4	2.8	-8.43	-16.1	17.7
Equatorial Guinea	-1.05	2.4	1.0	-1.02	2.8	4.6
Ethiopia	-17.88	5.5	1.5	-14.46	42.7	-239.4
Gambia	-3.14	4.5	1.2	-3.06	-43.6	34.0
Guinea	-14.80	4.2	1.5	-14.38	7.3	6.8
Guinea-Bissau	-1.05	6.0	1.3	-1.05	6.0	1.7
Haiti	-1.44	1.6	0.4	-1.14	2.8	4.5
Kiribati	-0.42	2.3	0.9	-0.42	11.5	2.2
Lao People's Democratic Republic	-2.22	2.5	0.5	-1.86	11.7	2.5
Lesotho	-3.40	4.5	0.4	-3.40	9.4	5.3
Madagascar	-3.80	1.2	0.5	0.60	-0.6	0.2
Malawi	-24.83	8.4	3.3	-24.73	9.2	8.8
Maldives	-1.40	2.9	0.7	-0.87	-0.8	3.4
Mali	-19.45	5.2	2.4	-18.78	6.2	9.3
Mauritania	-3.85	2.2	0.7	-3.85	2.6	4.0
Mozambique	-8.95	3.7	0.9	-8.95	10.4	2.5
Myanmar	-3.75	7.8	0.7	-3.75	-10.4	2.0
Nepal	-7.26	2.9	0.6	-7.26	-4.3	2.6
Niger	-6.55	3.6	1.2	-5.00	3.5	3.6
Rwanda	-0.70	0.6	0.2	-0.50	0.7	0.9
Samoa	-1.68	4.7	1.4	-1.41	31.4	7.0
Sierra Leone	-3.25	4.4	1.3	-3.18	56.7	9.3
Solomon Islands	-1.80	2.2	1.0	-1.80	3.7	10.4
Sudan	-5.88	3.2	0.5	-4.74	5.8	0.9
Togo	-16.08	9.1	2.5	-14.58	18.3	11.4
Uganda	-14.32	4.2	1.6	-14.32	5.2	9.8
United Republic of Tanzania	-19.40	3.8	1.1	-19.08	10.3	2.7
Vanuatu	-1.47	4.9	1.4	-1.47	3.3	10.8
Zambia	-12.00	3.3	1.1	-9.00	3.2	2.9
Total	-349.92	4.1	1.2	-315.31	6.6	6.1

Source: IMF, *Balance of Payments Statistics Yearbook*, 1996.
Note: Data not available for Afghanistan, Bhutan, the Democratic Republic of the Congo, Eritrea, Liberia, Sao Tome and Principe, Somalia, Tuvalu and Yemen.

C. The General Agreement on Trade in Services[3]

GATS provides a general obligation of most-favoured-nation treatment, as well as a multilateral framework for the bilateral exchange of concessions with respect to market access and national treatment.

The GATS Framework Agreement, which forms part of the WTO "new issues" agreements framework, covers all services except for those supplied in the exercise of government authority. It includes, therefore, not just cross-border transactions, but also the provision of services through a commercial presence and the presence of persons. The most important general obligations in the Agreement are most-favoured-nation treatment, i.e. non-discrimination between trading partners, and transparency with respect to all measures affecting trade in services. There is no general obligation to offer national treatment and market access to foreign suppliers; these obligations are confined to the sectors and subsectors specifically included in the individual schedule of commitments of each member, subject to any limitations with respect to each mode of supply (Mattoo, 1997). The schedules of commitments are the result of bilateral negotiations on market access and national treatment, based on a process of offer and request, which facilitates the achievement of a balanced package of trade liberalization. Even where commitments have not gone beyond guaranteeing the status quo, they are valuable because they are binding and cannot be modified or withdrawn without compensating trading partners. This provides exporters of services, as well as foreign investors, with a greater degree of security and predictability than hitherto.

GATS allows for two types of negotiable commitments: national treatment, which concerns the equality of treatment between foreign and domestic services and service suppliers, and market access, which relates to the quantitative restrictions that are applied. WTO members make market access and national treatment commitments, subject to limitations, which are indicated according to four modes of supply and according to each sector and subsector.[4] Market access limitations must be expressed in terms of six kinds of measures:

(1) Number of service suppliers;
(2) Total value of service transactions or assets;
(3) Total number of service operations or total quantity of service output;
(4) Total number of natural persons who may be employed in the service sector or by a service supplier;
(5) Types of legal entity or joint venture permitted; and
(6) Participation of foreign capital.

Multilateral agreements on financial services and telecommunications are likely to have longer-term implications for the development of the service sectors in LDCs.

National treatment limitations must also be clearly indicated, but these are not subject to any exhaustive listing or system of classification. These restrictions include, among other things, tax, subsidies and other financial measures, nationality and residence requirements, registration and authorization requirements, and performance, technology transfer, local content and training requirements.

So far, two major service sectors have been covered by a multilateral agreement.[5] In February 1997, agreement was reached on basic telecommunication services by 69 WTO members, including 40 developing countries, and at the end of 1997, agreement was reached on trade in financial services by 70 WTO members. GATS recognizes that the process of liberalization should take place with due respect for national policy objectives and the level of development of individual members, both overall and in individual sectors. Thus, developing countries have the flexibility to sequence their market liberalization in line with their particular development situation. In addition, GATS calls on members to help developing countries, through specific negotiated commitments, to strengthen their domestic services sector and improve their access and distribution channels and information networks. Priority is to be given to the liberalization of sectors and modes of supply of export interest to LDCs.

So far, participation in the GATS framework for the liberalization of trade in services has been limited. The average number of commitments made by the developing countries amounted to no more than 16.2 per cent of the total possible number of commitments, as compared to 47.3 per cent for the developed countries (Hoekman, 1996): these figures dropped to 6–9 per cent and 24.8 per cent, respectively, in the case of commitments where no restrictions were maintained on either market access or national treatment. Participation by developing countries in the Agreement on Basic Telecommunications Services was also limited; for example, only five sub-Saharan countries, which because of poor telecommunications infrastructure would stand to gain significantly from the Agreement, have signed it. Of the 29 LDC members of WTO, only four have scheduled commitments in more than half of the 12 service sectors covered in GATS,[6] and only the Gambia, Lesotho and Sierra Leone have made comprehensive commitments in most sectors. Nine LDCs have made scheduled commitments in just one sector, namely tourism and travel-related services.

Globalization means that the productivity of domestic business is increasingly dependent upon the availability, at reasonable cost, of traded services, either through direct imports or from efficient domestic supply sources. To ensure the domestic supply of these services, it is becoming increasingly necessary to attract foreign direct investment, technology and expertise in sectors such as telecommunications, health, education, financial services and transport. So far, as a group, LDCs have not used the full potential of GATS to facilitate greater foreign direct investment in these critical infrastructural service industries.

LDCs' participation in GATS should be premised on strategic policies for the development of the domestic services sector and the economy as a whole.

D. Liberalization and reform of the service sector

The internationalization of services has led to a steady growth in trade in commercial services, which now account for as much as a quarter of total world trade. This growth in trade in services has affected all countries, developed and developing alike; in LDCs, the average share of service exports in total exports is about 20 per cent. The production of services is becoming increasingly important for the development prospects of LDCs, both in the new export opportunities that it presents and as a productive input influencing domestic competitiveness and performance in trade in goods.

Despite the growing importance of trade in services, LDCs' lack of commitment and involvement in GATS would suggest that they have given little serious consideration so far to formulating a strategic policy on the development of the service sector that recognizes the significant role of infrastructural services and service exports in economic growth.

LDCs could gain significantly from a more active involvement in trade in services for a number of reasons. First, the liberalization of trade and investment in services can bring significant efficiency gains, particularly in crucial infrastructure services, such as telecommunications, transport and environmental services. Second, the high skill level needed in many service sectors, combined with a high local labour content, suggests that the transfer and diffusion of knowledge and know-how can be another important gain from inward investment in services. Third, services fulfil crucial linkage functions in an economy: the most obvious examples are transportation and telecommunications, but business services such as finance, insurance and accounting also allow other industries (producing either goods or services) to operate more efficiently (World Bank, 1997). To ensure that these gains are realized from the liberalization of imports of these services, it is desirable to lay down conditions giving priority to the infrastructure and other critical services, transfer and diffusion of knowledge and know-how, and important linkages with domestic industry.

To make the most of the liberalization of imports of services, LDCs need to prioritize infrastructure, the transfer of technology and know-how, and linkages with domestic industry.

The network of linkages between commercial services and the production of goods has implications for the development of policy aimed at the service sector. Policy needs to cover both external and internal trade measures. A strategy to liberalize the service sector will involve a set of measures, including tariff and other trade-related reforms, an investment code, regulatory policy, competition policy, and labour and financial market deregulation. A set of liberalization and regulatory reforms will be needed to remove the various bottlenecks and constraints which limit the development of the service sector.

The gains from liberalization will inevitably take time to materialize and there will be adjustment costs to be borne. The costs will be felt before the benefits of liberalization and are likely to be concentrated in a number of groups and sectors, in contrast to the benefits, which will be diffused widely throughout the economy. It is important, therefore, that in designing a liberalization strategy, consideration should be given to protecting the most vulnerable groups likely to be adversely affected by the reforms.

Generally speaking, LDCs need to import services because the service sectors that are necessary for the development of the production and export of goods and services are not well developed in most of them. Where these service sectors are already functioning in LDCs they need to be strengthened, since total dependence on the import of services that are critical for the production and export of goods and services is naturally not in the long-term development interests of LDCs. Some indigenous capacity needs to be developed in these critical sectors, through a prudent policy mix designed not only to encourage their growth but also to ensure a smooth interface with imported services during the transitional phase. Hence the liberalization of imports of these services, either through the process of commitments in GATS or through an autonomous national process, should be guided by the overall short-term and long-term development objectives of each LDC.

Liberalization of tourist services[7]

LDCs can use GATS and the multilateral trade framework to support the implementation of policy measures to help them face up to a more competitive market environment. By participating in the forthcoming review of the GATS Annex on Air Transport Services, LDCs can press for the liberalization of air transport regulation, as a way of lowering the price of air travel and improving the efficiency of airlines. They can also seek commitments to the training of personnel and the provision of access to distribution channels, which are essential to tourist exports, as provided for in articles IV and XIX of GATS.

The liberalization of investment codes and the provision of commitments under GATS may encourage foreign direct investment in the tourist sector, particularly in hotel infrastructure. As discussed in part one, chapter 2, a range of options are available for foreign direct investment projects, including full ownership by foreign investors, joint ventures, franchising, management contracts, hotel consortia and full national ownership. Important benefits of foreign involvement in the hotel sector are the transfer of marketing and managerial skills, staff training and help in meeting international quality standards.

Liberalization of labour services

The movement of labour as a mode of service delivery is a politically sensitive issue for many Governments, because of the difficulty of distinguishing between temporary and permanent migration prior to the relocation of labour. As a result, Governments typically restrict labour movements and give only very limited commitments under GATS. Limitations on market access for foreign service providers include two main classes of instrument: on the one hand, visas, residence permits and work permits, which regulate entry and temporary stay; and, on the other, licensing certificate regulations or similar limitations on the "right to practise", intended for licensed professionals. Both developed and developing countries apply these restrictions.

A more active stance in any future negotiations under GATS may help LDCs to cope with increasingly competitive international markets.

LDCs are rightly concerned that these restrictions limit their export opportunities in the area of labour services. They should also evaluate, however, the extent to which their own domestic regulations on the entry of temporary labour may hinder other economic transactions and productive activity. For example, foreign direct investment in a country's service industries may be constrained by restrictive policies on the entry of foreign personnel. There are thus significant indirect economic and social impacts, both negative and positive, to be considered, and the evaluation of domestic labour regulations should involve a comprehensive cost–benefit impact assessment.

Liberalization of financial services[8]

As far as the liberalization of financial services is concerned, the results achieved by GATS in the context of the general Uruguay Round agreements were judged by some countries to be limited, and negotiations were continued to extend its coverage. In December 1997, the Agreement on Financial Services, based on most-favoured-nation treatment, was concluded, and is due to enter into force on 1 March 1999. Of the total of 132 WTO members, 102 have already made commitments under the Agreement, including all the developed countries and the majority of economies in transition and developing countries.[9]

Two features stand out when comparing the financial services commitments of LDCs with those of other developing countries. On the one hand, only 9 of the 48 LDCs have made financial services commitments, compared to 69 of the 77 other developing-country members. In terms of the core services, in direct insurance only four LDCs (the Gambia, Lesotho, Sierra Leone and Solomon Islands), and in banking only nine LDCs (Angola, Benin, the Gambia, Haiti, Lesotho, Malawi, Mozambique, Sierra Leone and Solomon Islands), have made commitments, compared to 51 and 55 other developing countries, respectively (see table 23).

Table 23: Commitments by LDCs and other developing countries under the GATS Agreement on Financial Services

	Full commitments under all three modes	Mode 1 Cross-border		Mode 2 Consumption abroad		Mode 3 Commercial presence			
		Full	*Limited*	*Full*	*Limited*	*Full*	*Limit on suppliers*	*Limit on equity participation*	*Limits on both suppliers and equity participation*
Direct insurance									
LDCs	2 (Gambia, Solomon Islands)	2 (Gambia, Solomon Islands)	0	3 (Gambia, Lesotho, Solomon Islands)	0	4 (Gambia, Lesotho, Sierra Leone, Solomon Islands)	0	0	0
Other developing countries	2	3	21	6	15	15	18	6	12
Total	4	5	21	9	15	19	18	6	12
Core banking									
LDCs	5 (Haiti, Malawi, Mozambique, Sierra Leone, Solomon Islands)	6 (Gambia, Haiti, Malawi, Mozambique, Sierra Leone, Solomon Islands)	2 (Angola, Benin)	6 (Gambia, Haiti, Malawi, Mozambique, Sierra Leone, Solomon Islands)	1 (Benin)	6 (Haiti, Lesotho, Malawi, Mozambique, Sierra Leone, Solomon Islands)	2 (Angola, Benin)	0	1 (Gambia)
Other developing countries	5	13	8	17	7	20	18	3	13
Total	10	19	10	23	8	26	20	3	14

Source: Mattoo (forthcoming).

On the other hand, the participating LDCs have generally made more far-reaching commitments than other developing countries in the core insurance and banking services. In direct insurance, of the four LDCs, the Gambia and Solomon Islands made full commitments in all of the first three modes, Lesotho in modes 2 and 3,[10] and Sierra Leone in mode 3. By contrast, only two other developing countries, Bahrain and Guyana, have made full commitments in three modes.

In the core banking sector, of the nine participating LDCs, five (Haiti, Malawi, Mozambique, Sierra Leone and Solomon Islands) have made full commitments under all three modes. In addition, the Gambia has made full commitments under modes 1 and 2, and Lesotho under mode 3. Two other LDCs, Angola and Benin, have made limited commitments under modes 1 and 3. By contrast, of the 54 other participating developing countries, only five made full commitments under all of the first three modes.

The limited participation of LDCs may be explained by the single-sector basis of the negotiations. With virtually no export potential for their financial services and with little pressure to open up their markets, the vast majority of LDCs probably saw little point in participating. It is therefore all the more important to include a balanced set of subjects in the negotiation process: if a large number of countries expect to benefit in one area or another, they are more motivated to participate in the negotiations. The far-reaching commitments made by the LDCs who did participate resulted from the fact that most of them either already had these sectors open or had other motivations (e.g. to promote offshore insurance and banking businesses). By contrast, the majority of developing countries made commitments that upheld the status quo, while signalling a positive intent and commitment to the trading system.

Thus, it appears that the most recent agreement on trade in financial services has not affected most LDCs. Nevertheless, a question the vast majority of LDCs will need to address at some time is what strategy they should adopt towards participating in the agreement in the future. There is likely to be further momentum towards liberalization, arising from new issues such as trade and investment, competition policy, and trade and environment. It is expected that during this further process of liberalization, countries will be required to make further progress on the liberalization of financial services and this may call for a much wider level of participation, including that of LDCs. LDCs therefore need to be adequately prepared to respond to future developments.

Weak regulatory infrastructures and poor macroeconomic fundamentals have the potential to undermine any immediate gains that LDCs might reap from liberalization of their financial markets. At the same time, more open financial markets may also actively reinforce the process of economic reform in these countries.

From the perspective of LDCs, with their small financial services sectors and virtually no export potential for their financial services, any consideration of the benefits and costs of the liberalization of trade in financial services will be based largely on domestic factors. In considering the economic arguments for liberalization, it is useful to distinguish between the benefits arising from mode 3 (commercial presence) and the other modes (cross-border supply and consumption abroad). A further distinction can be made between the benefits of commercial presence which arise from increased foreign investment and those which result from increased competition. Benefits from the other two modes arise largely from more open access to international markets.

Increased foreign investment in the financial services sector would serve to relax the capital constraints facing some in the sector. Many banks in LDCs, especially those established locally, are under-capitalized and have large portfolios of non-performing loans. Foreign direct investment can help these troubled financial institutions to re-capitalize. Foreign equity participation would also serve as a vehicle for transferring technology and know-how, including new methods of electronic banking, credit assessment techniques, the use of new financial instruments, and best practices in management, accounting and data-processing. Connections with parent firms can also improve access to specialized services. All this would help to deepen the financial markets in the country.

Increased foreign competition can bring additional benefits. Apart from serving to deepen financial markets, increased competition can enhance the efficiency of the financial services sector and lead to lower costs. It can force domestic firms to reduce waste, improve management, reduce rent-seeking activities and become more efficient. Competition also forces institutions to pass on cost-savings to consumers, bringing down the spreads between lending and deposit rates, and between commissions and insurance premiums. Increased competition also means paying greater attention to the needs of customers, leading to an improvement in the quality of services provided by financial institutions. For example, depositors could benefit from better advice on investment strategies as financial institutions compete for their savings. There would also be a broadening of the range of services these institutions provide as they compete for business.

The opening-up of the financial services sector to foreign suppliers is not, however, without potential costs. First, there may be the costs of increased competition if they adversely affect domestic banks and other financial institutions; and, second, there are costs in terms of the financial and macroeconomic instability of the country if liberalization is pursued in a context of weak regulation and supervision and poor macroeconomic fundamentals.

The liberalization of the financial services sector in LDCs could lead to financial instability if it is pursued in a context of weak regulation and supervision and poor macroeconomic fundamentals.

Because of their inherent advantages in terms of technology and management and their access to specialized services through their parent companies, foreign firms would generally be expected to be more efficient than domestic firms in LDCs and to be in a strong position to penetrate the domestic market. Without adequate warning and the necessary support to adjust to new competition, domestic suppliers could find it increasingly difficult to compete with foreign suppliers. This can cause serious problems in LDCs, whose markets for financial services are often too small to support more than a handful of firms. Initially, the entry of foreign firms could lead to overcrowding. A number of domestic firms might then no longer be viable in the market place, and could be forced to make a disorderly exit, with repercussions for the entire financial system of the LDC. Once things settle down, a few foreign firms could end up controlling the bulk of the market, with the subsequent possibility of abuse of their market power. They may engage in a variety of restrictive practices, which, rather than enhancing competition, may actually reduce it.

There is also a real danger of “cherry-picking”, whereby foreign suppliers move into the profitable market segments only, leaving unprofitable services, such as rural banking, under-provisioned. The provision of rural banking services is not simply a social but also an economic issue, as there are positive externalities associated with the provision of such services, especially in LDCs where much of the economic activity is rural-based. Under-provisioning can therefore have detrimental effects on an economy as a whole. If domestic suppliers were required by their Government to provide such unprofitable services, this would further weaken their financial base.

The financial stability of a country may also be affected if the opening-up of the market is pursued in the context of weak regulation. In many developing countries, including LDCs, the principles of prudential regulation were generally disregarded in times of financial repression, when interest rates were controlled and portfolio guidelines were rigidly set. Although banking systems in developing countries, including LDCs, have recently been liberalized, the incentive framework has been distorted towards excessive risk-taking. Higher lending by banks has often been permitted in the belief that, in a deregulated environment, higher bank profits will allow banks to make provision for bad loans. However, the negative or low worth of banks has given them an incentive to undertake risky loans and investments, while liberalized access to funds has given them an incentive to over-borrow, further contributing to their fragility (see UNCTAD, 1996b, part three).

In conditions of weak regulation, which are characteristic of many LDCs, not only may unscrupulous foreign investors enter the market, but the entry of legitimate foreign competitors may exacerbate the tendency towards high-risk lending by domestic banks, as their net worth is further eroded. Moreover, if one financial institution runs into serious problems, this has repercussions on other financial institutions, including the more healthy ones (for example, there may be a run to withdraw deposits), and the resulting financial instability has wider ramifications for the economy as a whole.

The GATS provisions place certain obligations on WTO members with regard to the movement of capital; these obligations could conflict with wider policy objectives relating to the regulation of short-term capital flows. If a member undertakes a commitment in relation to the cross-border supply of a service, that member is committed to allowing the related movement of capital. In addition, if a member undertakes a commitment in relation to the supply of a service through a commercial presence, that member is committed to allow related flows of capital into its territory, but not necessarily capital outflows; this raises the question of whether free entry can exist without free exit.

The liberalization of trade in financial services could therefore affect financial stability through its effects on capital inflows. To the extent that trade liberalization stimulates capital inflows either directly or indirectly because of the initial confidence it generates, the reversal of such capital flows when there is a loss of confidence can worsen the situation of financial institutions and magnify the adverse effects of poor macroeconomic and regulatory policies on financial stability.

The presence of foreign firms may also complicate monetary management. Foreign banks are likely to react much more rapidly than domestic firms to changing conditions in the country and therefore shift funds in and out of the country much more quickly. In addition, if foreign firms, by bringing in new and more sophisticated financial instruments, induce people to switch between different financial assets, this would make monetary aggregates difficult to interpret and monitor if supervisory skills are not upgraded.

An analysis of the costs and benefits associated with the liberalization of trade in financial services reveals the importance of the proper management of the process by LDCs if they are to maximize benefits and minimize costs. The liberalization of the financial sector needs to be coordinated with other policies if the sector is to develop a sustainable and steady trajectory in line with the growth of other sectors in the economy. As in the service sector, this requires a prudent policy mix to encourage the development of local financial-sector capacity while ensuring a smooth interface with the import of financial services.

The liberalization of the financial sector should be pursued along two routes: through commitments in WTO and through autonomous national liberalization. The liberalization of the financial services sector within the context of WTO will generate greater confidence with regard to policy stability and slippage, since a binding commitment in WTO renders any restrictive changes impossible without commensurate compensatory measures for potential losers. The main advantage of autonomous national liberalization is that LDCs retain the discretion to fashion their national policies in the light of their own experiences and emerging needs, and so can control the orderly development of the financial sector.

E. Realizing the benefits of trade in services

This chapter has shown that the internationalization of services can generate important benefits for many LDCs and that there is a need to develop domestic capacity in certain critical service sectors. Nevertheless, if the benefits of internationalization are to be fully realized, a number of broad policy issues need to be addressed. The key to maximizing the benefits that LDCs can gain from trade in services lies in managing the process of policy reform so that all firms face greater competition. The process of market liberalization needs to be introduced in a sequenced and orderly manner, making due allowance for the economic and social costs that will be incurred. Competition-enhancing policies will embrace both external trade and investment policy and domestic regulation policy, and will define the broad environment within which foreign and domestic service providers are entitled to compete and contest domestic markets.

In formulating a liberalization strategy for the service sector, LDCs need to consider two broad questions (UNCTAD/World Bank, 1994). First, what price is the economy paying for inefficient service sectors in terms of missed development opportunities? Second, to what extent might these inefficiencies be reduced by increased liberalization of transactions in services? These questions can be asked both for the service sector as a whole and for individual service activities. In the case of the latter, policy reform may focus on a service sector where the country has a comparative advantage, such as tourism, and where the removal of restrictions on foreign investment may enhance the export capacity of the sector. In other cases, the focus may be on sectors where the country does not have a comparative advantage, such as financial services, but where improved efficiency as a result of liberalization should decrease the costs of inefficiencies that are passed on to the rest of the economy.

Policy makers in LDCs must balance the benefits likely to flow from greater competition against the social and economic costs of liberalization, while making provisions to set up an adequate regulatory infrastructure.

LDCs also need to review their position regarding GATS, and to reconsider whether they are taking full advantage of the opportunities it offers for creating a more secure and transparent environment for suppliers of services (UNCTAD, 1996a). The promotion of development is, after all, an inherent objective of GATS; for example, article IV recognizes the asymmetry in the level of development of services in developed and developing countries and commits the developed countries to taking measures aimed at strengthening the domestic service sectors of developing countries and providing effective market access for their exports. Article XIX of GATS provides developing countries with the appropriate flexibility to progressively extend market access to foreign service suppliers in line with the country's individual development situation, and to attach conditions to such access with the aim of achieving the objectives referred to in article IV. Negotiations on the further liberalization of trade in services are continuing in WTO with a view to completing the framework of GATS rules by the end of the decade. It would appear to be in the interests of LDCs to engage more fully in the negotiations than they have done hitherto.

The challenge for policy makers pursuing a liberalization strategy is to find a proper balance between greater competition and adequate regulation. Regulation is needed in situations where there is a monopoly or near-monopoly of supply, or where information is inadequate. An effective regulatory and supervisory framework is a prerequisite for the liberalization of the financial sector. Banking supervisory authorities have a central and distinctive role to play through the licensing of banks, enforcement of proper capital adequacy standards and enforcement of disclosure of accurate information on banks' assets and liabilities. They must have the power and financial resources to either re-capitalize bankrupt banks, force liquidation or negotiate acquisition by other parties, and to ensure that small investors are protected (for example, by means of a deposit insurance scheme).

The supervision of foreign banks poses particular challenges to LDCs. Normally the home-country rule is applied, where the country of registration oversees supervision of all operations worldwide. Global supervision therefore requires the application of prudential norms to both the domestic and foreign operations of financial institutions. However, it does not absolve the host country from its supervisory responsibilities. The collapse of the Bank for Credit and Commerce International in 1991 revealed the ease with which a fraudulent bank can exploit weakly regulated offshore centres.

The international community can play a valuable role in the provision of technical assistance and training to LDCs to assist them in putting in place an appropriate regulatory and supervisory framework as well as to build up their domestic regulatory capacity. Generally, LDCs are often too poorly equipped in terms of institutions and human and financial resources to derive the maximum benefit from a strengthening and expansion of their involvement in trade in international services, and they find themselves at a considerable disadvantage in preparing for trade negotiations and in formulating domestic policy reforms. There is a need for international support to strengthen the institutional infrastructure in LDCs and equip them with the skills needed to identify the main issues and policies concerning their integration into the international trading system on terms that will increase the economic benefits to them and leave them better equipped to compete internationally, while at the same time recognizing their particular development priorities and concerns as LDCs.

Notes

1. This section draws on UNCTAD, 1996b, part three, "Financial-sector reforms in LDCs".
2. Standard Chartered and Barclays are prime examples of foreign-owned banks that were locally incorporated in many countries of English-speaking sub-Saharan Africa.
3. This section draws on UNCTAD, 1996a.
4. There are four modes of supply identified in GATS: (1) cross-border supply, (2) consumption abroad, (3) commercial presence, and (4) movement of natural persons.
5. The sector-by-sector approach adopted by GATS has been criticized for not addressing the export interests of the economy as a whole (see Krueger, 1998).
6. The service sectors covered in GATS are: business (including professional and computer); communication; construction and engineering; distribution; education; environmental; financial (insurance and banking); health; tourism and travel; recreational, cultural and sporting; and transport.
7. This section draws on UNCTAD, 1998.
8. This section discusses the liberalization of financial services in the context of the GATS Agreement on Financial Services and the commitments to be undertaken in pursuance of this Agreement; it does not cover the option of liberalization carried out independently of these commitments.
9. Pakistan, Peru, the Philippines and Venezuela have maintained most-favoured-nation exemptions in their schedules, which state that access may be granted on a reciprocal basis. Mauritius maintained a reciprocity-based exemption, which applies only to services not included in its schedule of specific commitments. The United States–Malaysia schedule also included important exceptions.
10. Full commitment in mode 3 is taken to include those countries which have limitations on the legal form of the entity, whether it is a branch or a subsidiary. This does not make much material difference, as the crucial questions concern the number of suppliers and the level of foreign participation that are permitted.

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Trade and Environment and the LDCs

Chapter 4

Many LDCs face significant environmental problems, such as inadequate sanitation facilities, water pollution, land degradation, 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. Environmental problems, especially those related to the most important economic sector for LDCs – agriculture – have already been discussed in *The Least Developed Countries 1997 Report* (part two, chapter 4). The objective of this chapter is to analyse the trade and environment interface in LDCs and its policy implications, particularly in the context of the multilateral trading system.

LDCs' environmental problems are often the by-products of underdevelopment and market and policy failures.

A. Trade, environment and the multilateral trading system

A rule-based multilateral trading system which takes account of environmental concerns safeguards the interests of LDCs better than a system which exposes them to the risk of unilateral trade measures. Thus LDCs have a key interest in ensuring that any proposals concerning the provisions of the multilateral trading system take account of their trade and sustainable development needs. While some rights and obligations have already been incorporated in the Uruguay Round agreements, the Marrakesh Ministerial Declaration also set up the Committee on Trade and Environment. The mandate of the Committee is: (1) to identify the relationship between trade measures and environmental measures to promote sustainable development; and (2) to make recommendations on whether any modifications need to be made to the provisions of the multilateral trading system to meet environmental objectives (see box 9).

Any costs that LDCs may incur in accommodating multilateral environmental standards will be less than those to which they will be exposed if unilateral measures are used to accomplish the same ends.

Existing obligations of LDCs under environmental provisions in the Uruguay Round agreements

The two principal agreements which have significant implications for market access arising out of environmental concerns are the Agreement on Technical Barriers to Trade (the TBT Agreement) and the Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS Agreement). The TBT Agreement requires that technical regulations shall not be more restrictive than is necessary to fulfil a legitimate objective, taking into account the risks that non-fulfilment would create. In assessing such risks, relevant elements to be taken into consideration are, *inter alia*, the available scientific evidence and technical information, related processing technology and the intended end-use of products (article 2.2 of the Agreement).

The TBT Agreement applies special and differential treatment to LDCs by allowing them more time to comply with their obligations under the Agreement with respect to the notification of their domestic regulations. It does not give

Box 9: Agenda of the Committee on Trade and Environment

Item 1	The relationship between the provisions of the multilateral trading system and trade measures for environmental purposes, including those pursuant to multilateral environmental agreements
Item 2	The relationship between environmental policies relevant to trade and environmental measures with significant trade effects and the provisions of the multilateral trading system
Item 3 (a)	The relationship between the provisions of the multilateral trading system and charges and taxes for environmental purposes
Item 3 (b)	The relationship between the provisions of the multilateral trading system and requirements for environmental purposes relating to products, including standards and technical regulations, packaging, labelling and recycling
Item 4	The provisions of the multilateral trading system with respect to the transparency of trade measures used for environmental purposes and environmental measures and requirements which have significant trade effects
Item 5	The relationship between the dispute settlement mechanisms in the multilateral trading system and those found in multilateral environmental agreements
Item 6	The effect of environmental measures on market access, especially in relation to developing countries, in particular to the least developed among them, and environmental benefits of removing trade restrictions and distortions
Item 7	The issue of exports of domestically prohibited goods
Item 8	The relevant provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights
Item 9	The work programme envisaged in the Decision on Trade in Services and the Environment
Item 10	Input to the relevant bodies in respect of appropriate arrangements for relations with intergovernmental and non-governmental organizations referred to in article V of the WTO Agreement

them a differential schedule for meeting standards in OECD countries. While there are provisions for harmonizing measures or accepting the rules of other countries as equivalent, establishing equivalence may be a slow process. LDCs may also request technical assistance to help them comply with the standards and regulations of importing countries.

While the TBT Agreement provides some safeguards to ensure that technical regulations, standards and conformity assessment procedures do not create unnecessary obstacles to trade, there are a number of environment-related requirements on which the provisions of the Agreement are less clear, as the next section shows. LDCs may need to assess whether the process of seeking clarity on these requirements, especially with respect to whether the Agreement includes or excludes non-product-related process and production methods, will affect their trade interests. Deliberations on this issue in the Committee on Trade and Environment have highlighted both the pros and cons of clarifying this relationship.

The SPS Agreement covers, among other things, any measure to protect human or animal life or health within the territory of the importing country from risks arising from additives, contaminants, toxins or disease-causing organisms in foods, beverages and feedstuffs, as well as to prevent the establishment or spread of pests. Article 9 of the Agreement provides for technical assistance for developing countries, especially LDCs, and article 6 allows exporters to adapt to regional pest- and disease-free conditions. While article 10.2 recognizes that it may take developing countries longer to comply with new regulations, it remains to be seen how this concern will be translated into the national legislation of importing countries. Time-limited exceptions provided under article 10.3 may be of some help to LDCs, but invoking this article will not be in their export interest, as consumers may be averse to consuming products which have not met pest- and disease-free conditions.

The Agreement on Subsidies and Countervailing Measures (the SCM Agreement) divides subsidies into two categories, namely, prohibited subsidies and other subsidies. Other subsidies are further subdivided into those which are actionable by the importing countries and those which are non-actionable. Under article 8.2 (c), certain specific subsidies are considered non-actionable on environmental grounds. Footnote 2 of the SCM Agreement provides for an exclusion to specificity rules by selecting beneficiaries on the basis of objective criteria and conditions, such as number of employees or size of enterprise. These selection criteria would appear to designate small businesses, which are prevalent in LDCs, but the Agreement does not specify this. While the Agreement does provide for subsidizing environmental improvements made by small and medium-sized enterprises, limited resources may constrain LDCs from making use of this provision.

The TRIPS Agreement is expected to encourage more research and innovation and better access to new technology, including environmental technology, for all countries. The Agreement makes it obligatory for developed countries to "provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to least-developed country members in order to enable them to create a sound and viable technological base". However, discussions on this issue have paid little attention to the implementation of this provision.

Concerns and potential benefits

Since the conclusion of the Uruguay Round, no specific decisions on environmental issues have been taken at WTO. However, the discussions on trade and environment, while so far inconclusive, could yet result in some changes on environmental issues within the multilateral trading system.

LDCs' concerns on trade and the environment are often similar to those of other developing countries. An added concern for LDCs is that preferential trading arrangements may become conditional on meeting environmental requirements. Specific issues of particular concern to LDCs include:

LDCs' concerns on trade and the environment are often similar to those of other developing countries, but an added concern for LDCs is that preferential trading arrangements may become conditional on meeting environmental requirements.

- The use of trade-restrictive measures for non-trade purposes, which may eventually spill over to other areas, such as labour issues and human rights;

- Modifications in the WTO rules which would make it easier to introduce environment-related trade restrictions;

- WTO treatment of process and production methods: any modification or understanding which could be interpreted as "legalizing" – within WTO – the application to imported products of mandatory or voluntary measures based on non-product-related process and production methods is seen as a matter of concern by LDCs (in the work of the Committee on Trade and Environment, this issue has come up in the context of eco-labelling);

- The introduction of environmental conditionalities in the context of international trade: while the deliberations held so far in the Committee have not resulted in any proposals implying new forms of conditionalities, it remains to be seen if linking further trade liberalization with environmental performance would involve some type of conditionality, particularly if existing GSP and special trade agreements like the Lomé Convention were to be phased out;

- The extent to which taking up an issue in WTO will emphasize the use of trade measures rather than other policy instruments: for example, any "accommodation" of trade measures in WTO might deter the search for and use of enabling measures such as the transfer of technologies, financial assistance, improved market access (including for environment-friendly products) and foreign aid.

At the same time, the work on trade and environment carried out in WTO, and in the Committee on Trade and Environment in particular, could benefit LDCs in the following ways:

- Discussions in the Committee could contribute to the avoidance of protectionist trade measures, and could encourage adherence to effective multilateral disciplines by creating the conditions for increased transparency;

- To the extent that the Committee provides a forum for examining the aspects of environmental measures which have significant trade effects, as well as multilateral disciplines governing these measures, it offers countries the opportunity to build a consensus on certain concepts which could be taken into account in the development and implementation of new environmental measures with trade effects, particularly those with an impact on LDCs;

- The work of the Committee could help to build political support for further trade liberalization and improved market access, which would assist LDCs in generating, through trade, the resources needed for sustainable development policies, including through preferential trading schemes;

- LDCs could also gain from the effective implementation of certain provisions in their favour in the TRIPS Agreement and from the further integration of sustainable development concerns and TRIPS;

- Deliberations in the Committee may provide clarification on a number of issues which could be considered ambiguous, particularly in relation to the obligations of the exporters of domestically prohibited goods.

Any future agenda on trade and the environment will be of considerable interest to LDCs and should include discussions on domestically-prohibited goods, market access barriers and the implementation of developmental provisions in the TRIPS Agreement.

Recent developments and their possible impact on LDCs

During the second WTO Ministerial Conference, a few developed countries sought to give further momentum to discussions on trade and environment, emphasizing in particular the need to convene a high-level meeting on trade and environment which would focus on a few agenda items such as the use of trade measures for environmental purposes, process and production methods and market access.[1] One member proposed a new comprehensive round of trade negotiations, *inter alia*, to clarify the relationship between trade and environment. It was noted that trade rules should not be used to impose unfair standards on developing countries, particularly LDCs, nor to discriminate against their exports. The role of eliminating tariff escalation and tariff peaks in relieving pressure on LDCs to specialize in the exploitation of natural resources or in environmentally sensitive activities was also mentioned.

For LDCs it will be important to ensure that any future agenda on trade and environment includes issues of interest to them, which will enable them to achieve a balance of rights and obligations which is consistent with their development needs. LDCs should therefore participate in discussions on domestically prohibited goods, market access and TRIPS; they may also wish to set their own agenda on environmental services (see below under "Trading opportunities for environment-friendly products and services").

B. Environmental requirements, market access and trading opportunities for LDCs

The effects of certain environmental requirements and environment-related consumer preferences in importing countries may affect LDCs' efforts to enter international markets, in particular those of developed countries. LDCs have already begun to experience the effects of some environmental and health-related regulations which, while legitimate and consistent with WTO rules, have nevertheless affected their exports. Equally, new trading opportunities may arise for environment-friendly products from LDCs.

Possible impact of environmental concerns on LDCs' exports

Environmentally-oriented standards and preferences present opportunities as well as threats for LDCs.

Environmental requirements take the form of standards and regulations, product content requirements (such as regulations limiting the amount of hazardous substances that can be traced in a product), recycled content requirements, labelling and packaging requirements and taxes and charges, as well as a range of voluntary measures such as eco-labelling. Apart from standards and regulations, private firms or importers may impose their own requirements on their foreign suppliers. Campaigns by non-governmental organizations against some products, such as tropical timber, may also influence market access conditions.

While to a certain extent the effects of such requirements on trade may be similar to, or may even exacerbate, those arising from constantly changing conditions in the market place, such as changes in technology, consumer preferences and the price and availability of raw materials, it can be argued that in many respects environmental requirements are different from other factors, such as product quality or fashion. For example, environmental requirements, especially those related to process and production methods, may be based on specific social values, and pressure groups in some societies may be particularly vocal on issues of environmental protection, even outside their own countries. In addition, importers may require their foreign suppliers to comply with certain requirements related to process and production methods.

A key question, therefore, is whether, in view of existing supply constraints, certain environmental requirements in major export markets hinder LDCs in their efforts to enter international markets, and, if so, how the problem can be resolved.

Technical regulations and standards

Certain regulations may affect the exports of LDCs to markets in developed countries. One example is the requirement that textiles should be free of azo dyes. This requirement was first imposed in Germany and subsequently in the rest of the European Union, and could have far-reaching effects on the export earnings of countries such as Bangladesh whose exports consist largely of textiles or clothing.

For most textile-exporting LDCs, the major task is to ensure that azo dyes are no longer used in production for exports and that environment-friendly substitutes are available in the domestic market. However, few LDCs, if any, produce azo dyes themselves. Therefore an appropriate instrument to ensure compliance with the European Union standards would be to prohibit the import of azo dyes. Indeed, countries such as Bangladesh and Nepal have already enacted corresponding trade legislation. However, azo dyes have continued to enter these countries, largely because they are much less expensive than comparable environment-friendly substitutes.[2]

Moreover, exporters to the European Union have to certify that their textiles are free of azo dyes. Since testing facilities in LDCs tend to be in short supply, exporters in many LDCs are forced to send their textiles to neighbouring countries for testing, thereby incurring relatively high certification costs. This example shows how the ability to effectively enforce legislation and the availability of infrastructure, such as testing facilities, are important factors in facilitating compliance with environmental requirements.

Sanitary and phytosanitary standards

Complying with sanitary and phytosanitary standards may seriously test the limits of an LDC's technical and human capacity.

Certain sanitary measures may have a significant effect on LDC exports, such as exports of fruit, meat and fishery products. For example, a European Union ban on imports of beef originating in Madagascar was still in force at the end of June 1998. While awareness of sanitary standards is generally higher in the fisheries sector, fishery products originating in Bangladesh, Madagascar and Uganda were also banned in the European Union after the latter's inspection teams found deficiencies in the infrastructure and hygiene of fishery establishments in those countries. The import bans were later lifted and replaced by decisions of the European Commission laying down special conditions governing imports (see box 10). In February 1998, establishments approved by the Department of Fisheries, Fish Inspection and Quality Control in Bangladesh were allowed to resume exports to the European Union. The Department, which was deemed the competent authority by the European Union, initially approved six establishments, and another 10 establishments were expected to be approved by July 1998. In addition, the Bangladesh Frozen Foods Exporters Association sought technical assistance from European Union experts, but had to pay for it from its own resources.

Similarly, eight establishments in Madagascar were approved to resume exports of fishery products in early 1998. The Department of Veterinary Services, which is the competent authority for control and certification, may subsequently approve other establishments. Improving and enforcing sanitary standards and the rational management of the sector have become priorities for the competent authorities in Madagascar. In Uganda, the ban is still operative in the fresh fish segment but the export of frozen fish is now permitted.

Another illustration of the problems LDCs face in the area of sanitary regulations can be found in the European Union ban on exports of fishery products from countries which may be affected by cholera. In 1997, such a ban was imposed on exports from Kenya, Mozambique,[3] Uganda and the United Republic of Tanzania.

In certifying the countries which can export fish products to its market, the European Union pays special attention to countries with a significant volume of exports, such as Mozambique (fish exports represent 40 per cent of all exports from Mozambique). Consultations at the level of African, Caribbean and Pacific countries as well as on a bilateral basis have pointed to the need for measures to be implemented in Mozambique to guarantee the quality of its fishery products. The principal requirement is that inspection services must be transparent and equivalent to European Union standards. Of particular importance is the credibility of the competent authority in the exporting country. The authority must be able to demonstrate, among other things: independence of inspection services; quality control at all stages, particularly landing and transport; and appropriate infrastructure in terms of availability of equipment, training and working conditions in the inspection services. It is therefore important that countries wishing to export to the European Union should invest in technical and human resources and ensure a high-quality inspection service. (It is expected that the export ban on fishery products from Mozambique will be lifted on the basis of information provided by the Government of Mozambique on sanitary measures adopted in regions affected by cholera, as well as on the cholera situation itself.)

Packaging requirements

Packaging requirements have raised some concerns in LDCs. An example is the German Packaging Ordinance adopted in 1994, which made producers or importers responsible for the appropriate handling of packaging waste and strongly promoted recycling and recovery. Such requirements affect LDCs in

Box 10: European Union measures and regulations concerning fishery products

The European Union and its member States have enacted specific legislation concerning fishery products, which is also applied to imports. The legislation covers: (1) sanitary conditions for the production and sale of fishery products; (2) the freshness of fishery products; (3) restrictions on veterinary medicines used for aquacultural animals and products; and (4) the obligation to introduce a system based on the principles of Hazard Analysis Critical Control Point in fish-processing companies. Specific legislation has been enacted (at the level of both the European Union and individual member States) concerning, for example, pesticide residues (maximum pesticide residue levels), heavy metals, polychlorinated biphenyls (PCBs), food additives, the radiological contamination of foods and the irradiation of food and packaging. Individual member States may also have additional legislation.

In April 1997, the European Commission decided that as from 1 July 1998, fish and fishery products could be imported only from a restricted list of countries (decision 97/296/EC, dated 22 April 1997). This list, which was revised by decisions 97/758/EU (November 1997) and 98/148/CEE, contains two groups of countries. Group 1 consists of 30 countries which are approved to export fish and fishery products to the European Union: this group, referred to as “EC-harmonized countries”, includes around 20 developing countries, three of which are LDCs (Bangladesh, the Gambia and Madagascar). Group 2 consists of countries with authorized establishments: this group contains 25 countries, including around 15 developing countries, two of which are LDCs (Maldives and Togo).

It is to be noted that while imports from Group 2 countries are authorized, each European Union member State can still impose its own specific import conditions and can draw up its own list of approved establishments. In fact, Group 2 consists of provisionally approved countries from which imports may be allowed over an interim period only. In 1996, Group 1 represented around 73 per cent of extra-European Union imports in value terms, while Group 2 accounted for an additional 17 per cent. The remaining 10 per cent of extra-European Union imports originated in countries which are not on the list. These imports will no longer be allowed after 1 July 1998. However, a number of countries have submitted applications to be authorized to export to the European Union, and these are under consideration.

Source: CBI News Bulletin, no. 256, June 1998.

different ways. For example, technical details stemming from the recycling and recovery processes have to be taken into account by exporters. Some problems have arisen with regard to the use of certain batching oils, metal clips, cotton stickers and toxic substances in packaging. LDCs need to resolve these problems by making changes in packaging design.[4] Also, it needs to be remembered that importers may be discouraged from accepting packaging materials which domestic recycling capacities in the importing countries cannot cope with.

Packaging requirements can affect the use of certain packaging materials which may be relatively important for some LDCs, such as jute. Many of the difficulties surrounding imports from developing countries which have come to the attention of the Federal Ministry of the Environment in Germany relate to jute packaging. The main products imported in jute packaging are coffee, cocoa, wool, cotton, tobacco, herbs and dried fruit. Some exporters from developing countries initially felt under pressure to replace jute with other packaging materials, such as plastic, as they feared that a perceived lack of recycling facilities in Germany would make jute unattractive. The German Ministry of the Environment, however, has pointed out that in general there is no reason to replace jute packaging, as jute is both reusable and recyclable, and several companies in Germany, and in other countries, now offer recycling services for used jute packaging.[5]

Eco-labelling

Eco-labelling can affect LDC exports, such as textiles, to markets in developed countries. Exporters from LDCs could have difficulty in complying with stringent criteria and qualifying for eco-labels based on complex life-cycle approaches. In the European Union, eco-labels have been established for T-shirts, mostly in relation to process and production methods, including the raw materials used (particularly cotton). For several LDCs, such as Bangladesh, the Lao People's Democratic Republic and Maldives, T-shirts represent a significant share of their total garment exports to the European Union.

While eco-labelling may involve complicated compliance procedures, it has been reported that some countries, such as Bangladesh, have found environment-friendly labels to be useful as marketing tools. Bangladesh labels its jute bags as environment-friendly packaging and has reported an increase in jute exports. Eco-labels for inherently environment-friendly products of export interest to LDCs may thus provide trading opportunities. For example, the German "Blue Angel" programme has developed an eco-label for jute products, which might result in market advantages for jute-producing countries.

Requirements related to process and production methods

Requirements related to process and production methods have been found to be a barrier to trade in the case of shrimp exports, which are of increasing export interest to several LDCs. For example, in 1996, in accordance with domestic legislation, the United States initiated an embargo on imports of shrimp from "non-certified" countries. In order to receive certification, exporting countries must, *inter alia,* require shrimp trawlers to use "turtle excluder devices" to reduce the incidental killing of sea turtles. Some 18 developing countries (none of which were LDCs) were certified as having adopted programmes comparable to the United States programme. In addition, eight developing countries, including Haiti, were certified on the grounds that their fishermen only harvested shrimp using manual rather than mechanical fishing methods. Other LDCs exporting shrimp to the United States were subject to the embargo, although shrimp from aquaculture were exempt from the embargo. Thus Bangladesh, one of the top 10 exporters of shrimp in the world, was hardly affected, as most of its exports are of shrimp from aquaculture, while the embargo applies only to wild shrimp.

Some LDCs have reported that poor environmental quality of products, or even the use of certain process and production methods, has resulted in lower prices being offered by foreign buyers. For example, foreign buyers have reportedly paid lower prices for leather products from Bangladesh because of the poor environmental conditions in the tanning sector in Dhaka. Similarly, according to Ugandan exporters, foreign buyers have tried to bid down the price of fish on account of poor hygienic and environmental conditions in the landing sites on Lake Victoria. Moreover, even if only one exporter is found to violate standards, a general ban may be imposed on a whole country or region, with severe economic costs.

Buyers' requirements

Certain campaigns by non-governmental organizations and others have affected LDC exports. For example, Nepal's exports of carpets to Germany have been adversely affected by campaigns on environmental and child labour issues. Carpets constitute Nepal's most important export sector, accounting for some 58 per cent of its total exports. The sector provides employment for more than 250,000 people. A report alleging poor working conditions for carpet weavers, the use of child labour and environmental degradation was broadcast on German television in 1994, and had a serious effect on Nepal's exports, as 80 per cent of its exports went to Germany. Although subsequent investigations showed the allegations to be unfounded, exports dropped by 19 per cent in 1994/95 and a further 27 per cent in 1995/96. By 1996, Nepal had slipped from fourth to seventh in rank among the world's top exporters of knotted carpets. Although other factors could also have contributed to the poor performance of carpet exports – such as problems of product quality (German importers also complained of traces of lead and pesticide residues) or the inability to adjust to changing consumer preferences – the significant decline in exports shows that carpet exports are vulnerable to misinformation by non-governmental environmental organizations. (It should be noted that Nepal's carpet exports have since recovered.)

LDCs must weigh the immediate costs of compliance with requirements related to process and production methods against the possible losses of export income arising from a decision not to comply.

Market access issues: summary

LDCs have in general had some difficulty in adapting to environmental and health-related standards in their export markets. Some of these standards, particularly technical regulations and sanitary standards, are consistent with WTO rules but may nevertheless entail significant costs for LDCs wishing to comply with them. It would thus be useful to examine the extent to which technical assistance provisions in the TBT Agreement and the SPS Agreement have alleviated the burden of compliance for LDCs. The evidence so far appears to suggest that the provisions have not been used extensively; for instance, Bangladesh had to use its own funds to pay for technical assistance provided by the European Union. Moreover, aid programmes should inform LDCs of any imminent health and environmental standards and should make available some form of assistance to help them comply with such standards.

In addition, while non-product-related standards based on process and production methods may not be compatible with WTO rules, they may still be a precondition for doing business. When this is the case, LDCs have two options: they can contest the standards in WTO or they can seek bilateral or multilateral assistance to meet the standards. In any case, LDCs need to weigh the costs of compliance against the possible loss of export revenue arising from non-compliance. Added to these calculations should be the real environmental benefits which may accrue from installing the infrastructure required to make compliance possible, such as certification, testing, information dissemination mechanisms and so on. LDCs may also need to create special mechanisms for small and medium-sized enterprises, as the burden of adjustment in this sector may be disproportionate to their income and surplus-generating capacity.

In the context of the multilateral trading system, LDCs should be ready with their own agenda. Such an agenda could include: (1) better implementation of the technical assistance provisions contained in the Uruguay Round agreements; (2) better implementation of the provisions on the transfer of technology contained in article 66.2 of the TRIPS Agreement; (3) more effective restrictions on the exports of environmentally unfriendly technologies and products; and (4) some special mechanisms for accommodating the interests of small and medium-sized enterprises, including provisions for special and differential treatment.

Trading opportunities for environment-friendly products and services

Environment-friendly products

It is interesting to reflect on the advantages and disadvantages which LDCs have vis-à-vis other countries in the production of and trade in environment-friendly products. A revealing example in this connection is the case of organically grown agricultural products, for which the market is known to be large (see box 11). LDCs, where the modernization of production which is necessary to penetrate international markets has yet to begin, may be well placed to target niche markets for organically grown products. Indeed, they may have advantages over those countries which first have to phase out the use of fertilizers and pesticides in agricultural production before they can start organic farming. In addition, some of the factors which would normally constitute constraints for the development of environment-friendly products, such as the small size of the markets for the products and the importance of donor support, may actually operate in favour of LDCs.

LDCs' lack of agricultural sophistication, paradoxically, may give them advantages in organic food markets.

The development of environment-friendly products may be beneficial not only in terms of trade promotion, but also because of its effects on output and on the environment in general. For example, a study on "green cotton" from Uganda has shown that other kinds of cotton production also benefited from increased productivity as a result of the lessons learned and training provided under the green cotton programme, and that improvements in soil and water quality were also recorded.

There are, however, some constraints which may be particularly relevant in the case of LDCs: they include the absence of a domestic market for environment-friendly products, the fierce competition in external markets for certain environment-friendly products, difficulties in obtaining information on consumer preferences and market trends, and the lack of a certification infrastructure. Promoting the production of and trade in environment-friendly products may also involve too great an economic risk for some LDCs.

Box 11: Organic production in Madagascar

The first conversions to organic production by Malagasy producers took place in collaboration with a German firm (Rapunzel) and a French firm (Mantimex) in 1990. The first certified organic products were palm oil, cocoa oil, cashew nuts and spices such as vanilla. In 1993, an organization of organic producers, Probiomad (now Promabio), was founded in Madagascar to represent the interests of organic producers.

Due to the difficult economic situation in Madagascar, there is no local market for organic products, which are more expensive than other products. Organic production is therefore destined entirely for exports. Approximately 10 firms export certified organic products, while more are preparing to do so. These firms range from small and medium-sized family enterprises to large State plantations (producing cocoa) or private plantations (producing palm oil). Processors and exporters have also concluded contracts with small farmers because many organic products are produced using traditional methods. Small producers – it has been estimated that around 1,000 families are involved in organic production – benefit from this situation since they get a better price for their products from exporters; price premiums ranging from 10 to 100 per cent are paid over and above traditional product prices.

During the 1996 Bio Fair in Frankfurt, Germany, three Malagasy enterprises were represented; in 1997 and 1998, seven took part in the fair. The annual sales figures for organic products exported from Madagascar were estimated at $2 million for 1997, compared to $200,000 for 1995.

Source: U. Helberg, *L'Ile rouge – l'île verte – Quel avenir pour l'agriculture et le paysage malgaches? Possibilités du commerce international des produits biologiques venant de Madagascar*, National Seminar on Trade, Environment and Development, Madagascar, 17–19 March 1998.

Environment-friendly services

Ecotourism

Tourism is a promising sector for many LDCs.[6] For one thing, they enjoy a comparative advantage because of their low labour costs; for another, many LDCs are in an excellent position to enter niche markets. Ecotourism, for example, constitutes one of the fastest-growing areas of international tourism, and international tourism demand is increasingly concentrating on niche products. Most LDCs are new tourist destinations, and are particularly well endowed with natural assets and resources. Ecotourism is a niche area that LDCs could exploit successfully by protecting and developing their natural resources. Furthermore, ecotourism generally requires relatively low levels of investment.

Ecotourism offers many service-oriented opportunities that LDCs are naturally well-positioned to exploit, but these opportunities cannot be exploited without effective planning and marketing.

It is important to identify issues of interest to LDCs that could be included in a work programme on sustainable tourism. These include:

- An assessment of infrastructure requirements for developing sustainable tourism and the identification of possible sources of finance, including foreign direct investment;
- The identification of possibilities for improving housekeeping practices and the wider use of environmental management systems in the tourist sector; and
- The identification of opportunities to provide niche products through the conservation and development of natural resources and the environment.

Carbon sequestration and biodiversity services

A trading opportunity which has not been explored much so far is the treatment of carbon sequestration as well as the biodiversity potential of forests as an environment-friendly service. It may be worth examining the potential for trading forest services, particularly carbon sequestration services, in the context of the United Nations Framework Convention on Climate Change. It is possible that the carbon sequestration and biodiversity services of LDCs' forests would be priced far higher than the current trade in logs or even shrimps, and would therefore provide better incentives for conservation.

Trading opportunities: summary

If LDCs are to take advantage of "green" market opportunities for goods and services, a lot of groundwork is required. Capacity-building should be geared towards identifying the markets for environment-friendly products, raising awareness of these opportunities among producers, and increasing the supply and improving the marketing of such products. Studies should also be conducted to ascertain the real potential of green markets, in order to avoid having to make changes in product design if the needs of consumer markets are marginal or transitory. For environment-friendly services, the infrastructural requirements and market assessments can be of critical importance. Another important issue to be considered is the appropriate pricing of environmental services.

C. Sectoral issues

Economic and environmental goals can sometimes be in conflict, at least in the short term.

While trade liberalization and trade expansion can be beneficial to the goals of environmental protection in LDCs, situations could arise in which short-term trade-offs need to be made between economic and environmental goals. These trade-offs may only be important in some sectors, but may nevertheless have important effects on the macroeconomic growth patterns of LDCs. It is therefore necessary to analyse the environmental effects of trade expansion and to consider a package of policies and measures designed to simultaneously promote export diversification and protect fragile ecosystems at the sectoral level.

Agriculture

The Least Developed Countries 1997 Report included a detailed discussion on agricultural development and the environment in LDCs. It pointed out that the most severe environmental problems in LDCs were found in rural areas, land degradation being the most important, although it did not examine the linkages between globalization, trade expansion and environmental degradation. There is no doubt, however, that the agricultural sector presents a number of trade and environment issues of concern to LDCs.

While land degradation results primarily from population pressures, production for exports may exacerbate land degradation problems, especially when it results in increased monoculture or when cultivation expands into less favourable areas, raising questions of sustainability and natural resource management.[7] However, globalization and export production may also provide a stimulus for increased productivity and technological innovation. Globalization and liberalization may contribute to sustainable agricultural development to the extent that they raise productivity and farm income, and lead to easier and less expensive access to fertilizers and other inputs.[8]

Fisheries

The fisheries sector is of key interest to many LDCs, both for its contribution to the supply of animal protein and as an earner of export revenue. Fish and fish products represent a major share of the export earnings of LDCs such as Madagascar, Maldives, Mauritania and Mozambique. Fish exports have also been expanding rapidly in other LDCs, such as Bangladesh and Uganda.

As discussed earlier, a range of trade and environment issues of interest to LDCs are to be found in this sector. For example, the environmental effects of shrimp fishing have given rise to considerable concern in several LDCs, including Bangladesh (see box 12). The effect of overfishing and environmental degradation on future fish exports has also raised concern. Many LDCs do not have the data to determine at what level of catches fishery resources can be used in a rational and sustainable manner, and it is often difficult to fix allowable catch levels. Overfishing has been reported in some regions and there are some indications that yields are diminishing over time.

To take an example of the effects of environmental degradation on fishery exports, the most dramatic and direct effect of not taking action on the environmental degradation of Lake Victoria, which is shared by Kenya, Uganda and the United Republic of Tanzania, would be the onset of instability in the Nile perch fishery. One possible scenario would be a highly variable and unpredictable annual catch, which could drop in some years to as little as 10 per cent of current levels. At the same time, a sustainable fishery could be developed which would allow annual yields of perhaps 90 per cent of current levels, still dominated by Nile perch but with a wider range of other species. The major benefit of developing such a fishery would be to preserve export revenues of around $290 million a year. Value added in processing and packaging as well as the local production and marketing of fish would provide additional benefits to the lake community.[9]

Other issues of key interest to LDCs are the effects of subsidies and fishing agreements. The entry into force of the United Nations Convention on the Law of the Sea and the extension of exclusive economic zones have resulted in significant economic revenue for coastal African countries, either through joint ventures or direct payments and licence fees for allowing foreign vessels to fish

Box 12: The environmental effects of shrimp farming in Bangladesh

Brackish-water shrimp farming is a source of rapid and continuing growth in Bangladesh's exports. However, its expansion can cause harm to coastal forests, agriculture and drinking water supplies. The expansion of brackish-water shrimp farming has contributed to the clearance of mangrove forests in some areas; approximately 41 percent of the Chakaria Sundarbans mangrove forest in Cox's Bazar had been converted to low-yielding shrimp ponds in 1991.

As well as spoiling fertile fish-spawning habitat by the destruction of mangroves, shrimp farming conflicts with rice production and the farming of other fish varieties. The resulting salinization of the soil lowers rice yields and encourages landowners to lease the land permanently to shrimp farmers, which results in a loss of rice production and which may give rise to social tension. Moreover, shrimp farming leads to environmental problems such as the loss of grazing land, the loss of sources of fresh water and, most importantly, a decline in tree cover owing to the rise in salinity.

Bangladesh has designed a pilot project to integrate environmentally sound methods into shrimp and rice production. The first phase of the project consists of pilot demonstration projects and the study of saline polders with a view to determining the extent to which shrimp culture and rice cultivation can be rationalized and optimized in the same polder. It also includes the drafting of legislation to prohibit the conversion of mangroves to brackish-water shrimp farms and to protect poor farmers from land encroachment by more prosperous landowners along the coast. This phase also involves the development of coastal land-use zoning. The second phase aims to develop multisectoral programmes to optimize the development of multiple resources on a sustainable basis.

in their zones.[10] While fishing agreements provide opportunities for LDCs in terms of foreign exchange earnings, technical assistance and technological cooperation, concern has been expressed about the long-term implications of subsidies for the sustainability of fishing resources.[11]

Textiles and leather

The textile sector is important to LDCs such as Bangladesh, Haiti and Nepal, and cotton yarn and cotton fabrics are significant items in the manufactured exports of several African LDCs. Globalization and trade liberalization can have a major impact on textile production and the exports of LDCs; for example, quotas under the Multi-Fibre Arrangement provided the original impetus for textile production in some LDCs. With the implementation of the Uruguay Round results, LDC producers will gradually be subject to stiffer competition in international markets and will need to become more competitive, for example by enhancing quality or reducing costs. The more efficient use of resources in the pursuit of greater competitiveness could also result in environmental benefits.

Sometimes it can be difficult to assess whether, on balance, export-oriented production is environmentally desirable or not; LDCs would benefit from a better understanding of the various, often sector-specific issues involved in this trade-off.

While most of the pollution attributable to the textile sector is directly attributable to the production process itself and has little to do with exports, increased production to meet trade challenges may aggravate pollution problems. Pollution per unit of output can be high in the textile sector for several reasons. One is the predominance of small-scale units, often using outdated technologies. Another reason is the lack of environmental awareness of managers and workers. In addition, legislation tends to be weak or non-existent, and poorly enforced. Programmes are envisaged, or under way, in several LDCs to help resolve or alleviate these problems. For example, the Sustainable Environment Management Programme (1998–2002) of the United Nations Development Programme (UNDP) aims to help identify suitable locations for small-scale textile-dyeing units, to raise awareness and provide training to textile owners and women textile workers, and to develop community-based waste-water treatment facilities. Trade links with markets where environmental requirements are more stringent often spur companies to improve environmental performance. On balance, it is difficult to judge whether the net environmental effect of export expansion is positive or negative.

Leather tanning is another example of an industrial sector which contributes to urban pollution. The Government of Bangladesh and the United Nations Industrial Development Organization (UNIDO) have been considering an agreement to set up a chromium recovery plant and to study the feasibility of installing a comprehensive waste treatment facility. Interest in setting up the plant, which would treat effluent from over 150 tanneries in Hazaribagh, was stimulated by the success of a similar project in India. There are also plans to relocate tanneries from urban areas not suitable for industrial production to other sites.

Forest products and services

LDCs have a major interest in this sector, since a large proportion of the world's forests are found in their territory. To a large extent, interest in the relationship between trade and the natural environment has been stimulated by concerns about damaging the environmental functions of forests, such as carbon sequestration and climate stabilization. There is also a desire to preserve the forest's role in providing a habitat where biodiversity can flourish, as well as catchment areas for water resources and living areas for indigenous people.

There is wide recognition that trade in forest products and services, which are derived from renewable and potentially sustainable resources, should be promoted as a means of contributing to sustainable development. It is also a widely shared aim that sustainable forest management should be promoted through mutually supportive trade and environmental policies, and that trade policies should not have adverse impacts on the management, conservation and sustainable development of forests.

An important achievement of the United Nations Conference on Environment and Development, held in Rio de Janeiro in 1992, was the successful negotiation and entry into force of the International Tropical Timber Agreement, monitored by the International Tropical Timber Organization, a major player in efforts to source international trade in tropical timber from sustainably managed forests.

Mining

Mining is the most important export earner in some LDCs, such as Mauritania (iron ore), Sierra Leone (bauxite, diamonds) and Zambia (copper). It tends to have significant environmental effects, such as land degradation caused by loss of vegetable cover, deforestation, soil erosion and contamination of water resources. Both water and air pollution can affect the productivity and health of the workforce, as can be observed, for example, in urban areas surrounding the mines in Zambia's copper belt. The relocation of villages can create additional problems. Both large- and small-scale mining raise environmental issues. In several LDCs, small-scale mining is important from an employment point of view, but may have severe environmental impacts. In Sierra Leone, for example, small-scale mining of diamonds, using a highly labour-intensive process whereby large groups of people dig the earth and wash and sift the ore, employs 60–80,000 workers, but has severe environmental impacts, particularly in terms of land degradation.

Redressing the adverse environmental effects of mining requires enhanced natural resource management, including through the design and effective implementation of appropriate policy measures, such as environmental impact assessments, supported by standards and regulations. Governments need to develop and monitor programmes to mitigate environmental impacts on the landscape and on the people living in mining areas, particularly in the case of large-scale mining. Some Governments have entered into agreements with large-scale operators requiring them to develop comprehensive environmental action programmes. In the small-scale mining sector, incentives may need to be provided, for example by providing loans, technology or expertise, to encourage companies and individuals to preserve the environment. Tackling the environmental impacts of artisanal mining may be particularly difficult; where the problems appear intractable, multi-stakeholder approaches and the involvement of local communities could be useful.

Multi-stakeholder approaches and the involvement of local communities could be useful in tackling environmental problems such as those associated with artisanal mining.

The mining sector in LDCs is highly vulnerable to developments in external markets. Moreover, structural problems, such as low levels of investment and low processing capacities, may hinder the integration of trade, environment and development in this sector. Many LDCs are now attempting to attract foreign direct investment, through improvements in investment codes and procedures, more liberal income-tax systems and fiscal concessions. Attracting foreign investment while at the same time enhancing its contribution to sustainable development is a key issue for LDCs with a strong mining sector.

Sectoral issues: summary

Most of the environmental problems associated with trade in LDCs are the consequence of the social structures on which trading relations are based. For example, agricultural and fishery exports may degrade the environment as a result of social changes which favour large farmers or foreign investors whose scale of operations far exceeds that of the original smallholders. Inadequate infrastructures as well as excessive reliance on a few products may also cause environmental degradation.

On the positive side, technological solutions linked to investment, including foreign direct investment, often produce environmental benefits, and export diversification and a shift to higher value-added products may alleviate some environmental concerns. In general, there is a need to enhance the ability of LDC Governments to enact and enforce legislation, ensure the use of environmental impact assessments, and carry out environmental monitoring and screening. LDCs should be assisted in accessing technologies which reduce environmental damage and increase the efficiency of small and medium-sized enterprises, and in understanding the implications for their trade and environment of international standards for environmental management systems.[12]

Trade-related environmental issues must be contemplated within the broader context of development if they are fully to accommodate LDCs' interests.

D. A forward-looking agenda on trade and environment for LDCs

Deliberations in WTO focus largely on the use or non-use of trade measures to achieve environmental objectives and the corresponding rights and obligations under various Uruguay Round agreements; less attention is paid to the consideration of enabling measures, for example in the areas of finance and technology. Trade and environment issues of interest to LDCs need to be addressed both in the context of the multilateral trading system and in the context of development policies, including multilateral and bilateral donor programmes.

In the context of the multilateral trading system, it is important for LDCs to safeguard their trade interests by ensuring that any future agenda on trade and environment includes issues of interest to them, including greater market access, the transfer of environmentally sound technologies, and transparency obligations in relation to domestically prohibited goods. Of particular interest to LDCs would be the implementation of the special provisions for LDCs in the TRIPS Agreement (article 66.2). As the built-in agenda contains a provision for the review of the implementation of the TRIPS Agreement it may be useful to see whether and how these special provisions for LDCs have been implemented and whether they have promoted the dissemination of environmentally sound technologies to LDCs. Of equal interest to LDCs would be the implementation of the reduction of tariff peaks and tariff escalation, especially for products based on natural resources. It may also be useful to examine how additional technical assistance could reduce the exports of domestically prohibited goods to LDCs or whether the existing transparency mechanisms are adequate.

The relatively unexplored issue of making carbon sequestration services and biodiversity preservation services tradeable should also be looked into; in particular, the possibility of LDCs' trading carbon sequestration and biodiversity services deserves further analysis, especially if the United Nations Framework

Convention on Climate Change and the Biodiversity Convention generate increased demand for these services.

In many LDCs, environmental degradation is now an acknowledged fact and LDC Governments are increasingly committed to the integration of environmental concerns into national planning policy and the development process. Several LDCs now have a national environmental action plan or similar programme, aimed at, *inter alia,* strengthening institutions, monitoring and enhancing environmental quality, providing environmental education and creating public awareness. The implementation of such programmes is attracting international support. So far, however, trade-related environmental and environment-related trade issues have received little or no explicit attention in these programmes.

The lack of infrastructure, as well as weak institutional capacity, is a serious constraint on the ability of LDCs to deal effectively with trade and environment issues. Special attention should perhaps therefore be given to trade and environment policy coordination and coherence in environmental action plans – for example in the context of capacity-building for legislation and policy analysis or improved inter-ministerial coordination.

In most LDCs, trade expansion could contribute to environmental degradation insofar as the sectors in which expansion is likely are environmentally sensitive, and LDCs lack the institutional, infrastructural and technological capacity to deal with environmental problems. At the same time, a major obstacle to trade expansion is the inability of domestic producers to respond adequately to opportunities to access foreign markets. It is essential that LDCs attach priority to the removal of, or at least a significant reduction in, domestic supply constraints. To the extent that environmental programmes contribute to building infrastructure and institutional capacities, they may also help to enhance export supply capacities.

The international development institutions have an important role to play in helping LDCs to explore the commercial scope of environment-friendly products and services.

Trade expansion may have a significant effect on income distribution in a country, and has in some cases had an adverse effect on the domestic environment in LDCs. The assessment of the social and environmental costs and benefits of trade expansion is therefore particularly important, especially since most of the positive environmental spillovers arising from of the process of globalization and trade expansion accrue at certain threshold levels of income and accrue more easily to countries which are well integrated into the global economy – so that LDCs may easily miss out on these spillovers.

Gaining market access is complicated considerably by quality and environmental requirements. In many sectors, environmental quality is an increasingly important factor in international competitiveness. Experience has shown that environmental requirements in external markets have sometimes resulted in export losses for LDCs, as a result of lack of information, lack of infrastructure or poor administration of regulatory procedures. The capacity of companies in LDCs to respond to environmental requirements must be enhanced. Technical cooperation projects aimed at enhancing environmental quality could build on existing technical cooperation programmes, including programmes implemented by UNIDO and the International Trade Centre UNCTAD/WTO. The potential for environment-friendly products and ecotourism should be further explored and LDCs should be assisted in including environmental considerations in their economic and trade promotion activities.

Many LDCs are not, at the moment, fully exploiting the existing trading opportunities for environment-friendly products and the possible synergy between carbon sequestration and the provision of environmental services. The strengthening of LDCs' capacities for policy analysis and better coordination between trade and environment policies could therefore help to reduce some of the obstacles to the achievement of sustainable development in LDCs. With that goal in mind, and bearing in mind also the special characteristics of LDCs, special attention should be given to:

- The introduction of effective conservation practices, bearing in mind that they tend to be ineffective unless they are preceded or accompanied by effective income-generation programmes which meet the basic needs of the populations;
- Multi-stakeholder approaches to multifaceted problems in specific sectors;
- Projects designed and implemented at the grassroots level, in close cooperation with the developmental non-governmental organizations in LDCs;
- Greater policy coordination on the part of the international donor community – in particular, export promotion programmes should be accompanied by assistance to LDCs in identifying and complying with environmental requirements in the sectors concerned;
- Projects in favour of smallholders and small and medium-sized enterprises;
- Capacity-building in the field of trade and environment, including UNCTAD's technical cooperation programmes for LDCs.

Notes

1. The second Ministerial Conference highlighted the need to improve the transparency of WTO operations in order to enhance public understanding of the benefits of the multilateral trading system and to make greater efforts to meet the objectives of sustained economic growth and sustainable development. The resulting Ministerial Declaration also emphasized the need to continue to improve market access conditions for LDCs' export products on as broad and liberal a basis as possible.
2. For example, in the Nepalese carpet industry, alternative dyes cost many times more than the metal-based dyes imported from India. Traditional vegetable dyes such as madder root, barberry, rhubarb, walnut, catechu, boxbyrtle and emblic, which are environment-friendly, are also relatively expensive. Furthermore, the supply of these natural dyes is not adequate to satisfy market demand.
3. It should be noted that the ban was not extended to Mozambique's main fisheries export, which is deep-frozen prawns.
4. See K. Delbruck. "Eco-packaging, 'Green Dot' and 'Blue Angel': the German case", in UNCTAD/Latin American Economic System, *Trade and Environment: The International Debate,* Geneva (n.d.).

5. Recycled jute has been used for some time in the car, building and furniture industries; the recycling capacity in Germany for jute is about the same as for plastics.
6. The liberalization of international trade in services under GATS may also contribute to the development of the tourist sector in LDCs that adhere to GATS. (See part two, chapter 2, for a detailed discussion.)
7. Increased demand for land does not necessarily imply environmental degradation. Indeed, a higher value placed on land through increased demand for both agricultural and non-agricultural purposes may well be a prerequisite for local people to make substantial investments in their lands. Much will depend on the extent to which benefits accrue to farmers, and on security of tenure.
8. Easier and less expensive access to fertilizers can increase productivity if the fertilizers are used properly, but their inappropriate use can have negative environmental and health effects.
9. World Bank, Staff Appraisal Report, The Republic of Kenya, United Republic of Tanzania, and the Republic of Uganda for the Lake Victoria Environmental Management Project, para. 56, June 1996.
10. The European Union has an agreement with Mozambique under which it is entitled to catch 20,000 tonnes of fish and shellfish a year in return for a grant of $35.2 million. The European Union is also committed to providing assistance to increase domestic fish-processing from catches landed by foreign vessels.
11. G. Porter (1997). "Euro-African fishing agreements: Subsidizing overfishing in African waters", background paper presented at the UNEP/World Wildlife Fund workshop on "The role of trade policies in the fishing sector", Geneva, 2–3 June.
12. Standards for environmental management systems are based on a set of voluntary rules that companies may follow in order to be able to better control the environmental impact of their activities on the basis of self-determined environmental policies and objectives. See UNCTAD (1997), "Environmental management standards, particularly the ISO 14000 series: trade and investment impacts on developing countries" (TD/B/COM.1/EM.4/2).

The Way Forward

Chapter 5

Although LDC members of WTO have increased their participation in the deliberations and activities of the Organization, their overall level of participation in WTO activities continues to be limited, not least because of their limited financial and human resources and institutional weaknesses.[1] It is now widely acknowledged that LDCs need to take a proactive approach to ensure that their interests are clearly identified and addressed. They would be better able to do so if WTO were to adopt policies which facilitated the participation of LDCs not only in the institutional structures which govern international trade but also in the global market place itself.

This chapter identifies the key issues of interest to LDCs with regard to the implementation of the Uruguay Round agreements by other WTO members, reviews some aspects of the agreements on agriculture and services, and suggests some improvements that might be made to some of the agreements to take into account the special conditions prevailing in LDCs. It also charts a course for LDCs in the discussions on new issues, and offers some brief concluding remarks on how LDCs can be helped to accede to WTO, and how they can make effective use of the institutional structures to promote their interests.

A. Implementation of the Uruguay Round agreements by others

LDCs need to keep a critical watch on the implementation of the agreements by other WTO members, particularly the countries that are the major importers of LDCs' products, since if the agreements are not implemented in full and on time by these countries, the export prospects of LDCs will be adversely affected. The manner in which article XX of GATT 1994 and the agreements on anti-dumping, technical barriers to trade and sanitary and phytosanitary measures are implemented is especially important, since these measures are often used effectively as trade restrictions on the products of developing countries. Whenever action on imports, particularly imports from a developing country, is taken under these provisions, LDCs need to be vigilant, as their own interests may be threatened in the future in a similar manner.

There are three areas of particular interest to LDCs.

- *Tariffs:* developed countries' tariffs on products of export interest to LDCs are still high, even though there have been significant reductions in tariffs on industrial products of interest to developed countries. Also, tariff escalation persists in several product chains in developed countries, and this may discourage the processing of primary products in LDCs. A reduction in tariffs and tariff escalation in developed countries will encourage diversification of exports, as well as general production for exports, in LDCs. LDCs should therefore be trying to persuade developed countries to lower tariffs and eliminate tariff escalation.

- *Textiles:* developed countries importing textiles need to accelerate the process of liberalization. To date, they have brought only a very small proportion of restrained products under the normal GATT rules.

- *Technology transfer:* article 66.2 of the TRIPS Agreement makes it obligatory for the developed countries to provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to LDCs. The implementation of this obligation should be carefully monitored to identify what specific measures the developed countries are taking in this regard.

B. Continuing reviews and negotiations

Several agreements provide for certain provisions to be reviewed and new provisions to be drawn up. LDCs need to be adequately prepared for this negotiating process so that they can participate effectively in it. Among the subjects of interest to LDCs are the following: non-actionable subsidies in the Agreement on Subsidies and Countervailing Measures, the patenting of plants and animals in the TRIPS Agreement, limitations on the role of panels in the Agreement on Implementation of Article VI of GATT 1994 (Anti-Dumping), and the provisions of the TRIMs Agreement.

Issues in the built-in agenda which are of particular interest to LDCs include non-actionable subsidies, the patenting of plants and animals, the scope of panels in the agreement on anti-dumping, and the provisions of the TRIMs Agreement.

Non-actionable subsidies

At present, the subsidies generally applied to all industries and the specific subsidies for research and development, environmental adaptation and regional development are non-actionable: that is, no counteraction can normally be taken against them. However, there are certain subsidies that are necessary for improving and diversifying production and trade in LDCs which do not enjoy this status. In the review process, LDCs may wish to argue that such subsidies should be included in the non-actionable category.

Patenting of plants and animals

The current provision on the patenting of plants and animals in the TRIPS Agreement has three essential elements: first, a country need not provide for the patenting of plants and animals or essentially biological processes for their production; second, a country must provide for the patenting of micro-organisms and non-biological and microbiological processes for the production of plants and animals; and, third, a country must provide for the protection of plant varieties either through patenting or by an effective *sui generis* system, or by a combination of both.

Many LDCs have rich resources of plants and animals and it is in their interest to work for such patent or protection systems in their own and other countries. They have to ensure that their resources of plants and animals are not misused or exploited, and that they derive full benefit from the patent or protection system applicable to plants and animals. With this in mind, they may wish to pursue the following objectives:

- Plants and animals should continue to remain outside the domain of compulsory patentability – in fact, they should be totally excluded from patentability.

- In developing their *sui generis* systems, LDCs should have the flexibility to be guided fully by their national objectives, and should not be made to conform to any multilateral standard.

- Adequate compensation should be paid to the source country and the indigenous community which has nurtured particular plants and animals for a long time if these are put to a new use or used in the preparation of a patentable product.

Role of panels in anti-dumping

In anti-dumping cases, the role of the panels formed in accordance with the dispute settlement process is very limited. The fact that a panel cannot pronounce on whether a country has violated its obligation or challenge a country's interpretation of the provisions of the agreement on anti-dumping significantly weakens the dispute settlement process in anti-dumping cases. LDCs may wish to argue for the removal of the relevant provision so that the normal dispute settlement process covers anti-dumping cases.

Domestic content requirement

The domestic content requirement for investments, which makes it compulsory for a production unit to meet at least some of its needs for raw materials or industrial intermediates from domestic sources, is explicitly prohibited by the TRIMs Agreement, based on the rationale that it violates the national treatment requirement of article III of GATT 1994. Considering the importance of the domestic content requirement provision in encouraging domestic economic activities and foreign exchange savings, LDCs could present a case for the removal of this restriction during the review of the TRIMs Agreement.

Rules of origin and international standards

Important work is under way to revise the rules of origin and establish international standards in pursuance of the agreements in these areas. Rules of origin and international standards have a significant bearing on the market access for goods. LDCs should follow particularly closely the work on the rules of origin, as they may affect the possibility of partial processing in their territories when the actual manufacturing is done elsewhere. Furthermore, very high technical standards may affect the current and potential capacity of LDCs' production for export. Hence, despite their limited resources, LDCs should be involved in the ongoing work in these two areas and influence it as far as possible.

C. New negotiations

Further negotiations are likely to start in 1999, as part of the built-in agenda, in the areas of agriculture and services. In these areas, as in others, LDCs have important interests which need to be carefully analysed, presented and monitored during the negotiations.

Agriculture

In the negotiations on agriculture, LDCs have three important objectives. First, they need to argue for the removal of all constraints in the Agreement on

Agriculture on their production of food for domestic consumption. The provision of food must remain one of the highest priorities of any country. It can be ensured either through domestic production or imports, but reliance on food imports has many risks, not least because of uncertainty concerning availability. Hence LDCs should generally do their best to produce their essential food requirements domestically, provided that their resource base justifies this. In the process, they may need to provide subsidies to their farmers and protect domestic production through direct import controls. As the current rules do not allow for this kind of flexibility, LDCs need to make proposals to introduce such flexibility and pursue these proposals in the forthcoming negotiations.

LDCs' objectives in the negotiations on agriculture should include: the removal of all constraints on the production of food for domestic consumption, favourable treatment for input subsidies in LDCs, and assistance in meeting the cost of food imports.

Second, the provision relating to input subsidies in the Agreement needs to be improved: such subsidies are often necessary to facilitate the adoption of improved farming techniques which increase agricultural production, particularly in LDCs. While they have been excluded from the reduction commitment, they are not immune to counteraction prescribed in the Agreement on Subsidies and Countervailing Measures. On the other hand, certain subsidies which are prevalent in the developed countries have been given this favourable treatment; one could cite the subsidies for research and development, crop insurance or structural adjustment for retirement of resources. There is therefore a strong case for similar favourable treatment for input subsidies in LDCs.

Third, the possible increase in the price of imported food as a result of liberalization in the agricultural sector and the consequent additional burden on the net food-importing LDCs must be dealt with more effectively: the present provision in this respect is weak. LDCs could suggest the creation of a fund, to be financed by the major agricultural exporters among the developed countries, for the use of the net food-importing LDCs.

Services

In the negotiations on services, LDCs should seek the liberalization of labour-intensive services and the movement of labour from LDCs, and the further relaxation of the limitations and conditions that developed countries have attached to their market access and national treatment commitments in certain sectors.

In the negotiations on services, LDCs have two major areas of interest. First, there should be effective liberalization in the developed countries in the areas of labour-intensive services and movement of labour from LDCs. As in the case of other agreements in the services sector (for example, those on financial and telecommunication services), which are supported by the developed countries, the liberalization of labour services should be the subject of serious negotiations.

Second, the commitments in the areas of market access and national treatment made by the developed countries in selected sectors, and the limitations and conditions which have been recorded by them in accordance with articles XVI and XVII of GATS, should be relaxed for LDCs. In doing this, the provisions of article XIX.2 of GATS must be fully respected; this article stipulates that developing-country members shall have the flexibility to open up fewer sectors, liberalize fewer types of transactions and progressively extend market access in line with their development situation. LDCs have considerable flexibility under this provision to undertake low levels of commitments with regard to liberalization, commensurate with their developmental needs.

D. Improvements in agreements

There is a need for some basic improvements in certain agreements if they are to serve the interests of LDCs. Improvements are particularly needed in the areas of dispute settlement, balance of payments, TRIPS, TRIMs and agriculture. (The necessary improvements in the TRIMs Agreement and the Agreement on Agriculture have been discussed above and in part two, chapter 1, and will not be repeated here.)

Dispute settlement

The procedure in the Understanding on Rules and Procedures Governing the Settlement of Disputes is very cumbersome and costly. In view of this, LDCs are likely to hesitate before seeking redress for the violation of their rights and the impairment of their benefits. The Understanding creates a serious imbalance in the exercise of rights and obligations, as many countries do not have the capacity and resources to enforce their rights. While this problem has been acknowledged, no effective solution has yet been offered, although article 24 of the Understanding contains two ameliorative provisions. First, WTO members are asked to exercise due restraint with regard to the cause of disputes with LDCs and when seeking compensation or authorization for retaliation. Second, the Director-General of WTO or the Chairman of the Dispute Settlement Body is obliged to mediate in any disputes involving an LDC if requested to intervene by the LDC.

LDCs would derive significant benefits from basic improvements in the areas of dispute settlement, balance of payments, TRIPS, TRIMs and agriculture.

The “due restraint” provision is in itself weak and has little operational significance in the context of WTO. The provision for intervention by the Director-General or the Chairman may not provide significant relief in really difficult and complex cases. The protection of the rights of weak members such as LDCs should be a common concern of the entire membership of WTO; there is a need to work out a more reliable, but less costly, way of settling disputes involving LDCs.

Even if a dispute involving an LDC is considered under the procedure and the panel rules in favour of the LDC, the ultimate relief might still be unavailable in really difficult cases, since the other party has the option not to abide by the verdict. The WTO can authorize the LDC to take retaliatory action, but this would be impractical for an LDC, particularly if the other party was a major developed country. Hence, there should be a provision for collective action by the entire membership of WTO in cases where the outcome of the dispute settlement process is in favour of an LDC and the other party fails to take corrective action.

Even when the other party takes corrective action, it is effective only prospectively; thus an LDC that has suffered the loss for a long time does not get any relief for this past loss. Moreover, this loss may be considerable for an LDC, as a wrongful trade action can seriously damage its prospects for future trade in a product. LDCs may therefore wish to press for the inclusion in the Understanding of a provision for compensation for the loss suffered in the past, at least from the time when the dispute settlement process was initiated.

Balance-of-payments provisions

The balance-of-payments provision contained in article XVIIIB of GATT 1994 is important for developing countries, particularly LDCs, since it allows them to take trade-restrictive measures when they have balance-of-payments problems. In practice, however, certain problems are likely to arise, particularly in two areas in which corrective action is necessary. First, in determining whether a balance-of-payments problem exists in a country, there is a tendency to give greater attention to the quantum of the reserve and the flow of foreign exchange, while ignoring the nature of the reserve and the flow. This can create problems for LDCs, as they tend to have reserves and flows that are sometimes volatile and cannot provide an assured basis for commitments and payments in foreign exchange. It would therefore be desirable to have an understanding to the effect that the structure and nature of the reserve and flow will also be taken into account when determining the existence of a balance-of-payments problem in a country.

Second, the Understanding on Balance-of-Payments Provisions of GATT 1994 explicitly states that price measures take precedence over direct import control measures, which can be taken only if price measures are shown to be ineffective. This is a serious constraint as price measures are relatively ineffective in LDCs. The effectiveness of price measures in checking imports is also uncertain and their results are often delayed. Therefore LDCs need to have full flexibility in the choice of measures for import control, with the normal provision for scrutiny in the Committee on Balance-of-Payments Restrictions.

Trade-related aspects of intellectual property rights

The promotion of technological innovation and transfer of technology is one of the objectives of the TRIPS Agreement, but there is hardly any operational provision to put it into effect. One way to correct that would be to enable countries to attach appropriate conditions to patents.

E. New issues

LDCs have much at stake in discussions on new issues such as the environment, investment, competition policy and government procurement.

In the current discussions on new issues such as the environment, investment, competition policy and government procurement, LDCs have much at stake. Their objective must be to ensure that they get the best deal possible from any agreements on these issues.

Environment

In the area of the environment, LDCs need to direct their initiatives towards more environment-friendly production processes and the acquisition of the necessary technology and resources for this purpose. At the same time, they need to be particularly vigilant with regard to the following moves, which, if successful, would lead to serious adverse impacts on the production and export of their products:

- Efforts are being made to facilitate the application of trade-restrictive measures in accordance with multilateral environmental agreements, without the scrutiny and safeguards provided by the current provisions of article XX of GATT 1994, the Agreement on Technical Barriers to Trade and the Agreement on the Application of Sanitary and Phytosanitary Measures.

- There is pressure to expand the interpretation of "process and production methods" so that a product can be disqualified for import not only on the grounds of "related" methods but also on the grounds of "unrelated" methods. This would mean that products could be denied entry even when their content and characteristics are flawless if the importing country considers that the environment at the place of production was polluted during production.

- There is also an effort to alter the current concept of "like products". In accordance with the national treatment principle contained in article III of GATT 1994, products are considered like or unlike on the basis of their content, characteristics, use and so on. Attempts are now being made to determine the "likeness" of the product on the basis of (among other things) "unrelated" process and production methods. Thus an imported product could be subject to restraints based on alleged environmental pollution at the place of production which would not apply to a domestic product with similar content and characteristics.

Investment

In the area of investment, the current study process in WTO is of vital interest to LDCs, and they need to contribute to this process so that their interests are taken into account in any future course of action.

Foreign direct investment is necessary and useful for LDCs; it augments their own meagre domestic resources and thereby accelerates their growth, and allows them to obtain higher technology from abroad and improve their production efficiency. At the same time, foreign investment may entail a net outflow of foreign exchange in the course of time, unbalanced sectoral investment and a geographical imbalance in the country's development. Given these possible adverse impacts, the host country needs to take certain safeguards. It should retain the discretion to guide investments into selected sectors and geographical areas and to limit the entry of investment which is likely to have adverse effects on its balance of payments or its overall development objectives and efforts. The objective of these safeguards should be to ensure a healthy linkage between investment and the domestic economy, and to encourage the dissemination of technology and greater efficiency in domestic industries.

Competition policy

In the area of competition policy, which is also being studied in WTO, competition in production and trade is generally considered desirable. It benefits consumers and users as well as producers and traders, at least in the long run, by inspiring and encouraging the latter to improve efficiency and quality and reduce costs. However, in a competition between a big producer or trader and a small one, the latter is almost always at a disadvantage and at risk of being put out of business. Seen in this light, competition policy may discourage small entrepreneurs and may actually reduce competition and thus result in higher long-term costs to the consumer.

LDCs must base their contributions to the debate on this issue in WTO on their own perceived interests. Their contributions could reflect the following considerations:

- The competition policy of a country depends on its development objectives and level of development. There is no need for a common competition policy for all countries, nor are common minimum competition standards relevant to all countries.
- There may be a need to "guide" foreign firms so that they harmonize their operations with the development process of a country.
- There is a need for safeguards against the use of possible restrictive business practices by big foreign firms (as well as big domestic firms).
- There has to be a balance between encouraging competition and providing opportunities for growth of domestic firms, so that they are given the chance to become internationally competitive.

The multilateral trading system is based on reciprocity and mutual advantage; special provisions have thus been created to help LDCs to utilize the opportunities available to them as WTO members. These provisions should be viewed as corrective mechanisms, rather than exercises in generosity.

Government procurement

In the area of government procurement, the objective of the current exercise in WTO is to work out an agreement on transparency in government procurement. Transparency in government procurement should be welcome as it improves efficiency and curbs malpractice. LDCs, however, have to work out the appropriate elements of transparency in their own context. The wide dissemination of information to potential suppliers about a proposed purchase, open tendering and greater transparency in the evaluation and decision-making process, among other things, are desirable, but LDCs need to remain cautious in respect of the following issues:

- They should not be called upon, under the guise of transparency, to undertake unduly heavy responsibilities as regards disseminating information on bids and evaluation processes. They should also keep in view the constraints on their resources.
- They should ensure that domestic producers are not put at a competitive disadvantage.

F. Concluding remarks

In order to achieve accession on terms consistent with their trade, financial and development needs, LDCs need to formulate their major negotiating objectives on the basis of a detailed analysis of their economic strategies and policies and their conformity with the obligations of WTO membership. Once an LDC has decided to join WTO, the latter should facilitate the process of accession. Unfortunately, experience of the process of accession has not been encouraging so far. Countries negotiating for accession have often been called upon by current members, particularly the developed countries, to make initial commitments that go beyond the normal obligations under the Uruguay Round agreements. In addition, the developed countries often have high expectations with regard to market access commitments, the reduction of tariffs and the elimination of non-tariff measures. The negotiation process for accession is also often very prolonged.

There is a need for a quicker, more lenient and easier accession process for LDCs wishing to join WTO. After all, they are small economies and their exports, or curbs on their imports, will not have a major impact on the economies of developed countries. Fast-track entry for LDCs needs to be complemented by favourable terms and conditions of accession: in particular, all LDCs – given their similarities and development conditions – should be accorded substantially similar treatment. To require acceding LDCs to undertake commitments which are not required of LDC members is to discriminate within the group, and to take advantage of the newcomers' weak bargaining and economic position.

On the other hand, LDCs' full participation in the multilateral trading system could have a considerable positive impact on the system. For one thing, with a large new membership, the system could claim to be truly universal and international. For another, by accepting these countries as members, the current WTO members will be encouraging the liberalization of LDCs' economies and their eventual integration into the global economy, which will open up new opportunities for themselves.

The GATT/WTO system is based on the principle of reciprocity and mutual advantage. Naturally, a weak economy may not automatically receive the full benefits of such a system. Recognizing this problem, the system has taken several corrective measures in the past, including the provisions in part IV of GATT 1994, the differential and more favourable treatment granted to developing countries, particularly LDCs (as contained in the so-called "enabling clause"), and the special treatment provisions in various Uruguay Round agreements. To the extent that the enabling clause has obviated the need for a waiver for special preferential tariff schemes, it has simplified the process. Part IV of GATT 1994, particularly article XXXVII, contains some useful and effective elements, but they have not been seriously implemented or followed up. The special and differential treatment provisions in the various agreements are also of little value: with the exception of a few provisions, they simply grant longer time periods for LDCs to undertake their obligations.

Past experience shows that LDCs have not been spared very strict import controls. For example, in the area of textiles, developed countries have imposed restrictions on some imports from LDCs. In the jute sector, special arrangements were made which curtailed exports from an LDC whose economy largely depended on jute exports. Nor have LDCs been spared the obligation of binding all tariffs in the Agreement on Agriculture. In the area of subsidies, LDCs are required to eliminate their import substitution subsidies by the end of the year 2002, and there is no special provision for exemptions for LDCs in the area of anti-dumping.

A weak trading partner such as an LDC is at a considerable disadvantage in a multilateral trading system based mainly on reciprocity. It is therefore of vital importance that an effective system of special provisions for them should be made an integral part of the trading system. This should not be considered an exercise in generosity; rather, it should be regarded as a corrective measure to reduce the disadvantages faced by weak economies and ensure a fair distribution of the benefits of the system.

The implementation of special and differential treatment provisions for LDCs needs to be effectively monitored. One way to do this would be to have a system in which a WTO body, such as the Committee on Trade and Development, has periodic consultations with individual members, particularly developed-country members, to examine the implementation of the provisions.

The GATT/WTO system at its best can only provide a healthy and helpful environment: LDCs themselves have to take action if they are fully to benefit from it. Similarly, they have to become better at identifying their interests in the multilateral trading system. To do this, they need domestic institutional mechanisms which take into account the interests of all groups concerned with a particular issue, and which allow them to define a national position: all stakeholders have to be involved in this exercise. Once LDCs have identified their interests, they need to pursue them in the relevant WTO bodies. This process should involve coordination with other LDCs and developing countries, whose interests are often similar. Such coordination will also help LDCs to improve their capacities to prepare for and carry out negotiations.

WTO will have a wide-ranging impact on the economies of countries and the global trading system. Hence it is important for LDC members to participate effectively in WTO, in order to safeguard their interests and to maximize the benefits and minimize the costs of participation. The international and multilateral organizations, for their part, have a duty to provide LDCs with all the support they need to facilitate their participation in the global trading system.

Note

1. Several WTO members who previously had no representation in Geneva have set up missions to follow the activities of the Organization more closely, and a few LDC non-members have been granted observer status at WTO, or are in the process of acceding to it.

Statistical Annex

Basic Data on the Least Developed Countries

Contents

Explanatory Notes

Definition of country groupings

Least developed countries

The United Nations has designated 48 countries as least developed: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, the Central African Republic, Chad, the Comoros, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, the Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, the Niger, Rwanda, Samoa, Sao Tome and Principe, Sierra Leone, Solomon Islands, Somalia, the Sudan, Togo, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Yemen and Zambia. Except where otherwise indicated, the totals for least developed countries refer to these 48 countries.

Major economic areas

The classification of countries and territories according to main economic areas used in this document has been adopted for purposes of statistical convenience only and follows that in the UNCTAD *Handbook of International Trade and Development Statistics 1995*.[1] Countries and territories are classified according to main economic areas as follows:

Developed market economy countries: Australia, Canada, the European Union (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom), Faeroe Islands, Gibraltar, Iceland, Israel, Japan, New Zealand, Norway, South Africa, Switzerland and the United States.

Countries in Eastern Europe: Albania, Belarus, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Republic of Moldova, Romania, the Russian Federation, Slovakia and Ukraine.

Developing countries and territories: All other countries, territories and areas in Africa, Asia, America, Europe and Oceania not specified above.

Other country groupings

DAC member countries: The countries members of the OECD Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.

OPEC member countries: The countries members of the Organization of Petroleum Exporting Countries are Algeria, Ecuador, Gabon, Indonesia, the Islamic Republic of Iran, Iraq, Kuwait, the Libyan Arab Jamahiriya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela.

Other notes

Calculation of annual average growth rates. In general, they are defined as the coefficient *b* in the exponential trend function $y^t = ae^{bt}$ where *t* stands for time. This method takes all observations in a period into account. Therefore, the resulting growth rates reflect trends that are not unduly influenced by exceptional values.

Population growth rates are calculated as exponential growth rates.

The term "dollars" ($) refers to United States dollars, unless otherwise stated.

Details and percentages in tables do not necessarily add up to totals, because of rounding.

The following symbols have been used:

A hyphen (-) indicates that the amount is nil or negligible.
Two dots (..) indicate that the data are not available or are not separately reported.
A dot (.) indicates that the item is not applicable.
Use of a dash (–) between dates representing years, e.g. 1980–1990, signifies the full period involved, including the initial and final years.

[1] United Nations Publication, Sales No. E/F.97.II.D.7.

Abbreviations

ACBF	African Capacity Building Foundation
ADF	African Development Fund
AfDB	African Development Bank
AFESD	Arab Fund for Economic and Social Development
AsDB	Asian Development Bank
BADEA	Arab Bank for Economic Development in Africa
BDEAC	Banque de Développement des Etats de l'Afrique Centrale
BITS	Swedish Agency for International Technical and Economic Cooperation
BOAD	West African Development Bank
CCCE	Caisse centrale de coopération économique
CIDA	Canadian International Development Agency
DAC	Development Assistance Committee
DANIDA	Danish International Development Agency
DCD	Development Cooperation Department
EC	European Community
ECA	Economic Commission for Africa
EDF	European Development Fund
EEC	European Economic Community
ESAF	Enhanced Structural Adjustment Facility
ESCAP	Economic and Social Commission for Asia and the Pacific
FAC	Fonds d'aide et de coopération
FAO	Food and Agriculture Organization of the United Nations
GDP	gross domestic product
GNP	gross national product
GTZ	German Technical Assistance Corporation
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
IRF	International Road Federation
IRU	International Road Transport Union
IsDB	Islamic Development Bank
ITU	International Telecommunication Union
KFAED	Kuwait Fund for Arab Economic Development

KfW	Kreditanstalt für Wiederaufbau
LDC	least developed country
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OECF	Overseas Economic Co-operation Fund
OPEC	Organization of Petroleum Exporting Countries
SAF	Structural Adjustment Facility
SDC	Swiss Development Corporation
SDR	special drawing rights
SFD	Saudi Fund for Development
SITC	Standard International Trade Classification (Revision I)
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNTA	United Nations Technical Assistance
USAID	United States Agency for International Development
WFP	World Food Programme
WHO	World Health Organization

1. Per capita GDP and population: Levels and growth

	Per capita GDP in 1996 dollars		Annual average growth rates of per capita real GDP (%)		Population Level (millions)	Population Annual average growth rates (%)	
	1980	1996	1980–1990	1990–1996	1996	1980–1990	1990–1996
Afghanistan	..	..	..	..	20.9	-0.8	6.0
Angola	749	601	0.8	-5.2	11.2	2.8	3.3
Bangladesh	174	259	2.0	2.8	120.1	2.2	1.5
Benin	383	408	-0.4	1.4	5.6	3.1	2.9
Bhutan	92	545	5.0	3.5	0.6	2.4	1.6
Burkina Faso	209	235	0.9	-0.3	10.8	2.8	2.9
Burundi	183	166	1.4	-4.7	6.2	2.9	2.1
Cambodia	..	304	2.0	3.5	10.3	3.0	2.8
Cape Verde	534	860	4.0	1.6	0.4	1.6	2.6
Central African Republic	379	319	-0.7	-1.0	3.3	2.4	2.2
Chad	116	170	4.1	-0.1	6.5	2.2	2.7
Comoros	445	371	-0.3	-2.3	0.6	3.2	3.2
Dem. Republic of the Congo	329	148	-1.5	-9.9	46.8	3.3	3.8
Djibouti	..	..	..	..	0.6	6.3	3.0
Equatorial Guinea	613	669	-3.0	6.7	0.4	4.9	2.6
Eritrea	..	..	..	..	3.3	1.9	2.2
Ethiopia	103	103	-0.3	0.8	59.8	2.5	3.1
Gambia	356	318	-0.2	-2.7	1.1	3.7	3.6
Guinea	738	523	-3.4	-0.8	7.5	2.6	4.6
Guinea-Bissau	163	248	2.6	1.6	1.1	1.9	2.1
Haiti	662	351	-2.1	-6.8	7.3	1.9	1.9
Kiribati	560	537	-0.9	0.1	0.1	1.7	1.8
Lao People's Dem. Republic	249	369	1.6	3.5	5.0	2.7	3.1
Lesotho	273	414	1.6	4.5	2.1	2.7	2.6
Liberia	..	..	..	..	2.2	3.2	-2.3
Madagascar	418	261	-2.0	-2.7	15.4	3.4	3.3
Malawi	245	224	-2.0	1.1	9.8	4.2	0.9
Maldives	416	1 063	8.4	3.2	0.3	3.2	3.4
Mali	266	232	-1.1	-0.3	11.1	3.0	3.2
Mauritania	479	469	-0.9	1.5	2.3	2.6	2.6
Mozambique	101	96	-1.6	2.2	17.8	1.6	3.9
Myanmar	..	..	..	..	45.9	2.0	1.8
Nepal	140	200	2.0	2.3	22.0	2.6	2.7
Niger	352	210	-4.3	-2.2	9.5	3.3	3.4
Rwanda	317	246	-1.1	-5.2	5.4	3.0	-4.1
Samoa	958	941	0.7	0.1	0.2	0.3	0.6
Sao Tome and Principe	517	341	-2.5	-0.4	0.1	2.4	2.1
Sierra Leone	278	219	-0.6	-4.3	4.3	2.1	1.2
Solomon Islands	622	944	3.0	2.1	0.4	3.5	3.4
Somalia	..	..	-0.5	..	9.8	2.5	2.2
Sudan	..	..	-1.9	3.9	27.3	2.6	2.1
Togo	473	338	-1.2	-2.9	4.2	3.0	3.0
Tuvalu	..	..	..	..	..	1.2	1.8
Uganda	204	313	1.8	4.0	20.3	2.4	3.3
United Republic of Tanzania	173	171	-0.5	0.8	30.8	3.2	3.2
Vanuatu	1 236	1 411	0.6	0.2	0.2	2.5	2.5
Yemen	..	384	..	..	15.7	3.5	5.2
Zambia	517	409	-1.4	-2.0	8.3	2.3	2.3
All LDCs	227	228	-0.1	-0.3	596.1	2.5	2.6
All developing countries	985	1 350	1.6	3.0	4 586.8	2.1	1.7
Developed market economy countries	19 119	25 216	2.3	1.2	878.8	0.7	0.7
Countries in Eastern Europe	3 654	2 549	3.8	-7.6	627.0	0.7	0.2

Source: UNCTAD secretariat calculations, based on data from the Statistics Division of the United Nations, the IMF, the World Bank (*World Development Indicators 1998*), and other international and national sources.

Note: Data for Ethiopia prior to 1992 include Eritrea.
The weights used in the aggregate figures are base year weights at 1990 prices.

2. Real GDP, total and per capita: Annual average growth rates

(Percentage)

Country	Total real product 1980–1990	Total real product 1990–1996	Total real product 1994	Total real product 1995	Total real product 1996	Per capita real product 1980–1990	Per capita real product 1990–1996	Per capita real product 1994	Per capita real product 1995	Per capita real product 1996
Afghanistan	..	..	..	..		..	..	..	..	
Angola	3.5	-2.1	7.7	6.2	8.6	0.8	-5.2	4.3	2.8	5.0
Bangladesh	4.3	4.3	4.1	4.4	5.4	2.0	2.8	2.6	2.8	3.8
Benin	2.6	4.3	4.3	4.8	5.5	-0.4	1.4	1.4	1.9	2.6
Bhutan	7.7	5.1	5.2	6.4	6.4	5.0	3.5	3.8	4.5	3.9
Burkina Faso	3.7	2.9	1.3	4.5	5.5	0.9	-0.3	-1.5	1.6	2.6
Burundi	4.4	-2.8	-7.0	-3.4	-3.6	1.4	-4.7	-8.8	-5.6	-6.0
Cambodia	5.2	6.4	5.0	7.4	7.4	2.0	3.5	2.1	4.7	4.8
Cape Verde	5.7	4.2	4.1	4.7	4.0	4.0	1.6	1.5	2.0	1.4
Central African Republic	1.7	1.2	7.3	4.1	-0.9	-0.7	-1.0	5.0	1.9	-3.0
Chad	6.3	2.6	4.1	5.5	6.0	4.1	-0.1	1.3	2.6	3.1
Comoros	2.8	0.8	-2.3	-2.4	1.9	-0.3	-2.3	-5.3	-5.4	-1.2
Dem. Republic of the Congo	1.8	-6.4	-2.4	1.6	1.3	-1.5	-9.9	-6.1	-1.8	-1.6
Djibouti	..	..	..	..	..	..	..	..	..	..
Equatorial Guinea	1.9	9.5	6.8	14.9	14.9	-3.0	6.7	4.0	12.0	12.1
Eritrea	..	..	..	..		..	..	..	..	
Ethiopia	2.2	3.4	1.7	5.4	10.6	-0.3	0.8	-1.5	2.1	7.1
Gambia	3.5	0.9	1.5	-6.5	3.2	-0.2	-2.7	-2.0	-9.4	0.4
Guinea	-1.0	3.9	3.8	4.4	4.5	-3.4	-0.8	-1.0	0.8	2.2
Guinea-Bissau	4.5	3.7	6.8	1.6	6.2	2.6	1.6	4.6	-0.5	4.1
Haiti	-0.2	-5.0	-10.5	4.4	2.8	-2.1	-6.8	-12.2	2.5	0.9
Kiribati	0.8	1.8	1.6	2.5	2.6	-0.9	0.1	0.3	0.7	1.3
Lao People's Dem. Republic	4.5	6.7	8.2	7.0	6.7	1.6	3.5	5.0	3.8	3.5
Lesotho	4.3	7.2	11.5	9.3	13.1	1.6	4.5	8.7	6.6	10.3
Liberia	..	..	..	..		..	..	..	..	
Madagascar	1.3	0.5	-	1.8	2.2	-2.0	-2.7	-3.2	-1.4	-1.0
Malawi	2.3	1.8	-11.6	9.0	10.4	-2.0	1.1	-11.8	8.0	8.5
Maldives	11.8	6.7	6.6	7.2	6.5	8.4	3.2	3.1	3.6	2.9
Mali	1.8	2.9	2.3	6.3	4.0	-1.1	-0.3	-0.9	3.1	0.8
Mauritania	1.7	4.1	4.4	4.6	4.4	-0.9	1.5	1.8	2.0	1.8
Mozambique	-0.2	6.2	5.0	1.5	5.7	-1.6	2.2	0.6	-2.2	2.5
Myanmar	..	..	..	..		..	..	..	..	
Nepal	4.7	5.1	7.9	2.9	6.1	2.0	2.3	5.0	0.2	3.4
Niger	-1.1	1.1	3.9	3.2	3.6	-4.3	-2.2	0.4	-0.3	0.2
Rwanda	2.3	-9.9	-48.1	23.2	13.3	-1.1	-5.2	-44.4	25.8	8.8
Samoa	1.0	0.8	-7.1	7.0	5.0	0.7	0.1	-7.7	6.2	4.1
Sao Tome and Principe	-0.2	1.8	2.5	1.8	2.2	-2.5	-0.4	0.1	-0.5	0.7
Sierra Leone	1.6	-3.2	4.5	-9.5	4.9	-0.6	-4.3	3.6	-10.9	2.4
Solomon Islands	6.6	5.5	5.1	8.6	4.4	3.0	2.1	1.7	5.1	1.1
Somalia	2.1	..	..	..		-0.5	..	..	..	
Sudan	0.6	6.1	5.4	4.4	4.0	-1.9	3.9	3.3	2.3	1.8
Togo	1.8	-	13.1	8.4	5.9	-1.2	-2.9	9.9	5.3	3.0
Tuvalu	..	..	..	..		..	..	..	..	
Uganda	4.2	7.5	10.6	9.6	5.9	1.8	4.0	6.9	6.2	2.9
United Republic of Tanzania	2.7	4.0	3.5	3.8	4.5	-0.5	0.8	0.2	0.8	1.9
Vanuatu	3.1	2.7	2.6	3.2	3.0	0.6	0.2	-0.7	0.7	0.5
Yemen	..	..	..	..		..	..	..	..	
Zambia	0.8	0.2	-1.3	-3.1	6.4	-1.4	-2.0	-3.5	-5.3	3.9
All LDCs	2.6	2.2	2.3	4.4	5.5	-0.2	-0.4	-0.3	1.9	2.9
All developing countries	3.8	4.8	5.4	4.8	5.7	1.6	3.0	3.6	3.0	4.0
Developed market economy countries	3.0	1.9	2.9	2.2	2.5	2.3	1.2	2.3	1.5	1.8
Countries in Eastern Europe	2.8	-7.7	-10.5	-2.8	-3.6	2.0	-7.6	-10.4	-2.7	-3.4

Source: UNCTAD secretariat calculations, based on data from the Statistics Division of the United Nations, the IMF, the World Bank (*World Development Indicators 1998*), and other international and national sources.

Note: Data for Ethiopia prior to 1992 include Eritrea.
The weights used in the aggregate figures are base year weights at 1990 prices.

3. Agricultural production, total and per capita: Annual average growth rates

	Percentage share of agriculture in: Total labour force		GDP		Annual average growth rates (%) Total agricultural production					Annual average growth rates (%) Per capita agricultural production				
	1980	1996	1980	1996	1980–1990	1990–1996	1994	1995	1996	1980–1990	1990–1996	1994	1995	1996
Afghanistan	61	69	..	..	..	..	..	..	..	..	..	..	..	..
Angola	74	74	14[a]	7	0.6	4.9	14.1	2.4	7.4	-2.1	1.6	10.5	-0.9	3.9
Bangladesh	75	61	50	30	2.1	1.2	-2.6	4.6	4.7	0.1	-0.3	-4.1	3.2	3.0
Benin	70	59	35	38	6.7	7.4	1.3	18.6	2.9	3.6	4.4	-1.5	15.3	0.1
Bhutan	93	94	57	42[b]	1.6	1.2	3.3	1.0	-	-0.6	-0.4	1.9	-0.8	-2.3
Burkina Faso	87	92	33	35	6.4	3.8	-0.5	-	7.5	3.7	0.8	-3.2	-2.9	4.5
Burundi	93	91	62	58	2.8	-2.1	-13.4	5.3	-0.6	-0.1	-4.0	-15.0	3.0	-3.2
Cambodia	75	73	43[c]	51	5.9	4.7	-1.2	22.2	2.6	2.5	1.8	-3.9	19.2	0.1
Cape Verde	52	27	14	8	9.6	4.1	-26.4	21.4	-1.8	7.9	1.4	-28.3	18.3	-4.3
Central African Republic	72	78	40	56	2.3	4.0	6.3	1.0	16.9	-0.1	1.7	4.1	-1.3	14.4
Chad	83	80	54	46	2.3	3.1	19.3	4.0	1.4	0.1	0.4	16.1	1.2	-1.5
Comoros	83	75	34	40	2.4	2.1	1.3	5.2	-2.3	-1.1	-1.1	-1.8	2.0	-5.3
Dem. Rep. of the Congo	72	66	25	30[d]	3.2	0.2	1.5	1.7	-7.7	-0.2	-3.5	-2.3	-1.7	-10.5
Djibouti	..	..	3[d]	4	8.8	-2.5	4.8	4.3	0.2	2.3	-5.3	2.1	1.6	-2.4
Equatorial Guinea	66	73	69[a]	34	1.4	-1.0	-5.1	-4.4	7.7	-3.5	-3.6	-7.6	-6.8	5.1
Eritrea	..	79	..	10	..	2.2[f]	31.6	-13.5	-0.8	..	-0.6[f]	28.7	-15.8	-4.0
Ethiopia	80[g]	85	56[h]	57[i]	..	6.2[f]	0.8	10.0	6.7	..	2.8[f]	-2.5	6.6	3.4
Gambia	84	79	30	28[i]	1.0	-1.0	4.7	-2.2	-17.8	-2.6	-4.5	0.9	-5.1	-20.0
Guinea	81	85	24[j]	26	0.2	3.8	2.7	3.8	1.0	-2.3	-0.9	-2.1	0.2	-1.2
Guinea-Bissau	82	84	44	54	3.8	1.9	5.2	1.4	-3.7	1.9	-0.2	3.0	-0.6	-5.6
Haiti	70	65	33[k]	42	-0.1	-1.8	0.5	-6.3	2.9	-2.0	-3.7	-1.4	-8.0	1.0
Kiribati	..	..	21	25[l]	-0.9	4.9	1.0	2.4	1.3	-2.5	3.2	-0.7	0.6	-0.5
Lao People's Dem. Rep.	76	77	54[a]	52[e]	3.5	2.2	15.8	-7.3	2.3	0.7	-0.8	12.5	-10.2	-0.8
Lesotho	86	39	24	11	1.7	2.7	6.8	-12.2	18.4	-1.2	0.2	4.1	-14.4	15.4
Liberia	74	70	36	37[k]	..	..	..	..	..	..	..	..	..	..
Madagascar	81	76	30	35	1.9	0.6	-3.3	1.7	1.5	-1.4	-2.6	-6.3	-1.6	-1.6
Malawi	83	86	37	40	1.5	2.2	-19.1	19.3	6.3	-2.7	1.5	-19.3	18.4	4.4
Maldives	..	29	..	..	2.1	1.7	2.4	1.3	-0.4	-1.1	-1.7	-1.0	-2.1	-3.8
Mali	86	84	61	48	2.7	3.6	7.0	3.8	3.3	-0.3	0.4	3.6	0.6	0.1
Mauritania	69	48	30	25	1.4	0.5	3.5	4.7	7.1	-1.2	-2.0	0.8	2.1	4.4
Mozambique	84	81	37	37	-0.7	2.8	-1.0	17.8	11.7	-2.2	-1.2	-5.0	13.5	8.2
Myanmar	53	72	47	60	0.6	6.0	4.0	3.2	6.0	-1.5	4.2	2.2	1.4	4.1
Nepal	93	93	62	42	4.4	2.4	-2.5	8.5	1.6	1.7	-0.2	-5.2	5.8	-1.0
Niger	91	89	43	39	-0.8	3.7	21.8	-11.5	13.1	-4.0	0.2	17.7	-14.5	9.4
Rwanda	93	91	50	40	1.2	-6.7	-23.3	13.9	1.4	-1.8	-1.8	-17.9	16.4	-2.6
Samoa	..	..	46	40[l]	0.2	0.3	0.1	-	-	-	-0.3	-0.5	-0.9	-0.9
Sao Tome and Principe	..	..	29[c]	23[e]	-1.3	4.4	4.3	-4.5	-4.5	-3.6	2.2	2.0	-6.4	-6.4
Sierra Leone	70	67	33	44	2.3	-0.8	6.5	-7.2	5.6	0.2	-1.9	5.5	-8.7	3.0
Solomon Islands	..	75	..	..	-0.2	1.7	-0.5	4.1	-0.3	-3.5	-1.6	-3.7	0.6	-3.4
Somalia	76	74	68	66[k]	..	..	..	..	..	..	..	..	..	..
Sudan	71	68	34	34[l]	-0.5	6.0	17.2	-0.2	11.3	-3.2	3.8	14.8	-2.2	8.9
Togo	73	61	27	35	4.5	3.7	-11.2	6.8	15.2	1.5	0.7	-13.8	3.9	12.0
Tuvalu	..	..	..	..	-4.1	-1.0	-	-	-	-5.3	-2.9	-1.7	-1.2	-0.4
Uganda	86	83	72	46	3.1	1.9	0.3	2.8	-2.9	-0.1	-1.4	-3.0	-0.3	-5.6
United Rep. of Tanzania	86	83	46[h]	48	2.8	0.4	-3.0	3.6	4.9	-0.5	-2.7	-6.1	0.6	2.4
Vanuatu	..	..	19	20[k]	1.2	-0.5	1.2	3.8	-1.0	-1.4	-2.9	-1.4	1.2	-3.4
Yemen	62	56	19[k]	18	3.9	3.1	-1.5	2.1	0.7	0.7	-2.0	-6.5	-2.8	-3.4
Zambia	73	74	14	18	4.1	1.6	-18.6	-6.6	20.0	0.5	-0.7	-20.4	-8.7	17.1
All LDCs	76	73	36	36	1.8	2.5	1.3	4.1	4.2	-0.7	-0.1	-1.2	1.3	1.5
All developing countries	66	59	16	14	3.4	4.1	4.2	4.6	5.3	1.3	2.3	2.4	2.9	3.4

Source: UNCTAD secretariat calculations, based on data from FAO, the Economic Commission for Africa, the World Bank (*World Development Indicators 1998 CD-ROM*), and other international and national sources.
a 1985. *b* 1995. *c* 1987. *d* 1989. *e* 1993. *f* 1993–1996. *g* Includes Eritrea.
h 1981. *i* 1994. *j* 1986. *k* 1990. *l* 1992.

4. Food production, total and per capita: Annual average growth rates

(Percentage)

	Total food production					Per capita food production				
	1980–1990	*1990–1996*	*1994*	*1995*	*1996*	*1980–1990*	*1990–1996*	*1994*	*1995*	*1996*
Afghanistan	..	..	..	..	..	..	..	..	..	..
Angola	1.0	5.1	15.2	2.2	7.4	-1.7	1.8	11.5	-1.0	3.9
Bangladesh	2.2	1.2	-3.5	5.7	4.4	0.2	-0.3	-4.9	4.1	2.8
Benin	5.5	4.8	4.5	12.4	0.5	2.4	1.9	1.6	9.2	-2.2
Bhutan	1.6	1.2	3.4	1.0	-	-0.7	-0.4	1.9	-0.8	-2.3
Burkina Faso	5.7	4.2	-0.9	0.3	4.6	3.0	1.2	-3.8	-2.4	1.6
Burundi	2.7	-1.8	-15.8	8.7	0.1	-0.2	-3.8	-17.5	6.3	-2.4
Cambodia	5.7	4.6	-3.1	23.4	3.0	2.4	1.8	-5.8	20.4	0.5
Cape Verde	9.7	4.1	-26.4	21.4	-1.8	7.9	1.5	-28.2	18.3	-4.3
Central African Republic	2.3	4.0	3.5	1.8	14.1	-	1.8	1.4	-0.4	11.7
Chad	1.8	3.1	20.0	0.8	-3.9	-0.3	0.4	16.7	-2.0	-6.5
Comoros	2.4	2.3	0.9	5.4	-1.9	-1.1	-0.9	-2.3	2.1	-4.9
Dem. Republic of the Congo	3.3	0.4	1.5	1.9	-7.3	-	-3.4	-2.2	-1.7	-10.0
Djibouti	8.8	-2.5	4.8	4.3	0.2	2.3	-5.3	2.1	1.6	-2.4
Equatorial Guinea	1.5	-1.6	-7.4	-6.6	11.8	-3.3	-4.1	-9.9	-8.9	9.0
Eritrea	..	2.3[a]	32.3	-13.7	-0.9	..	-0.5[a]	29.5	-16.1	-4.0
Ethiopia	2.3[b]	6.1[a]	-	9.9	7.3	..	2.7[a]	-3.2	6.5	3.9
Gambia	1.0	-1.4	4.4	-2.0	-19.2	-2.6	-4.9	0.8	-5.0	-21.3
Guinea	-	4.1	3.2	4.5	2.2	-2.6	-0.6	-1.7	0.8	-0.1
Guinea-Bissau	3.9	1.9	5.4	1.2	-3.7	2.0	-0.2	3.2	-1.0	-5.6
Haiti	-	-1.6	1.1	-6.2	3.5	-2.0	-3.5	-0.8	-7.9	1.6
Kiribati	-0.9	4.9	1.0	2.4	1.3	-2.5	3.2	-0.7	0.6	-0.5
Lao People's Dem. Republic	3.5	2.3	16.3	-7.9	2.9	0.7	-0.7	12.9	-10.6	-0.2
Lesotho	1.9	2.5	8.0	-14.8	29.4	-1.0	-0.1	5.3	-16.9	26.2
Liberia	..	..	..	..	..	..	..	..	..	..
Madagascar	1.9	0.8	-3.4	2.3	1.5	-1.3	-2.4	-6.5	-1.1	-1.6
Malawi	0.7	1.9	-19.1	16.6	4.7	-3.5	1.2	-19.3	15.7	2.9
Maldives	2.1	1.7	2.4	1.3	-0.4	-1.1	-1.7	-1.0	-2.1	-3.8
Mali	2.1	3.1	6.5	0.6	0.4	-0.9	-0.2	3.2	-2.5	-2.6
Mauritania	1.4	0.5	3.5	4.7	7.1	-1.2	-2.0	0.8	2.1	4.4
Mozambique	-	2.8	-1.2	18.6	12.1	-1.5	-1.1	-5.3	14.3	8.7
Myanmar	0.7	6.0	4.5	3.1	5.1	-1.4	4.2	2.7	1.3	3.1
Nepal	4.5	2.5	-2.6	8.7	1.6	1.9	-0.2	-5.1	5.9	-1.1
Niger	-0.9	3.7	21.9	-11.6	13.2	-4.0	0.3	17.9	-14.5	9.4
Rwanda	0.8	-6.1	-19.5	9.9	2.9	-2.2	-1.2	-13.7	12.3	-1.1
Samoa	0.2	0.2	-	-	-	-	-0.4	-0.6	-0.8	-0.9
Sao Tome and Principe	-1.3	4.4	4.3	-4.5	-4.5	-3.5	2.2	2.0	-6.4	-6.5
Sierra Leone	1.7	-0.9	6.1	-7.0	6.2	-0.5	-1.9	5.0	-8.5	3.7
Solomon Islands	-0.2	1.7	-0.6	4.1	-0.2	-3.5	-1.6	-3.7	0.6	-3.4
Somalia	..	..	..	..	..	..	..	..	..	..
Sudan	-0.6	6.3	16.1	-1.1	12.1	-3.3	4.1	13.8	-3.1	9.8
Togo	3.2	4.0	-13.4	12.5	13.5	0.1	1.0	-15.9	9.3	10.4
Tuvalu	-4.1	-1.0	-	-	-	-5.3	-2.9	-1.7	-1.2	-0.4
Uganda	3.1	0.9	-2.2	3.9	-8.0	-	-2.4	-5.4	0.6	-10.5
United Republic of Tanzania	3.0	0.3	-1.1	3.7	3.1	-0.3	-2.8	-4.2	0.7	0.5
Vanuatu	1.2	-0.5	1.1	3.9	-1.0	-1.4	-2.9	-1.3	1.2	-3.4
Yemen	4.1	3.0	-1.0	1.8	0.1	1.0	-2.1	-6.1	-3.0	-4.0
Zambia	3.9	1.6	-16.6	-8.7	22.1	0.3	-0.6	-18.4	-10.9	19.2
All LDCs	1.8	2.5	1.3	4.0	3.7	-0.7	-0.1	-1.3	1.3	0.9
All developing countries	3.4	4.3	4.5	4.4	5.4	1.3	2.5	2.7	2.7	3.6

Source: UNCTAD secretariat calculations, based on data from FAO.
a average 1993–1996; 1985–1990 included Eritrea.

5. The manufacturing sector: Annual average growth rates and shares in GDP

(Percentage)

	Share in GDP		Annual average growth rates				
	1980	*1996*	*1980–1990*	*1990–1996*	*1994*	*1995*	*1996*
Afghanistan	..	..	..	..	..	..	..
Angola	10[a]	7	-11.1[b]	5.3	-8.8	17.0	8.0
Bangladesh	11	10	2.8	7.3	7.8	8.6	5.3
Benin	8	8[c]	5.1	5.3[d]	3.9	..	..
Bhutan	3	..	13.0	3.1[e]	..	15.9	9.0
Burkina Faso	16	19	2.0	9.8	1.7	0.2	3.4
Burundi	7	17	5.7	-17.3	-10.0	-13.9	-22.8
Cambodia	..	6	8.7[f]	7.8	8.3	10.0	13.2
Cape Verde	..	1	..	..	..	..	..
Central African Republic	7	7	4.9	-5.5	..	-5.2	-20.8
Chad	17[g]	15	4.4[h]	-2.6	..	13.6	8.0
Comoros	4	5	4.8	3.9	1.0	1.0	2.0
Dem. Republic of the Congo	14	6[i]	2.3[j]	-13.4	..	..	..
Djibouti	5	6	..	..	..	..	..
Equatorial Guinea	9[a]	1[i]	9.9[f]	10.2[d]	21.1	3.1	..
Eritrea	..	15	..	..	..	..	..
Ethiopia	5[k]	3[c]	1.2[h]	3.3	7.6	9.0	7.6
Gambia	7	7[c]	6.5[l]	1.6	-2.8	-2.0	..
Guinea	3	5[i]	..	..	..	..	..
Guinea-Bissau	14[l]	7[i]	-4.7[j]	0.5	1.5	2.0	..
Haiti	..	9	..	..	..	..	..
Kiribati	2	..	-1.4[h]	..	..	..	..
Lao People's Dem. Republic	10[a]	15	8.9	12.9	..	..	..
Lesotho	7	17	13.6	9.4	12.9	19.1	13.5
Liberia	8	..	..	..	..	..	..
Madagascar	12[a]	12	1.9[n]	3.5	3.8	18.3	1.7
Malawi	12	14	3.6	0.7	3.2	6.3	4.0
Maldives	4	..	..	..	..	..	..
Mali	4	7	4.1[n]	4.9	2.4	6.4	6.1
Mauritania	13[a]	12	-2.1	2.1	-18.2	10.4	8.9
Mozambique	..	..	..	..	..	..	..
Myanmar	10	7[c]	..	..	8.9	11.7	10.4
Nepal	4	10[i]	3.7[b]	12.0	12.3	2.0	5.0
Niger	4	6	..	1.2	..	8.8	0.2
Rwanda	16	14	2.6	-10.5	-35.0	-7.7	..
Samoa	6	11[p]	..	..	..	..	..
Sao Tome and Principe	9[l]	7[o]	..	..	..	..	..
Sierra Leone	5	6	3.4	4.4	4.2	-9.9	..
Solomon Islands	..	..	..	..	..	..	..
Somalia	5	5[q]	-1.7	..	..	..	..
Sudan	7	9[p]	3.7	..	..	..	..
Togo	8	11	1.7	-0.1	24.4	22.1	8.0
Tuvalu	..	..	..	..	..	..	..
Uganda	4	8	4.0[h]	13.4	15.1	17.3	19.7
United Republic of Tanzania	11[j]	7	1.1[h]	3.6	-0.9	0.7	3.2
Vanuatu	4	6[i]	14.9[h]	..	..	..	..
Yemen	12[a]	11	..	..	..	16.7	10.5
Zambia	18	29	4.0	-1.9	-6.5	-2.7	2.5
All LDCs	10	10	7.5	2.6	0.5	7.6	4.1

Source: UNCTAD secretariat calculations, based on data from the World Bank (*World Development Indicators 1998*).
a 1985. *b* 1985–1990. *c* 1994. *d* 1990–1994. *e* 1990–1993. *f* 1987–1990. *g* 1983. *h* 1983–1990.
i 1995. *j* 1980–1989. *k* 1981. *l* 1982–1990. *m* 1986. *n* 1984–1990. *o* 1993. *p* 1992. *q* 1990.

6. Investment: Annual average growth rates and shares in GDP

(Percentage)

	Share in GDP		Annual average growth rates				
	1980	*1996*	*1980–1990*	*1990–1996*	*1994*	*1995*	*1996*
Afghanistan	..	..	..	..	..	..	..
Angola	18[a]	11	6.8[b]	1.8	8.3	13.5	8.0
Bangladesh	15	17	1.4	13.6	11.6	23.4	10.9
Benin	15	17	-6.2	6.6	15.5	..	13.1
Bhutan	31	32[d]	7.6[e]	..	..	..	..
Burkina Faso	17	25	8.6	1.1	-42.0	46.1	35.0
Burundi	14	9	4.5	-4.7	-40.7	-7.5	0.2
Cambodia	9[f]	21	..	..	..	..	..
Cape Verde	52	34	-2.1	26.7[g]	..	-12.2	1.5
Central African Republic	7	6	4.8	-12.8	26.7	15.0	-64.4
Chad	4[h]	19	19.0	-1.3	..	5.2	12.4
Comoros	33	17[d]	-3.9	-5.9	-13.0	-3.4	8.8
Dem. Republic of the Congo	10	6	-0.5[i]	..	..	-6.9	-10.3
Djibouti	..	9	..	..	..	..	..
Equatorial Guinea	6[a]	23[d]	..	..	..	..	..
Eritrea	..	26	..	..	..	..	..
Ethiopia	9	21	3.5[b]	22.2	34.4	9.4	47.6
Gambia	26	21[d]	0.8	3.0[c]	-4.1	..	..
Guinea	15[j]	13	3.9[k]	-0.5	-9.0	7.4	-4.4
Guinea-Bissau	30	22	5.8	-6.6	..	2.6	3.4
Haiti	17	2[d]	-0.6	-10.1	-56.7	..	9.5
Kiribati	33	56[l]	..	..	..	..	..
Lao People's Dem. Republic	7[a]	31	-2.7[m]	..	..	..	..
Lesotho	42	104	6.9	10.7	31.0	12.1	19.0
Liberia	27	..	..	..	..	..	..
Madagascar	15	10	4.9	-3.0	-14.3	0.8	5.5
Malawi	25	17	-2.8	-5.3	-29.0	34.3	41.6
Maldives	..	..	..	..	..	..	..
Mali	17	27	5.4	6.3	23.7	4.4	6.0
Mauritania	36	22	-4.1	4.0	-28.1	-5.9	26.9
Mozambique	22	48	-2.5	4.0	0.1	1.2	6.5
Myanmar	21	11	..	12.5	16.6	..	..
Nepal	18	23	..	5.2	-2.2	4.1	0.7
Niger	37	6[n]	-5.9	0.3	..	..	..
Rwanda	16	14	3.7	-2.4	-50.0	70.0	7.0
Samoa	33	42[l]	-4.6[o]	..	..	..	..
Sao Tome and Principe	34	50[d]	8.4	0.9[c]	2.4	42.9	..
Sierra Leone	18	9	-6.5	-12.8	-23.3	-36.2	71.7
Solomon Islands	36	29[p]	..	..	..	..	..
Somalia	42	16[p]	-2.6[i]	2.6[q]	..	..	..
Sudan	15	13[r]	-1.1	..	..	..	..
Togo	30	14	2.9	-11.5	-31.7	59.7	13.1
Tuvalu	..	..	..	..	..	..	..
Uganda	6	16	9.6[s]	10.6	9.6	38.5	14.7
United Republic of Tanzania	29[t]	18	..	-21.0	..	-6.8	-9.1
Vanuatu	28[a]	44[p]	6.1[s]	..	..	..	..
Yemen	11[p]	25	..	13.2	..	..	23.3
Zambia	23	15	-2.7	2.5	-24.7	-5.6	11.2
All LDCs	18	18	3.5	3.9	3.0	18.9	9.9

Source: UNCTAD secretariat calculations, based on data from the World Bank (*World Development Indicators 1998*).
a 1985. *b* 1985–1990. *c* 1990–1994. *d* 1994. *e* 1980–1988. *f* 1988. *g* 1990–1993. *h* 1992. *i* 1980–1989. *j* 1986. *k* 1986–1990. *l* 1992. *m* 1984–1990. *n* 1993. *o* 1980–1987. *p* 1990. *q* 1990–1992. *r* 1991. *s* 1983–1990. *t* 1981.

7. Indicators on area and population

	Area		Population					
	Total	*% of arable land and land under permanent crops*	*Density*	*Total*	*Urban*	*Activity rate[a]*		
	(000 km²)	*1995*	*Pop./km² 1996*	*(mill.) 1996*	*% 1996*	*M*	*F 1996*	*T*
Afghanistan	652.1	12.4	32	20.9	20	54	31	42
Angola	1 246.7	2.8	9	11.2	32	50	42	46
Bangladesh	144.0	60.4	834	120.1	18	57	44	53
Benin	112.6	16.7	49	5.6	31	47	42	45
Bhutan	47.0	3.2	13	0.6	6	58	39	48
Burkina Faso	274.0	12.5	39	10.8	27	54	47	49
Burundi	27.8	39.5	224	6.2	8	56	51	55
Cambodia	181.0	21.2	57	10.3	21	51	52	52
Cape Verde	4.0	10.2	98	0.4	54	51	29	41
Central African Republic	623.0	3.2	5	3.3	39	53	44	48
Chad	1 284.0	2.5	5	6.5	21	54	42	48
Comoros	2.2	44.8	283	0.6	31	51	39	46
Dem. Republic of the Congo	2 344.9	3.4	20	46.8	29	48	36	41
Djibouti	23.2	..	27	0.6	83	..	..	..
Equatorial Guinea	28.1	8.2	15	0.4	42	55	29	42
Eritrea	117.6	4.4	28	3.3	17	53	47	50
Ethiopia	1 104.3	10.7	54	59.8	13	51	36	43
Gambia	11.3	15.5	101	1.1	26	57	45	51
Guinea	245.9	3.6	30	7.5	30	50	46	47
Guinea-Bissau	36.1	9.4	30	1.1	22	57	37	47
Haiti	27.8	32.8	262	7.3	32	51	37	44
Kiribati	0.7	50.7	114	0.1	36	..	..	..
Lao People's Dem. Republic	236.8	3.8	21	5.0	22	52	45	48
Lesotho	30.4	10.5	68	2.1	23	52	30	41
Liberia	111.4	3.4	20	2.2	45	50	33	40
Madagascar	587.0	5.3	26	15.4	27	52	42	47
Malawi	118.5	14.3	83	9.8	14	50	47	48
Maldives	0.3	10.0	883	0.3	27	46	36	40
Mali	1 240.2	2.8	11	11.1	27	54	45	49
Mauritania	1 025.5	0.2	2	2.3	54	52	40	46
Mozambique	801.6	4.0	22	17.8	34	54	50	52
Myanmar	676.6	14.9	68	45.9	26	60	46	53
Nepal	147.2	20.2	150	22.0	14	54	38	46
Niger	1 267.0	3.9	7	9.5	17	54	42	47
Rwanda	26.3	43.7	205	5.4	6	55	51	54
Samoa	2.8	43.0	59	0.2	21	..	..	..
Sao Tome and Principe	1.0	42.7	140	0.1	47	..	..	..
Sierra Leone	71.7	7.5	60	4.3	36	48	27	37
Solomon Islands	28.9	2.1	13	0.4	17	53	50	51
Somalia	637.7	1.6	15	9.8	26	50	37	43
Sudan	2 505.8	5.2	11	27.3	25	56	22	40
Togo	56.8	42.8	74	4.2	31	50	33	41
Tuvalu	-	..	385	-	46	..	..	..
Uganda	241.0	28.2	84	20.3	13	53	47	49
United Republic of Tanzania	883.7	3.9	35	30.8	24	53	50	51
Vanuatu	12.2	11.8	14	0.2	19	..	..	..
Yemen	528.0	2.9	30	15.7	34	45	18	32
Zambia	752.6	7.0	11	8.3	43	46	37	42
ALL LDCs	20 529.3	6.1	29	596.1	22	52	40	46
All developing countries	82 170.8	10.6	56	4 586.8	38	57	37	47

Sources: United Nations, *Demographic Yearbook 1995; World Population Prospects 1994; World Urbanization Prospects 1994;* UNFPA, *The State of World Population 1995;* FAO, *Production Yearbook 1996;* and ILO, *World Labour Report 1997–1998*.

a Economically active population as a percentage of total population of all ages: M = Male; F = Female; T = Total (Male & Female).

8. Indicators on demography

Country	Infant mortality rate (per 1,000 live births)		Average life expectancy at birth (years)						Crude birth rate (per 1,000)		Crude death rate (per 1,000)	
	1985–1990	1996	1985–1990			1990–1995[a]			1985–1990	1996[a]	1985–1990	1996[a]
			M	F	T	M	F	T				
Afghanistan	172	165	41	42	42	43	44	44	47	52	23	21
Angola	137	170	42	46	44	45	48	47	51	49	21	19
Bangladesh	110	83	53	53	53	56	56	56	37	27	14	10
Benin	98	84	50	54	52	51	56	54	49	43	15	13
Bhutan	131	90	47	50	48	49	52	51	42	41	17	14
Burkina Faso	109	82	45	48	47	45	48	47	49	46	19	18
Burundi	113	106	47	50	48	43	46	45	47	44	17	18
Cambodia	130	108	48	50	49	50	53	52	44	35	17	13
Cape Verde	58	54	62	64	63	64	66	65	36	32	10	8
Central African Republic	103	103	46	51	48	46	51	48	41	38	17	17
Chad	133	92	44	47	46	45	48	47	44	42	20	18
Comoros	102	83	53	54	54	55	56	56	46	42	13	11
Dem. Rep. of the Congo	100	128	50	53	52	50	54	52	48	46	15	14
Djibouti	122	112	45	49	47	47	50	48	42	39	18	15
Equatorial Guinea	127	111	44	48	46	46	50	48	44	42	20	17
Eritrea	117	78	46	50	48	48	51	50	45	41	17	15
Ethiopia	132	113	43	47	45	46	49	48	49	48	20	17
Gambia	143	78	41	45	43	43	47	45	46	41	21	18
Guinea	145	130	42	43	43	44	45	45	51	49	22	19
Guinea-Bissau	151	132	40	43	42	41	44	43	43	41	23	21
Haiti	98	94	53	56	54	53	56	54	36	34	14	13
Kiribati	69	56	52[b]	52[b]	52[b]	56	60	58	26[c]	28	9[c]	9
Lao People's Dem. Republic	110	102	47	50	49	50	53	51	45	45	17	14
Lesotho	90	96	55	58	56	56	59	58	39	36	12	11
Liberia	142	157	52	55	54	38	41	39	47	48	16	19
Madagascar	112	100	53	56	54	55	58	57	47	42	13	10
Malawi	154	137	44	46	45	41	42	42	52	49	21	22
Maldives	82	54	61	58	60	63	61	62	42	42	10	8
Mali	169	134	42	46	44	44	48	46	51	48	21	18
Mauritania	110	124	48	51	50	50	53	52	41	39	16	13
Mozambique	126	133	44	48	46	44	48	46	46	43	19	18
Myanmar	103	105	54	57	55	56	60	58	34	28	13	10
Nepal	109	82	53	51	52	55	54	55	40	37	14	12
Niger	135	191	43	46	45	45	48	47	56	51	20	18
Rwanda	118	105	45	48	47	22	23	23	45	43	17	27
Samoa	72	42	64	67	65	66	69	68	32	27	7	6
Sao Tome and Principe	..	62	..	..	..	..	..	67	..	35	..	7
Sierra Leone	180	164	35	38	37	33	36	34	49	47	27	27
Solomon Islands	32	24	67	71	69	68	73	70	39	37	5	4
Somalia	132	125	43	47	45	45	49	47	50	50	20	17
Sudan	85	73	50	52	51	50	52	51	37	34	14	12
Togo	95	78	51	54	52	50	53	51	45	43	15	15
Tuvalu	..	40	..	..	..	..	..	..	24[d]	25	10[d]	11
Uganda	126	88	42	45	44	40	42	41	50	51	20	21
United Republic of Tanzania	91	93	49	53	51	49	52	50	45	42	15	14
Vanuatu	57	41	61	65	63	64	67	65	37	34	8	6
Yemen	105	78	52	53	53	55	56	56	50	48	14	11
Zambia	113	112	49	51	50	43	45	44	46	43	15	18
All LDCs	118	109	48	50	49	49	51	50	43	40	16	14
All developing countries	76	66	59	62	61	60	63	62	31	26	10	9

Sources: United Nations, *World Population Prospects 1996 Revision;* UNICEF, *The State of the World's Children 1998;* ESCAP, *Statistical Yearbook for Asia and the Pacific 1992;* World Bank, *World Development Indicators 1998;* and AsDB, *Key Indicators of Developing Asian and Pacific Countries 1995.*

a Or latest year available. *b* 1988. *c* 1985. *d* 1983.

9. Indicators on health

Country	Low birth-weight infants (percentage) 1990–1994[b]	Percentage of women attended during childbirth by trained personnel 1990–1996[b]	Percentage of children immunized against DPT[a] (3 doses) 1995[b]
Afghanistan	20	9	12
Angola	19	15	21
Bangladesh	50	14	91
Benin	10	45	87
Bhutan	..	15	87
Burkina Faso	21	42	47
Burundi	14	19	57
Cambodia	..	47	79
Cape Verde	11	30	73
Central African Republic	15	46	40
Chad	11	15	18
Comoros	8	52	58
Dem. Republic of the Congo	15	..	35
Djibouti	11	79	63
Equatorial Guinea	10	58	60
Eritrea	13	21	35
Ethiopia	16	14	47
Gambia	10	44	78
Guinea	21	31	73
Guinea-Bissau	20	27	74
Haiti	15	21	30
Kiribati	6	72	60
Lao People's Dem. Republic	18	..	54
Lesotho	11	40	58
Liberia	..	58	19
Madagascar	17	57	67
Malawi	20	55	98
Maldives	20	90	96
Mali	17	24	39
Mauritania	11	40	50
Mozambique	20	25	57
Myanmar	16	57	84
Nepal	26	9	65
Niger	15	15	19
Rwanda	17	26	83
Samoa	6	95	94
Sao Tome and Principe	7	86	60
Sierra Leone	11	25	41
Solomon Islands	20	87	69
Somalia	16	2	18
Sudan	15	69	77
Togo	20	54	73
Tuvalu	2	..	87
Uganda	10	38	79
United Republic of Tanzania	14	53	79
Vanuatu	7	86	73
Yemen	19	16	53
Zambia	13	51	76
All LDCs	23	29	60
All developing countries	18	53	79

Sources: UNICEF, *The State of the World's Children 1998;* World Bank, *World Development Indicators 1998;* and WHO, *The World Health Report 1997.*

a Diphtheria, pertussis and tetanus.

b Or latest year available.

10. Indicators on nutrition and sanitation

Country	Total food supply (kilocalories per capita per day)		Percentage of population with access to safe water or adequate sanitation							
			Urban				Rural			
			Water		Sanitation		Water		Sanitation	
	1980	1996	1980	1995[a]	1980	1995[a]	1980	1995[a]	1980	1995[a]
Afghanistan	2 186	1 676	28	39	..	38	8	5	..	1
Angola	2 184	1 983	85	69	40	34	10	15	15	8
Bangladesh	1 902	2 105	26	99	21	79	40	96	1	44
Benin	2 186	2 415	26	41	48	54	15	53	4	6
Bhutan	..	..	50	75	..	90	5	54	..	66
Burkina Faso	1 668	2 137	27	66	38	41	31	37	5	33
Burundi	2 025	1 708	90	92	40	60	20	49	..	50
Cambodia	2 206	1 974	..	65	..	81	..	33	..	8
Cape Verde	2 716	3 135	100	70	34	40	21	34	10	10
Central African Republic	2 266	1 938	..	55	..	38	..	21	..	16
Chad	1 639	1 972	..	48	..	73	..	17	..	7
Comoros	1 760	1 824	..	76	..	40	..	45	..	16
Dem. Rep. of the Congo	2 078	1 815	43	89	..	53	5	26	10	6
Djibouti	1 782	1 920	50	77	43	64	20	100	20	24
Equatorial Guinea	..	..	47	88	99	61	..	100	..	48
Eritrea	..	..	..	60	..	48	..	8	..	..
Ethiopia	1 858	1 845	..	91	..	97	..	19	..	7
Gambia	2 023	2 332	85	67	..	83	..	48	..	23
Guinea	2 229	2 099	69	69	54	54	2	36	1	19
Guinea-Bissau	1 818	2 381	18	32	21	24	8	67	13	32
Haiti	2 067	1 706	48	50	39	49	8	28	10	17
Kiribati	2 656	2 795	93	100	87	100	25	100	80	100
Lao People's Dem. Rep.	2 443	2 143	21	40	..	70	12	39	..	13
Lesotho	2 222	2 209	37	91	13	56	11	57	14	35
Liberia	2 398	2 161	..	79	..	56	..	13	..	4
Madagascar	2 430	2 001	80	68	9	77	7	21	..	29
Malawi	2 251	2 097	77	80	100	22	37	32	81	4
Maldives	2 130	2 495	11	100	60	100	3	81	1	54
Mali	1 789	2 027	37	87	79	12	0	55	0	3
Mauritania	2 118	2 653	80	88	5	44	85	59	..	19
Mozambique	1 953	1 799	..	17	..	70	..	40	..	11
Myanmar	2 330	2 752	38	78	38	56	15	50	15	36
Nepal	1 863	2 339	83	88	16	58	7	60	1	12
Niger	2 229	2 116	41	76	36	79	32	44	3	5
Rwanda	2 048	2 142	48	75	60	77	55	79	50	85
Samoa	2 495	2 828	97	100	86	100	94	77	83	92
Sao Tome and Principe	2 121	2 156	..	33	..	8	..	45	..	13
Sierra Leone	2 008	2 002	50	58	31	17	2	21	6	8
Solomon Islands	2 289	2 103	91	82	82	73	20	58	10	2
Somalia	1 788	1 532	60	46	45	69	20	28	5	35
Sudan	2 244	2 391	100	66	63	79	31	45	0	4
Togo	2 264	2 155	70	82	24	76	31	41	0	22
Tuvalu	..	..	..	100	..	90	..	95	..	85
Uganda	2 071	2 110	45	77	40	75	8	41	10	55
United Rep. of Tanzania	2 284	2 028	88	73	83	96	39	29	47	84
Vanuatu	2 577	2 624	65	100	95	82	53	64	68	33
Yemen	1 934	2 041	93	88	60	47	19	55	..	17
Zambia	2 196	1 939	65	50	100	89	32	17	48	43
All LDCs	2 050	2 150	51	78	44	66	24	48	12	28
All developing countries[b]	2 313	2 619	73	88	50	78	32	61	13	23

Sources: FAO, internet site on food balance-sheet *(http:fao.org);* WHO/UNICEF, *Water Supply and Sanitation Sector Monitoring Report 1993* and *1996;* WHO, *The International Drinking Water Supply and Sanitation Decade: End of Decade Review* (as at December 1990), *Review of National Progress* (various issues); and UNICEF, *The State of the World's Children 1998.*

a Or latest year available. *b* Average of countries for which data are available.

11. Indicators on education and literacy

Country	Adult literacy rate (%)			School enrolment ratio (% of relevant age group)											
				Primary						*Secondary*					
	1995[a]			*1980*			*1995*[a]			*1980*			*1995*[a]		
	M	*F*	*T*	*M*	*F*	*T*	*M*	*F*	*T*	*M*	*F*	*T*	*M*	*F*	*T*
Afghanistan	47	15	32	54	12	34	46	16	31	16	4	10	22	8	15
Angola	56	29	42	187	163	175	95	88	91	32	9	20	15	10	12
Bangladesh	49	26	38	72	43	58	84	73	79	25	9	17	25	13	19
Benin	49	26	37	87	41	64	92	52	72	24	9	16	23	10	16
Bhutan	56	28	42	23	10	17	34	22	28	3	1	2	9	2	6
Burkina Faso	30	9	19	22	13	17	46	30	38	4	2	3	11	6	8
Burundi	49	23	35	32	21	26	77	63	70	4	2	3	8	5	7
Cambodia	48	22	35	..	..	..	..	..	..	..	..	..	..	..	..
Cape Verde	81	64	72	119	110	114	132	129	131	9	7	8	21	20	20
Central African Republic	69	52	60	92	51	71	71	46	58	21	7	14	15	6	10
Chad	62	35	48	52	19	36	74	36	55	9	1	5	13	2	8
Comoros	64	50	57	100	75	88	85	71	78	30	15	23	21	17	19
Dem. Rep. of the Congo	87	68	77	108	77	92	86	59	72	35	13	24	32	19	26
Djibouti	60	33	46	44	26	35	44	33	38	15	9	12	15	11	13
Equatorial Guinea	90	68	79	153	120	136	167	133	149	20	4	12	23	4	13
Eritrea	..	..	..	..	..	..	63	51	57	..	..	..	22	16	19
Ethiopia	46	25	36	47	25	36	39	24	31	12	6	9	12	10	11
Gambia	53	25	39	69	36	53	78	67	73	16	7	11	28	15	22
Guinea	50	22	36	48	25	36	63	34	48	24	10	17	18	6	12
Guinea-Bissau	68	43	55	94	43	68	81	47	64	10	2	6	11	4	7
Haiti	48	42	45	82	70	76	58	54	56	14	13	14	22	21	22
Kiribati	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Lao People's Dem. Rep.	69	44	57	123	104	113	123	92	107	25	16	21	31	19	25
Lesotho	81	62	71	84	120	102	92	105	99	14	21	18	22	34	28
Liberia	54	22	38	62	34	48	45	25	35	31	12	22	22	9	16
Madagascar	60	32	46	136	131	133	73	70	72	35	24	29	14	14	14
Malawi	72	42	56	72	48	60	142	128	135	5	2	3	7	4	6
Maldives	93	93	93	153	139	146	136	133	134	4	5	4	49	49	49
Mali	39	23	31	33	18	26	41	27	34	12	5	8	12	6	9
Mauritania	50	26	38	47	26	37	85	72	78	17	4	11	19	11	15
Mozambique	58	23	40	114	84	99	70	50	60	8	3	5	9	5	7
Myanmar	89	78	83	93	89	91	107	104	105	25	19	22	23	23	23
Nepal	41	14	28	122	52	88	130	87	109	33	9	22	46	23	35
Niger	21	7	14	33	18	25	36	22	29	7	3	5	9	4	7
Rwanda	70	52	61	66	60	63	83	81	82	4	3	3	12	9	11
Samoa	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Sao Tome and Principe	73	42	57	..	..	..	..	..	..	..	..	..	..	..	..
Sierra Leone	45	18	31	61	43	52	59	41	50	20	8	14	22	13	17
Solomon Islands	..	..	..	83	65	74	102	87	94	22	9	16	21	13	17
Somalia	36	14	24	24	14	19	15	8	11	11	4	8	9	5	7
Sudan	58	35	46	59	41	50	59	48	54	20	12	16	14	12	13
Togo	67	37	52	146	91	118	140	97	118	51	16	33	41	14	27
Tuvalu	68	45	56	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	74	50	62	56	43	50	79	67	73	7	3	5	15	9	12
United Rep. of Tanzania	79	57	68	99	86	93	68	66	67	4	2	3	6	5	5
Vanuatu	..	..	..	..	..	..	105	107	106	..	..	..	23	18	20
Yemen	53	26	33	72	16	45	111	43	79	11	3	7	47	10	29
Zambia	86	71	78	97	83	90	92	86	89	22	11	16	34	21	28
All LDCs[b]	60	38	48	77	54	66	78	61	70	21	9	15	23	14	18
All developing countries[b]	79	62	71	103	85	95	105	93	99	42	28	35	54	44	49

Sources: UNESCO, *Compendium of Statistics on Illiteracy* (1990 and 1995 editions), *Statistical Yearbook* (1997), *Trends and Projections of Enrolment by Level of Education and by Age, 1960–2025* (as assessed in 1993); and ECA, *African Socio-economic Indicators, 1990–91*.

a Or latest year available. *b* Average of countries for which data are available.

12. Indicators on communications and media

Country	Post offices open to the public (per 100,000 inhabitants) 1980	1996[b]	Telephones (per 1,000 inhabitants) 1980	1995[b]	Radio receivers 1980	1995[b]	Circulation of daily newspapers 1980	1995[b]
Afghanistan	..	1.7	2.0	1.4	75	122	6.0	10.0
Angola	1.4	0.7	5.1	5.6	21	34	20.0	11.0
Bangladesh	8.2	7.7	1.1	2.4	17	47	3.0	6.0
Benin	..	3.0	5.0[c]	5.2	66	92	0.3	1.0
Bhutan	6.3	5.8	..	6.2	6	17	..	..
Burkina Faso	1.2	0.8	1.5[c]	2.9	18	28	0.2	1.0
Burundi	0.4[d]	0.4	1.3[e]	2.7	39	68	0.2	3.0
Cambodia	..	0.4	..	0.5	92	112	..	..
Cape Verde	18.7[d]	13.8	5.7[f]	54.9	142	179	..	..
Central African Republic	3.1[e]	1.9	2.1[f]	2.3	52	75	..	1.0
Chad	0.5[e]	0.5	1.5[g]	0.8	168	248	0.2	0.4
Comoros	..	3.8	5.0[c]	9.0	120	137	..	..
Dem. Republic of the Congo	1.4	1.1	0.8	0.8	56	98	2.0	3.0
Djibouti	1.6	1.7	16.8	13.1	75	80	..	..
Equatorial Guinea	4.6[d]	5.9	..	6.3	401	425	7.0	5.0
Eritrea	..	1.1	..	4.8	..	98	..	..
Ethiopia	1.1[f]	1.0	2.3	2.5	82	193	1.0	2.0
Gambia	..	..	5.4[h]	17.3	114	164	..	1.0
Guinea	..	1.1	1.9[g]	1.6	30	44	..	..
Guinea-Bissau	..	1.7	..	8.8	31	42	8.0	6.0
Haiti	..	1.7	..	8.4	20	53	7.0	6.0
Kiribati	42.4	62.5	12.3	26.0	193	212	..	..
Lao People's Dem. Republic	2.1	2.7	2.1[g]	4.2	109	129	4.0	3.0
Lesotho	9.2	7.6	..	9.0	24	37	32.0	7.0
Liberia	2.6	1.2	..	1.6	179	318	6.0	16.0
Madagascar	85.6	5.3	4.3	2.4	176	192	6.0	4.0
Malawi	3.9	3.0	5.2	3.5	42	256	3.0	3.0
Maldives	5.8	85.4	6.8	56.7	44	118	6.0	12.0
Mali	1.9[d]	1.4	..	1.7	15	46	1.0	4.0
Mauritania	3.7	2.6	2.5[d]	4.1	97	150	..	0.5
Mozambique	4.8	1.5	4.5[f]	3.4	21	38	4.0	8.0
Myanmar	3.3	2.7	1.1[h]	3.2	23	89	10.0	22.0
Nepal	9.6	18.4	1.0[c]	3.6	20	36	8.0	7.0
Niger	2.7	0.7	1.7	1.5	45	68	0.5	0.4
Rwanda	..	0.3	0.9	1.9	34	101	0.1	0.1
Samoa	..	22.4	36.9	46.2	206	485	..	..
Sao Tome and Principe	55.9	8.3	15.1[f]	19.1	245	271	..	..
Sierra Leone	3.3[d]	1.2	..	3.7	139	250	3.0	5.0
Solomon Islands	..	36.8	..	17.3	88	122	..	..
Somalia	..	..	..	1.7	17	42	1.0	1.0
Sudan	4.0	1.6	3.4	2.7	187	270	6.0	24.0
Togo	15.2	1.2	3.8	5.2	203	215	6.0	2.0
Tuvalu	..	..	..	11.5	206	320	..	..
Uganda	..	1.5	3.6	2.3	30	117	2.0	2.0
United Republic of Tanzania	3.2	1.7	5.0	3.0	16	276	11.0	12.0
Vanuatu	5.3	..	23.2[c]	27.5	197	296	..	..
Yemen	2.4	1.8	..	12.4	28	43	12.0	15.0
Zambia	7.0[f]	4.2	10.7	8.2	24	99	19.0	13.0
All LDCs[a]	6.7	3.6	2.3	3.1	51	115	5.0	7.0
All developing countries[a]	13.1[i]	10.1i	15.5	41.9	98	185	37.0	43.0

Sources: UNESCO, *Statistical Yearbook 1997;* Universal Postal Union, *Statistique des services postaux 1996;* ITU, *World Telecommunications Development Report 1996-1997;* and other international and national sources.

a Average of countries for which data are available. *b* Or latest year available.

c 1978. *d* 1982. *e* 1983. *f* 1981. *g* 1977. *h* 1979. *i* Excluding China.

13. Indicators on transport and transport networks[a]

Country	Road networks			Railways				Civil aviation			
	Total	Paved	Density	Network	Density	Freight	Passenger	Freight		Passenger	
								Total	International	Total	International
	km	%	km/ 1,000 km^2	km	km/ 1,000 km^2	mill. ton km	mill. pass. km	thousands of tons		thousands	
Afghanistan	21 000	13.3	32.2	..	..	..	..	9.9	9.5	174	65
Angola	72 626	25.0	58.3	2 523	2.0	1 890	360	..	..	1 334	310
Bangladesh	223 391	7.2	1 551.3	2 746	19.1	718	5 348	72.4	71.6	2 121	1 625
Benin	6 787	20.0	60.3	579	5.1	220	230	4.3	4.3	266	193
Bhutan	3 285	60.7	69.9	..	..	..	..	..	..	..	..
Burkina Faso	12 100	16.0	44.2	607	2.2	72	152	7.6	7.5	112	85
Burundi	14 480	7.1	520.9	..	..	..	..	16.0	16.0	62	62
Cambodia	35 769	7.5	197.6	601	3.3	34	80	3.6	3.5	867	613
Cape Verde	1 100	78.0	272.7	..	..	..	..	2.1	1.2	335	104
Central African Republic	24 000	1.8	38.5	..	..	..	..	3.3	3.2	59	41
Chad	33 400	0.8	26.0	..	..	..	..	5.5	5.4	57	49
Comoros	900	76.5	409.1	..	..	..	..	1.3	1.3	118	75
Dem. Rep. of the Congo	157 000	..	67.0	5 088	2.2	1 836	580	64.9	6.7	215	66
Djibouti	2 890	12.6	124.6	100	4.3	..	..	8.4	8.4	126	112
Equatorial Guinea	2 880	..	102.5	..	..	..	..	..	..	..	..
Eritrea	4 010	21.8	34.1	..	..	..	..	3.4	3.4	160	151
Ethiopia	28 500	15.0	25.8	781	0.7	103	185	32.9	31.3	844	627
Gambia	2 700	35.4	238.9	..	..	..	..	3.4	3.4	256	239
Guinea	30 500	16.5	124.0	940	3.8	660	116	4.7	4.7	283	191
Guinea-Bissau	4 400	10.3	121.9	..	..	..	..	0.3	0.3	21	21
Haiti	4 160	24.3	149.6	100	3.6	..	..	16.8	16.8	757	714
Kiribati	670	..	957.1	..	..	..	..	0.5	0.1	51	16
Lao People's Dem. Rep.	22 321	13.8	94.3	..	..	..	..	0.6	0.3	165	59
Lesotho	4 955	17.9	163.2	16	0.5	..	..	..	..	34	26
Liberia	10 600	6.2	95.2	493	4.4	..	..	..	..	..	..
Madagascar	49 837	11.6	84.9	1 030	1.8	93	46	10.7	8.4	697	230
Malawi	28 400	18.5	239.7	789	6.7	48	40	5.3	4.5	206	116
Maldives	..	..	..	..	..	..	..	25.1	25.1	1 154	804
Mali	15 100	12.1	12.2	642	0.5	4	9	10.2	9.7	176	164
Mauritania	7 660	11.3	7.5	650	0.6	16 623	7	1.7	1.6	212	68
Mozambique	30 400	18.4	37.9	3 150	3.9	1 420	500	3.5	2.0	281	154
Myanmar	28 200	12.2	41.7	2 775	4.1	648	4 675	7.5	3.4	1 368	244
Nepal	7 700	41.5	52.3	52	0.4	..	..	17.0	16.3	1 298	811
Niger	10 100	7.9	8.0	..	..	..	..	2.8	2.5	78	77
Rwanda	14 900	9.1	566.5	2 652	100.7	2 140	2 700	5.0	5.0	80	69
Samoa	790	42.0	282.1	..	..	..	..	..	..	..	..
Sao Tome and Principe	320	68.1	320.0	..	..	..	..	0.3	0.3	26	20
Sierra Leone	11 700	11.0	163.2	84	1.2	..	..	2.0	2.0	98	98
Solomon Islands	1 360	2.5	47.1	..	..	..	..	..	..	..	..
Somalia	22 100	11.8	34.7	..	..	..	..	2.0	1.9	136	110
Sudan	11 900	36.3	4.7	4 756	1.9	1 970	985	..	..	..	..
Togo	7 520	31.6	132.4	514	9.1	17	132	3.7	3.7	217	151
Tuvalu	8	..	307.7	..	..	..	..	..	..	..	..
Uganda	26 800	7.7	111.2	1 100	4.6	82	315	27.1	27.0	378	297
United Rep. of Tanzania	88 200	4.2	99.8	3 575	4.0	523	935	1.3	1.1	154	69
Vanuatu	1 070	23.9	87.7	..	..	..	..	..	..	..	..
Yemen	64 725	8.1	122.6	..	..	..	..	6.6	6.2	440	284
Zambia	39 700	18.3	52.8	1 924	2.6	1 625	547	8.8	8.8	295	219

Sources: IRU, *World Transport Statistics 1996;* IRF, *World Road Statistics 1998;* Airports Council International.

a Data refer to 1996 or latest year available.

14. Indicators on energy

Country	Coal, oil, gas and electricity		Fuelwood, charcoal and bagasse		Installed electricity capacity	
	Consumption per capita in kg of coal equivalent				*kW/1,000 inhabitants*	
	1980	*1995*	*1980*	*1995*	*1980*	*1995*
Afghanistan	48	35	99	99	27	25
Angola	135	83	362	183	86	56
Bangladesh	45	101	23	24	11	27
Benin	52	45	347	344	4	3
Bhutan	9	59	777	262	10	229
Burkina Faso	29	45	277	312	6	8
Burundi	14	19	252	255	2	7
Cambodia	22	25	213	218	6	4
Cape Verde	194	140	..	..	10	18
Central African Republic	26	38	358	335	16	13
Chad	23	7	206	208	7	5
Comoros	48	54	..	..	13	7
Democratic Republic of the Congo	75	33	298	335	64	73
Djibouti	474	293	..	..	125	142
Equatorial Guinea	124	150	645	383	23	13
Eritrea	..	..	..	..	..	..
Ethiopia	21	26	296	285	8	8
Gambia	117	93	452	338	17	26
Guinea	103	73	246	221	37	26
Guinea-Bissau	81	102	177	134	9	10
Haiti	61	44	322	288	23	21
Kiribati	220	128	..	..	34	20
Lao People's Democratic Republic	34	37	354	308	55	52
Lesotho	..	..	..	..	..	..
Liberia	500	81	709	589	173	111
Madagascar	86	39	194	242	11	15
Malawi	56	42	288	314	24	17
Maldives	129	350	..	..	13	85
Mali	28	23	196	191	12	8
Mauritania	188	593	1	1	44	46
Mozambique	150	31	351	323	156	149
Myanmar	60	87	143	149	20	29
Nepal	17	36	305	282	5	13
Niger	48	55	191	200	6	7
Rwanda	28	49	292	232	8	4
Samoa	310	400	145	149	82	95
Sao Tome and Principe	213	286	..	..	53	60
Sierra Leone	80	44	709	237	31	28
Solomon Islands	212	201	..	126	53	30
Somalia	36	48[a]	192	315	7	8
Sudan	81	62	282	289	16	18
Togo	70	76	66	94	12	8
Tuvalu	..	..	..	..	..	..
Uganda	27	28	235	236	12	8
United Republic of Tanzania	46	38	331	392	22	18
Vanuatu	248	172	68	48	85	55
Yemen	187	417	45	8	20	56
Zambia	396	212	496	502	301	256
All LDCs	64	68	212	210	28	33
All developing countries	508	828	125	135	98	364

Source: United Nations, *Energy Statistics Yearbook 1995* and *Statistical Yearbook 1985/86*.
a 1989.

15. Indicators on the status of women in LDCs

Country	Education, training and literacy: Female–male gaps[a]: Adult literacy rate	School enrolment ratio: Primary	School enrolment ratio: Secondary	School enrolment ratio: Post-secondary	Health, fertility and mortality: Average age at first marriage (years)	Total fertility rate (births per woman)	Maternal mortality (per 100,000 births)	Economic activity, employment: Women as a percentage of total: Labour force	Employees	Self-employed	Unpaid family	Female labour force: Agriculture/total (%)	Political participation: Legislators (%)	Decision makers in all ministries (%)
	1996[b]	1995[c]	1995[c]	1995[c]	1991[c]	1996[c]	1996	1996[c]	1992[c]	1992[c]	1992[c]	1994[c]	1996[c]	1996[c]
Afghanistan	32	35	36	46	18	7	1 700	9	..	..	..	85	2	-
Angola	52	93	67	23	18	7	1 500	46	..	..	..	86	10	7
Bangladesh	53	87	52	19	18	4	850	42	14	4	6	74	9	5
Benin	53	56	43	21	18	6	500	48	..	..	40	65	7	15
Bhutan	50	65	22	33	..	6	1 600	32	..	..	..	98	2	13
Burkina Faso	30	65	55	31	19	7	930	47	13	16	66	94	9	11
Burundi	47	82	63	31	22	7	1 300	49	13	53	60	98	12	8
Cambodia	46	81	59	19	21	5	900	53	..	..	..	78	6	-
Cape Verde	79	98	95	..	25	4	200	32	32	46	54	32	11	13
Central African Republic	76	65	40	16	19	5	700	47	10	52	55	87	4	5
Chad	56	49	15	7	17	6	900	44	..	..	..	91	17	5
Comoros	78	84	81	50	22	6	950	38	24	25	..	91	0	7
Dem. Rep. of the Congo	78	69	59	21	20	6	870	44	..	..	..	81	5	3
Djibouti	55	75	73	100	19	6	570	40	33	28	22	..	-	-
Equatorial Guinea	76	80	17	15	..	6	820	40	..	..	74	91	9	4
Eritrea	..	81	73	16	..	6	1 400	47	..	..	..	85	21	..
Ethiopia	54	61	83	27	18	7	1 400	41	26	..	67	86	5	12
Gambia	47	86	54	52	..	5	1 100	45	..	..	64	92	8	22
Guinea	44	54	33	5	16	7	880	47	..	..	60	92	7	15
Guinea-Bissau	63	58	36	11	18	6	910	40	..	..	4	96	10	8
Haiti	88	93	96	38	24	5	600	43	44	38	37	57	3	17
Kiribati	..	..	..	..	..	..	..	14	..	..	..	..	-	..
Lao People's Dem. Rep.	64	74	61	36	..	7	650	47	..	..	..	81	9	-
Lesotho	77	114	155	123	21	5	610	37	38	24	39	59	11	7
Liberia	41	56	41	32	20	7	560	29	..	..	..	84	6	10
Madagascar	53	96	100	79	20	6	660	45	..	..	..	88	4	-
Malawi	58	90	57	42	18	7	620	49	13	57	58	95	6	5
Maldives	100	98	100	..	19	7	..	22	17	22	29	28	6	5
Mali	59	66	50	14	19	7	580	46	17	15	53	89	2	10
Mauritania	52	85	58	21	23	5	800	44	15	23	38	63	1	4
Mozambique	40	71	56	33	22	6	1 500	48	..	..	82	96	25	4
Myanmar	88	97	100	159	22	3	580	43	..	..	..	78	..	-
Nepal	33	67	50	31	18	5	1 500	40	15	36	55	98	5	-
Niger	33	61	44	20	17	7	593	44	8	17	24	97	4	10
Rwanda	74	97	75	22	21	6	1 300	49	15	33	70	98	17	8
Samoa	..	98	114	..	25	4	35	37	37	9	8	..	4	7
Sao Tome and Principe	62	..	..	..	18	..	..	..	32	26	54	..	11	-
Sierra Leone	40	69	59	21	18	6	1 800	36	20	24	74	81	6	4
Solomon Islands	..	85	62	..	21	5	..	36	20	39	..	85	2	-
Somalia	39	53	56	24	20	7	1 600	38	..	..	..	88	4	-
Sudan	60	81	86	88	24	5	370	29	..	..	..	84	5	-
Togo	55	69	34	14	20	6	640	40	15	48	54	65	1	4
Tuvalu	66	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	68	85	60	41	19	7	550	48	..	..	74	88	18	13
United Rep. of Tanzania	72	97	83	13	21	6	530	49	..	..	88	91	17	16
Vanuatu	..	102	78	..	23	5	280	38	..	..	..	..	2	-
Yemen	49	39	21	21	18	7	1 400	29	8	13	69	88	1	-
Zambia	83	93	62	39	21	6	230	45	16	55	54	83	10	7
All LDCs[d]	63	78	61	37	20	5	1 100	43	..	..	43	83	9	6

Sources: UNDP, *Human Development Report 1997;* United Nations, *The World's Women 1970–1990: Trends and Statistics; Women's Indicators and Statistics* (Wistat); UNESCO, *Statistical Yearbook* 1997; UNICEF, *The State of the World's Children 1998;* and estimates by the Bureau of Statistics of the ILO.

a Females as percentage of males. *b* Estimates. *c* Or latest year available. *d* Average of countries for which data are available.

16. Leading exports of all LDCs in 1994–1995

SITC	Item	Value[a] (million dollars)	As percentage of LDCs	As percentage of Developing countries	As percentage of World
	All commodities	16 317.7	100.00	1.41	0.36
333	Petroleum oils, crude and crude oils obtained from bituminous minerals	3 397.9	20.82	2.28	1.75
682	Copper	1 009.5	6.19	9.18	3.27
667	Pearls, precious and semi-precious stones	853.9	5.23	9.45	2.34
263	Cotton	851.6	5.22	13.26	7.25
071	Coffee and coffee substitutes	780.1	4.78	7.05	5.56
036	Crustaceans and molluscs, fresh, chilled, frozen, salted, in brine or dried	749.6	4.59	6.61	4.42
844	Under garments of textile fabrics	643.6	3.94	7.38	5.26
843	Outer garments, women's, of textile fabrics	564.1	3.46	2.80	1.54
247	Other wood in the rough or roughly squared	472.1	2.89	14.54	5.07
524	Radioactive and associated materials	420.2	2.57	53.21	7.24
846	Under garments, knitted or crocheted	411.3	2.52	3.52	1.99
842	Outer garments, men's, of textile fabrics	396.3	2.43	2.67	1.51
287	Ores and concentrates of base metals, n.e.s.[b]	385.2	2.36	4.65	2.26
121	Tobacco, unmanufactured	292.7	1.79	11.07	5.78
845	Outergarments and other articles, knitted	267.6	1.64	1.52	0.87
281	Iron ore and concentrates	267.2	1.64	7.60	3.23

Source: UNCTAD secretariat computations, based on data from the Statistics Division of the United Nations.

a Annual average.

b Not elsewhere specified.

17. Main markets for exports of LDCs: Percentage shares in 1996 (or latest year available)

	Developed market economy countries Total	European Union	Japan	USA and Canada	Others	Countries in Eastern Europe	Developing countries Total	OPEC	Other	Other and unallocated
Afghanistan	43.2	26.4	1.6	12.8	2.4	12.8	44.0	0.8	43.2	-
Angola	82.7	19.5	0.4	61.8	1.0	-	17.3	-	17.3	-
Bangladesh	85.4	46.7	3.5	34.0	1.2	1.2	13.0	1.7	11.3	0.4
Benin	36.1	28.5	-	6.8	0.8	-	63.8	10.6	53.2	-
Bhutan	-	-	-	-	-	-	-	-	-	-
Burkina Faso	26.3	22.7	1.5	2.1	-	1.0	36.6	3.6	33.0	36.1
Burundi	27.0	18.9	-	-	8.1	-	27.0	-	27.0	45.9
Cambodia	37.3	33.7	1.8	1.5	0.3	-	62.6	3.9	58.7	-
Cape Verde	77.8	77.8	-	-	-	-	16.7	5.6	11.1	5.5
Central African Republic	49.6	49.2	-	0.4	-	1.2	15.2	-	15.2	34.0
Chad	70.8	62.0	3.2	5.6	-	4.0	21.7	2.4	19.3	3.2
Comoros	92.8	50.0	-	42.8	-	-	7.1	-	7.1	-
Dem. Republic of the Congo	85.3	62.0	5.1	17.2	1.0	0.3	6.3	0.4	5.9	8.1
Djibouti	3.0	3.0	-	-	-	-	97.0	3.0	94.0	-
Equatorial Guinea	85.0	22.6	9.2	53.1	-	-	14.9	-	14.9	-
Eritrea	-	-	-	-	-	-	-	-	-	-
Ethiopia	73.0	53.7	10.9	7.8	0.6	2.3	23.7	6.1	17.6	1.0
Gambia	81.8	77.3	4.5	-	-	-	18.2	-	18.2	-
Guinea	72.8	49.6	1.3	18.9	3.0	10.1	17.1	0.2	16.9	-
Guinea-Bissau	49.4	48.2	1.2	-	-	2.4	48.2	1.2	47.0	-
Haiti	97.8	19.3	0.6	72.3	0.6	-	2.2	-	2.2	-
Kiribati	-	-	-	-	-	-	-	-	-	-
Lao People's Dem. Republic	34.5	21.6	6.6	5.1	1.2	0.3	65.2	-	65.2	-
Lesotho	-	-	-	-	-	-	-	-	-	-
Liberia	68.7	56.3	4.1	2.1	6.2	10.7	20.5	-	20.5	-
Madagascar	84.4	70.3	5.7	7.8	0.6	1.6	13.4	1.1	12.3	0.5
Malawi	55.1	32.2	4.9	14.8	3.2	6.9	17.6	0.2	17.4	20.4
Maldives	57.0	41.4	7.0	8.6	-	-	43.0	-	43.0	-
Mali	38.0	34.1	0.7	2.5	0.7	0.4	58.7	2.1	56.6	2.9
Mauritania	84.0	52.8	30.1	1.1	-	0.5	15.4	-	15.4	-
Mozambique	57.9	40.0	7.1	10.8	-	0.4	20.4	3.7	16.7	21.3
Myanmar	24.9	7.8	7.4	9.2	0.5	-	73.8	7.9	65.9	1.3
Nepal	86.1	47.1	0.5	35.3	3.2	0.3	13.6	-	13.6	-
Niger	72.9	54.1	-	18.8	-	-	23.5	9.4	14.1	3.5
Rwanda	32.7	27.9	-	4.8	-	1.8	52.4	-	52.4	13.1
Samoa	92.4	3.1	-	1.6	87.7	3.1	4.6	-	4.6	-
Sierra Leone	81.8	63.5	1.5	15.8	1.0	0.5	6.9	-	6.9	10.8
Solomon Islands	76.7	23.8	50.5	1.0	1.4	0.5	22.8	-	22.8	-
Somalia	11.7	11.7	-	-	-	-	88.3	64.3	24.0	-
Sudan	37.6	27.7	5.7	3.8	0.4	0.9	61.3	21.6	39.7	0.2
Sao Tome and Principe	87.5	87.5	-	-	-	-	12.5	-	12.5	-
Togo	28.5	17.3	-	9.1	2.1	2.4	60.2	8.6	51.6	8.9
Tuvalu	-	-	-	-	-	-	-	-	-	-
Uganda	82.2	72.7	1.8	4.3	3.4	0.7	16.9	0.5	16.4	0.2
United Republic of Tanzania	38.9	27.8	7.3	2.4	1.4	2.5	49.7	6.5	43.2	8.9
Vanuatu	79.3	44.8	27.6	3.4	3.5	-	20.7	-	20.7	-
Yemen	19.0	6.3	12.5	0.2	-	-	80.9	1.8	77.9	1.2
Zambia	41.4	17.4	17.5	6.3	0.2	1.0	55.3	10.8	44.5	2.3
All LDCs	58.8	31.3	6.4	19.8	1.3	1.5	37.1	3.0	34.1	2.6
All developing countries	53.9	20.9	10.0	20.9	2.1	4.8	37.9	2.8	35.1	3.4

Sources: IMF, *Direction of Trade Statistics Yearbook 1997*, and other international and national sources.

18. Main sources of imports of LDCs: Percentage shares in 1996 (or latest year available)

	Developed market economy countries					Countries in Eastern Europe	Developing countries			Other and unallocated
	Total	*European Union*	*Japan*	*USA and Canada*	*Others*		*Total*	*OPEC*	*Other*	
Afghanistan	54.4	27.0	23.4	3.6	0.4	8.7	36.9	1.2	35.7	-
Angola	77.0	57.6	2.2	16.4	0.8	0.1	13.4	0.3	13.1	9.5
Bangladesh	27.2	11.3	8.5	4.1	3.3	1.4	59.2	3.5	55.7	12.2
Benin	58.3	51.7	1.9	3.7	1.0	1.3	39.9	0.2	39.7	0.5
Bhutan	-	-	-	-	-	-	-	-	-	-
Burkina Faso	38.3	34.0	2.1	1.8	0.4	0.2	28.4	2.9	25.5	33.1
Burundi	56.9	45.5	6.5	4.9	-	2.4	37.4	-	37.4	3.3
Cambodia	14.2	7.5	3.7	1.5	1.4	0.2	85.6	5.0	80.6	-
Cape Verde	86.9	65.1	-	21.8	0.3	1.7	6.1	-	6.1	5.2
Central African Republic	48.6	42.8	3.5	2.3	-	0.6	37.0	0.6	36.4	13.8
Chad	60.2	56.9	0.5	1.9	0.9	0.4	39.4	6.5	32.9	-
Comoros	66.1	64.9	1.2	-	-	-	19.0	1.2	17.8	14.9
Dem. Republic of the Congo	48.0	38.0	1.2	6.5	2.3	0.6	32.9	4.9	28.0	18.5
Djibouti	44.7	37.9	3.4	2.6	0.8	0.3	52.4	9.4	43.0	2.6
Equatorial Guinea	71.1	57.9	0.7	11.8	0.7	0.7	26.9	-	26.9	1.3
Eritrea	-	-	-	-	-	-	-	-	-	-
Ethiopia	68.2	44.5	8.8	13.0	1.9	1.6	28.3	5.9	22.4	1.9
Gambia	63.9	52.9	4.0	6.6	0.4	1.1	34.9	0.7	34.2	-
Guinea	63.6	47.9	2.2	12.5	1.0	1.0	35.2	2.9	32.3	0.2
Guinea-Bissau	70.7	59.4	3.8	7.5	-	-	23.6	0.9	22.7	5.7
Haiti	77.3	11.8	2.7	62.4	0.3	-	22.5	0.5	22.0	0.2
Kiribati	-	-	-	-	-	-	-	-	-	-
Lao People's Dem. Republic	17.8	8.1	6.7	0.6	2.4	-	81.8	0.1	81.7	0.3
Lesotho	-	-	-	-	-	-	-	-	-	-
Liberia	43.2	16.2	23.5	1.7	1.8	6.7	49.9	0.4	49.5	0.1
Madagascar	62.4	54.6	4.7	2.1	0.9	0.9	30.6	10.6	20.0	6.1
Malawi	20.3	13.7	3.0	3.2	0.4	0.3	38.3	-	38.3	41.1
Maldives	19.7	10.2	1.9	4.7	2.8	-	80.1	26.3	53.8	0.2
Mali	37.5	33.3	1.4	2.4	0.4	0.1	56.4	0.2	56.2	6.0
Mauritania	68.6	63.3	2.4	2.7	0.2	0.5	21.2	5.9	15.4	9.7
Mozambique	21.1	15.8	1.6	2.6	1.2	0.1	24.2	8.8	15.4	54.6
Myanmar	22.2	8.7	11.2	1.5	0.8	0.6	77.1	2.9	74.2	0.1
Nepal	32.4	12.7	11.2	1.7	6.8	0.2	67.4	0.3	67.1	-
Niger	38.4	29.8	1.2	7.0	0.5	0.2	23.5	0.9	22.6	37.9
Rwanda	55.3	38.2	2.9	11.3	2.9	0.3	32.6	1.0	31.6	11.8
Samoa	84.6	3.4	14.9	7.4	58.9	-	14.9	-	14.9	0.5
Sierra Leone	64.6	41.9	0.9	9.2	12.6	1.7	30.2	3.2	27.0	3.4
Solomon Islands	68.5	4.1	10.3	4.8	49.3	-	31.5	-	31.5	-
Somalia	13.2	8.8	-	1.8	2.2	-	76.2	9.9	66.3	10.6
Sudan	36.0	27.8	2.2	4.3	1.7	3.8	60.0	32.3	27.7	0.1
Sao Tome and Principe	80.0	77.5	-	-	2.5	2.5	17.5	-	17.5	-
Togo	30.1	26.1	1.4	2.2	0.4	0.8	68.1	2.5	65.6	1.0
Tuvalu	-	-	-	-	-	-	-	-	-	-
Uganda	46.1	34.5	5.9	3.7	2.0	0.4	49.3	3.1	46.2	4.2
United Republic of Tanzania	34.0	24.2	4.8	3.9	1.1	0.6	49.3	13.2	36.1	16.1
Vanuatu	83.1	6.2	46.9	0.6	29.4	-	15.6	-	15.6	1.3
Yemen	43.9	27.1	5.7	8.4	2.7	1.1	55.0	17.6	37.4	-
Zambia	32.3	23.8	2.1	5.7	0.7	0.1	33.2	12.8	20.4	34.4
All LDCs	41.0	25.5	7.0	6.2	2.3	1.4	48.6	5.9	42.7	9.0
All developing countries	57.2	23.2	12.9	17.6	3.5	5.3	35.1	4.8	30.3	2.4

Sources: IMF, *Direction of Trade Statistics Yearbook 1997*, and other international sources.

19. Composition of total financial flows to all LDCs in current and in constant dollars

(Net disbursements)

	Millions of current dollars					Millions of 1980 dollars[f]				
	1985	*1990*	*1994*	*1995*	*1996*	*1985*	*1990*	*1994*	*1995*	*1996*
Concessional loans & grants	10 049	16 014	16 287	16 631	14 229	11 372	13 892	13 921	12 793	11 293
Of which:										
DAC	8 585	15 439	16 198	16 631	14 195	9 715	13 394	13 845	12 793	11 266
- Bilateral	5 288	9 306	9 342	8 911	7 749	5 984	8 073	7 985	6 855	6 150
- Multilateral[a]	3 297	6 133	6 856	7 720	6 446	3 731	5 321	5 860	5 938	5 116
- Grants	6 215	11 205	12 595	12 606	10 998	7 033	9 721	10 765	9 697	8 729
- Loans	2 370	4 234	3 603	4 025	3 197	2 682	3 673	3 080	3 096	2 537
- Technical assistance	2 129	3 285	3 318	3 729	3 559	2 409	2 850	2 836	2 868	2 825
- Other[b]	6 456	12 154	12 880	12 902	10 636	7 306	10 544	11 009	9 925	8 441
OPEC	684	581	60	4	34	774	505	51	3	27
- Bilateral	610	569	36	4	34	690	495	31	3	27
- Multilateral[c]	74	12	24	-	-	84	10	20	-	-
- Grants	430	504	45	10	7	487	437	38	8	7
- Loans	254	77	15	..	..	287	68	13	..	..
Non-concessional flows	392	862	-194	-430	771	443	748	-166	-331	612
Of which:										
DAC	399	862	-165	-420	771	452	748	-141	-323	612
- Bilateral official	473	661	419	-38	56	535	574	358	-29	44
- Multilaterala	242	50	-136	-52	-11	274	43	-116	-40	-8
- Export credits[d]	-308	-488	-1 093	-320	-197	-349	-423	-934	-246	-156
- Direct investment	-65	310	408	271	309	-74	269	349	208	245
- Other[e]	57	329	237	-281	614	65	285	202	-216	487
Total financial flows	10 441	16 876	16 093	16 201	15 000	11 815	14 640	13 755	12 462	11 905

Source: UNCTAD secretariat calculations, mainly based on OECD/DAC data.

a From multilateral agencies mainly financed by DAC member countries.
b Grants (excluding technical assistance grants) and loans.
c From multilateral agencies mainly financed by OPEC member countries.
d Guaranteed private.
e Bilateral financial flows originating in DAC countries and their capital markets in the form of bond lending and bank lending (either directly or through syndicated "Eurocurrency credits"). Excludes flows that could not be allocated by recipient country.
f The deflator used is the unit value index of imports.

20. Distribution of financial flows to LDCs and to all developing countries, by type of flow

(Percentage)

	To least developed countries					To all developing countries				
	1985	*1990*	*1994*	*1995*	*1996*	*1985*	*1990*	*1994*	*1995*	*1996*
Concessional loans & grants	**96.2**	**94.9**	**101.2**	**103.8**	**94.8**	**71.2**	**71.2**	**37.5**	**37.6**	**28.6**
Of which:										
DAC	82.2	90.0	100.7	103.9	94.6	59.9	62.9	36.8	37.3	28.6
- Bilateral	50.6	54.2	58.1	55.7	51.6	42.3	46.2	25.0	25.3	18.9
- Multilateral[a]	31.6	35.8	42.6	48.2	43.0	17.6	16.7	11.8	12.0	9.7
- Grants	59.5	65.2	78.3	78.8	73.3	42.8	47.1	27.5	29.0	22.8
- Loans	22.7	24.8	22.4	25.1	21.3	17.1	15.8	9.3	8.3	5.8
- Technical assistance	20.4	19.1	20.6	23.3	23.7	17.8	18.2	10.1	11.4	9.0
- Other[b]	61.8	70.9	80.1	80.6	70.9	42.1	44.7	26.7	25.9	19.5
OPEC	6.5	3.4	0.4	-	0.2	6.9	7.3	0.6	0.3	0.3
- Bilateral	5.8	3.3	0.2	-	0.2	6.6	7.2	0.5	0.3	0.3
- Multilateral[c]	0.7	-	0.2	-	-	0.3	-	0.1	-	-
- Grants	4.1	3.0	0.3	-	-	5.8	7.2	0.4	0.3	0.2
- Loans	2.4	0.4	0.1	..	..	1.1	0.1	0.2	-	0.1
Non-concessional flows	**3.8**	**5.1**	**-1.2**	**-3.8**	**5.2**	**28.8**	**28.8**	**62.5**	**62.4**	**71.4**
Of which:										
DAC	3.8	5.0	-1.0	-2.6	5.2	28.1	28.7	62.5	62.4	71.4
- Bilateral official	4.5	3.8	2.6	-0.2	0.4	8.1	9.9	5.2	5.4	3.0
- Multilateral[a]	2.3	0.3	-0.8	-0.3	-0.1	16.6	12.7	2.3	2.6	2.6
- Export credits[d]	-2.9	-2.8	-6.8	-2.0	-1.3	2.9	-1.0	5.2	3.0	0.6
- Direct investment	-0.6	1.8	2.5	1.7	2.1	13.3	30.9	30.0	31.8	31.0
- Other[e]	0.5	1.9	1.5	-1.8	4.1	-12.7	-23.8	19.8	19.6	34.2
Total financial flows	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

For sources and notes, see table 19.

21. Share of LDCs in financial flows to all developing countries, by type of flow

(Percentage)

	1985	1990	1994	1995	1996
Concessional loans & grants	**31.4**	**28.4**	**27.4**	**28.1**	**25.9**
Of which:					
DAC	31.5	30.5	27.7	28.4	25.9
- Bilateral	27.7	25.0	23.5	22.4	21.4
- Multilateral[a]	40.6	45.7	36.7	41.0	34.6
- Grants	32.2	29.5	28.8	27.7	25.2
- Loans	29.7	33.4	24.5	30.6	28.7
- Technical assistance	26.5	22.4	20.6	20.8	20.5
- Other[b]	33.7	33.8	30.5	31.7	28.4
OPEC	22.0	9.8	5.9	0.8	6.1
- Bilateral	20.5	9.8	4.7	0.8	6.1
- Multilateral[c]	57.7	15.4	9.3	-	-
- Grants	16.4	8.9	7.3	2.2	1.6
- Loans	52.2	68.8	3.7	..	..
Non-concessional flows	**3.0**	**3.8**	**-**	**-**	**0.6**
Of which:					
DAC	3.1	3.7	-	-	0.6
- Bilateral official	12.9	8.3	5.1	-	1.0
- Multilateral[a]	3.1	0.4	-	-	-
- Export credits[d]	-	62.7	-	-	-
- Direct investment	-	1.2	0.8	0.5	0.5
- Other[e]	-	-1.7	0.8	-	0.9
Total financial flows	**23.2**	**21.3**	**10.1**	**10.2**	**7.8**

Note: No percentage is shown when either the net flow to all LDCs or the net flow to all developing countries in a particular year is negative.
For other notes and sources, see table 19.

22. Net ODA[a] from individual DAC member countries to LDCs as a group

Donor country[b]	% of GNP				Millions of dollars				% change
	1990	*1994*	*1995*	*1996*	*1990*	*1994*	*1995*	*1996*	*1996/1990*
Denmark	0.40	0.33	0.29	0.32	487	472	498	558	14.6
Norway	0.55	0.41	0.31	0.30	555	462	484	508	-8.6
Sweden	0.36	0.25	0.21	0.23	818	509	492	573	-30.0
Netherlands	0.30	0.21	0.22	0.21	847	696	906	898	5.9
Ireland	0.06	0.10	0.12	0.13	23	44	66	76	232.5
Luxembourg	0.07	0.11	..	0.12	8	16	..	22	169.5
Portugal	0.16	0.19	0.14	0.11	100	182	165	148	47.4
Finland	0.26	0.10	0.08	0.09	339	101	102	117	-65.4
France	0.18	0.12	0.11	0.09	2 193	1 653	1 767	1 419	-35.3
Switzerland	0.14	0.11	0.10	0.09	323	312	331	304	-6.0
Belgium	0.19	0.09	0.09	0.08	377	221	261	220	-41.7
Germany	0.12	0.08	0.07	0.07	1 768	1 729	1 611	1 692	-4.4
United Kingdom	0.09	0.08	0.07	0.07	881	870	827	810	-8.0
Australia	0.06	0.07	0.06	0.06	178	231	206	219	22.9
Canada	0.13	0.10	0.08	0.06	735	547	466	341	-53.6
Total DAC	**0.09**	**0.07**	**0.06**	**0.05**	**15 340**	**13 699**	**13 265**	**11 412**	**-25.6**
Italy	0.13	0.04	0.03	0.04	1 421	462	387	592	-58.3
New Zealand	0.05	0.05	0.05	0.04	19	22	26	26	33.7
Austria	0.07	0.06	0.04	0.03	110	112	104	77	-30.6
Japan	0.06	0.05	0.05	0.03	1 698	2 245	2 527	1 418	-16.5
Spain	0.04	0.02	0.04	0.02	203	104	219	142	-30.0
United States	0.04	0.04	0.02	0.02	2 256	2 709	1 821	1 254	-44.4

Source: UNCTAD secretariat calculations, based on information from the OECD/DAC secretariat.

a Including imputed flows through multilateral channels.

b Ranked in descending order of the ODA/GNP ratio in 1996.

23. Bilateral ODA from DAC member countries and total financial flows from multilateral agencies[a] to all LDCs
(Millions of dollars)

	Net disbursements					Commitments				
	1985	*1990*	*1994*	*1995*	*1996*	*1985*	*1990*	*1994*	*1995*	*1996*
A. Bilateral donors										
Australia	58.2	104.5	140.0	139.4	143.0	59.1	97.0	92.6	156.0	192.3
Austria	11.8	60.6	68.0	70.6	64.0	11.6	130.6	58.5	69.7	54.3
Belgium	174.0	263.4	170.5	148.9	153.3	81.0	263.4	173.9	153.8	156.2
Canada	315.7	360.7	244.7	224.5	216.9	340.9	338.0	177.9	225.1	217.2
Denmark	125.4	293.6	313.6	332.7	400.0	146.4	269.2	201.6	238.4	542.7
Finland	60.5	192.8	75.0	65.2	64.6	127.7	127.1	75.6	44.5	54.8
France	643.8	1 626.8	1 170.5	1 197.7	1 065.1	759.8	1 331.3	951.1	968.8	1 316.0
Germany	570.3	1 080.1	1 099.8	1 083.0	1 082.3	831.0	1 232.9	979.1	1 222.8	1 208.9
Ireland	10.4	13.9	35.8	55.7	67.1	10.4	13.9	-	-	67.1
Italy	404.4	923.0	332.2	269.7	230.8	525.5	799.8	308.5	504.8	285.8
Japan	551.5	985.1	1 474.7	1603.2	1 177.7	626.3	1 043.9	1 795.4	1 757.6	1 831.1
Luxembourg	-	6.0	15.9	..	18.5	-	-	-	-	14.9
Netherlands	252.6	568.6	496.0	658.7	666.2	249.1	666.1	430.6	666.1	667.7
New Zealand	7.0	13.3	16.3	20.7	23.3	12.2	9.7	15.1	-	23.3
Norway	154.9	354.5	363.2	370.2	378.3	150.6	186.2	318.6	391.8	280.6
Portugal	-	105.2	166.6	153.9	144.2	-	-	134.2	103.9	85.6
Spain	-	91.1	38.4	117.2	105.8	-	-	1.3	7.3	93.9
Sweden	200.8	530.2	378.8	354.6	407.8	210.0	332.4	209.2	190.2	199.9
Switzerland	83.4	219.6	230.7	240.5	210.6	130.1	213.7	211.2	150.6	223.8
United Kingdom	280.2	471.4	572.1	558.8	565.3	226.5	478.1	595.3	571.2	580.2
United States	1 383.0	1 041.0	1 939.0	1 246.0	564.0	1 315.9	1 107.6	2 069.8	1 455.6	735.0
Total bilateral concessional	*5 287.9*	*9 305.4*	*9 342.0*	*8 911.1*	*7 748.6*	*5 814.1*	*8 640.9*	*8 799.5*	*8 878.2*	*8 831.4*
B. Multilateral donors										
1. Concessional										
ADF	171.2	535.5	426.3	449.3	446.7	337.6	807.9	6.6	-	80.1
AsDB	229.6	448.1	463.6	410.3	434.7	383.7	536.4	402.1	400.5	713.2
EEC (EDF)	548.8	1 144.7	1 345.3	1 489.9	1 399.8	575.9	764.1	2 053.2	1 741.0	1 371.5
IBRD	0.4	-	-	-	-	-	-	-	-	-
IDA	1 151.9	2 026.0	2 152.1	1 790.8	2 082.8	1 550.0	2 859.0	2 614.9	2 020.9	1 771.9
IDB	10.7	11.7	-15.5	67.4	36.2	24.7	56.0	-	181.1	82.5
IFAD	107.5	119.1	39.9	52.3	69.7	83.2	71.9	88.7	124.0	133.8
IMF Trust fund	-103.1	-	-	-	-	-	-	-	-	-
IMF (SAF/ESAF)	-	270.3	238.1	1 341.5	24.4	-	-	-	-	-
Other:	1 106.2	1 578.2	2 194.8	2 095.2	1 926.4	1 106.3	1 578.3	2 194.8	2 095.2	1 926.4
Of which:										
UNDP	270.7	444.4	341.9	342.3	396.0					
UNHCR	201.1	192.6	492.5	406.6	346.5					
UNICEF	124.7	227.6	353.3	342.3	308.3					
UNTA	60.9	57.6	65.2	146.9	60.9					
WFP	343.0	489.6	800.4	700.0	647.8					
Total	*3 223.2*	*6 133.6*	*6 844.6*	*7 696.7*	*6 420.7*	*4 061.4*	*6 673.6*	*7 360.3*	*6 562.7*	*6 079.4*
2. Non-concessional										
AfDB	1 38.1	106.9	-7.6	26.9	40.7					
AsDB	-0.9	-0.5	-1.0	-1.1	5.5					
EEC (EDF)	19.4	-9.6	-13.8	-6.6	-6.9					
IBRD	55.4	-69.0	-105.1	-111.8	-86.9					
IFC	20.4	14.7	-1.7	40.3	36.5					
Total	*232.4*	*42.5*	*-129.2*	*-52.3*	*-11.1*					
Total concessional (A + B.1)	**8 511.1**	**15 439.0**	**16 186.6**	**16 607.8**	**14 169.3**					
Grand total	8 743.5	15 481.5	16 057.4	16 555.5	14 158.2	9 875.5	15 314.5	16 159.8	15 440.9	14 910.8

Source: UNCTAD secretariat, based on information from the OECD/DAC secretariat.
a Multilateral agencies mainly financed by DAC countries.

24. ODA to LDCs from DAC member countries and multilateral agencies mainly financed by them: Distribution by donor and shares allocated to LDCs in total ODA flows to all developing countries

(Percentage)

	Distribution by donor					Share of LDCs in ODA flows to all developing countries				
	1985	*1990*	*1994*	*1995*	*1996*	*1985*	*1990*	*1994*	*1995*	*1996*
Bilateral donors										
Australia	0.7	0.7	0.9	0.8	1.0	10.9	13.9	17.0	15.2	17.0
Austria	0.1	0.4	0.4	0.4	0.5	6.9	20.6	12.8	12.7	15.7
Belgium	2.0	1.7	1.1	0.9	1.1	63.2	48.1	39.2	29.4	29.2
Canada	3.7	2.3	1.5	1.4	1.5	31.7	21.4	17.3	16.3	16.1
Denmark	1.5	1.9	1.9	2.0	2.8	54.9	42.2	40.1	38.5	39.2
Finland	0.7	1.2	0.5	0.4	0.5	47.4	38.8	35.3	29.7	30.5
France	7.6	10.5	7.2	7.2	7.5	26.9	29.1	17.8	18.7	18.6
Germany	6.7	7.0	6.8	6.5	7.6	29.6	24.7	26.5	22.7	24.0
Ireland	0.1	-	0.2	0.3	0.5	60.5	60.8	62.2	65.8	61.4
Italy	4.8	6.0	2.1	1.6	1.6	51.9	44.6	18.2	34.1	29.5
Japan	6.5	6.4	9.1	9.7	8.3	21.6	14.5	15.6	15.6	14.6
Luxembourg	-	-	0.1	-	0.1	-	39.9	39.7	-	33.5
Netherlands	3.0	3.7	3.1	4.0	4.7	33.4	31.1	29.8	30.2	30.0
New Zealand	-	-	0.1	0.1	0.2	16.4	16.4	19.2	21.4	23.2
Norway	1.8	2.3	2.2	2.2	2.7	47.3	46.8	44.9	41.8	40.9
Portugal	-	0.7	1.0	0.9	1.0	-	96.6	79.3	93.2	91.8
Spain	-	0.6	0.2	0.7	0.7	-	14.4	4.5	14.4	11.9
Sweden	2.4	3.4	2.3	2.1	2.9	34.6	38.6	28.2	30.6	30.3
Switzerland	1.0	1.4	1.4	1.4	1.5	36.7	40.0	32.5	31.8	30.3
United Kingdom	3.3	3.1	3.5	3.4	4.0	33.7	32.0	33.0	33.1	32.2
United States	16.2	6.7	12.0	7.5	4.0	22.4	14.8	32.6	24.1	12.3
Total	*62.1*	*60.3*	*57.7*	*53.7*	*54.7*	*27.7*	*25.0*	*23.5*	*22.4*	*21.4*
Multilateral donors										
ADF	2.0	3.5	2.6	2.7	3.2	81.5	88.8	72.3	78.9	75.5
AsDB	2.7	2.9	2.9	2.5	3.1	58.4	40.7	39.9	37.2	40.7
EEC/EDF	6.4	7.4	8.3	9.0	9.9	41.6	44.7	30.2	32.5	27.2
IBRD	-	-	-	-	-	1.2	-	-	-	-
IDA	13.5	13.1	13.3	10.8	14.7	44.3	51.8	38.7	36.7	36.7
IDB	0.1	-	-0.1	0.4	0.3	3.0	7.6	-16.5	28.7	8.9
IFAD	1.3	0.8	0.2	0.3	0.5	39.8	48.6	56.2	62.3	47.1
IMF Trust Fund	-1.2	-	-	-	-	-	-	-	-	-
IMF SAF/ESAF	-	1.8	1.5	8.1	0.2	-	84.1	25.3	84.2	7.6
United Nations	13.0	10.2	13.6	12.6	13.6	36.5	35.1	37.9	36.4	37.4
Total	*37.9*	*39.7*	*42.3*	*46.3*	*45.3*	*40.6*	*45.7*	*36.7*	*40.9*	*34.7*
Grand total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**31.5**	**30.5**	**27.7**	**28.4**	**25.9**

Source: UNCTAD secretariat, based on information from the OECD/DAC secretariat.

25. Total financial flows and ODA from all sources to individual LDCs

(Net disbursements in millions of dollars)

Country	Total financial flows					Of which: ODA				
	1985	*1990*	*1994*	*1995*	*1996*	*1985*	*1990*	*1994*	*1995*	*1996*
Afghanistan	214	135	172	215	198	237	137	230	214	228
Angola	271	92	672	483	517	105	270	451	418	544
Bangladesh	1 113	2 170	1 625	857	1 212	1 145	2 101	1 758	1 279	1 255
Benin	97	244	258	282	298	95	269	257	282	293
Bhutan	24	51	74	80	62	24	48	77	74	62
Burkina Faso	189	351	427	483	413	195	335	436	487	418
Burundi	156	256	306	280	199	138	266	313	288	204
Cambodia	125	42	353	584	451	125	42	339	567	453
Cape Verde	76	109	119	159	127	75	110	121	112	120
Central African Republic	116	258	159	168	160	109	251	166	168	167
Chad	182	318	229	289	350	181	317	215	239	305
Comoros	51	46	42	42	40	48	46	40	43	40
Dem. Republic of the Congo	469	1 411	213	244	228	303	898	246	195	167
Djibouti	103	192	123	105	116	81	195	129	106	97
Equatorial Guinea	31	63	32	35	33	20	62	30	34	31
Eritrea	-	-	158	150	157	-	-	158	150	157
Ethiopia	909	992	1 011	872	876	840	1 020	1 074	888	849
Gambia	48	108	70	45	46	50	100	71	48	39
Guinea	108	287	370	433	231	115	296	360	416	296
Guinea-Bissau	64	136	107	114	204	59	132	176	116	180
Haiti	142	158	596	719	380	150	172	601	731	375
Kiribati	12	21	-12	15	13	12	21	15	15	13
Lao People's Dem. Republic	174	151	219	314	334	147	151	218	313	339
Lesotho	119	149	228	183	171	94	143	117	115	107
Liberia	-289	517	-56	-16	703	95	112	63	123	207
Madagascar	222	431	265	255	318	195	399	289	303	365
Malawi	118	520	464	439	489	113	505	470	434	501
Maldives	8	38	42	43	-62	9	22	30	56	33
Mali	391	480	460	608	558	389	487	443	545	505
Mauritania	233	221	247	215	279	217	240	269	231	274
Mozambique	398	1 055	1 295	1 136	1 055	368	1 008	1 231	1 101	923
Myanmar	318	109	171	186	142	355	164	162	152	56
Nepal	244	432	451	420	418	234	429	450	436	401
Niger	300	384	376	198	219	316	398	377	270	259
Rwanda	199	288	710	658	676	195	293	715	711	674
Samoa	20	54	48	47	34	19	48	48	43	32
Sao Tome and Principe	13	54	52	58	49	14	55	50	84	47
Sierra Leone	66	66	263	212	186	74	63	277	206	196
Solomon Islands	22	58	44	44	44	21	45	47	46	42
Somalia	373	489	537	192	174	356	494	538	191	91
Sudan	1 123	744	401	282	212	1 135	827	413	236	230
Togo	91	259	116	189	156	111	261	126	193	166
Tuvalu	3	5	8	8	8	3	5	7	8	10
Uganda	223	668	895	850	701	183	671	753	830	678
United Republic of Tanzania	537	1 129	940	876	928	485	1 175	969	882	894
Vanuatu	39	149	13	38	101	22	50	42	46	31
Yemen	456	402	174	102	217	451	406	172	175	260
Zambia	542	584	626	2 010	579	341	481	719	2 035	614
All LDCs	10 441	16 876	16 093	16 201	15 000	10 049	16 020	16 258	16 635	14 228
All developing countries	45 034	79 731	157 238	157 509	193 395	32 048	56 517	59 567	59 273	55 612
Memo items:										
In current dollars per capita:										
All LDCs	23.2	33.0	28.4	27.9	25.2	22.4	31.4	28.7	28.6	23.9
All developing countries	12.1	19.3	35.4	34.9	42.2	8.6	13.7	13.4	13.1	12.1
In constant 1980 dollars[a]:										
All LDCs	11 815	14 640	13 755	12 462	11 905	11 372	13 898	13 896	12 796	11 292
All developing countries	50 840	69 732	139 149	129 106	163 894	36 180	49 429	52 714	48 584	47 129
In constant 1980 dollars[a] per capita:										
All LDCs	26.2	28.7	24.3	21.5	20.0	25.3	27.2	24.6	22.0	18.9
All developing countries	13.7	16.9	31.4	28.6	35.7	9.7	12.0	11.9	10.8	10.3

Source: UNCTAD secretariat estimates, mainly based on data from the OECD secretariat.

a The deflator used is the unit value index of imports.

26. ODA from DAC member countries and multilateral agencies mainly financed by them, to individual LDCs

Country[a]	Average: 1982-1988 Per capita ODA	Total ODA	Of which: Technical assistance	Bilateral ODA	Of which: Grants	Multi-lateral ODA	Of which: Grants	Average: 1989-1996 Per capita ODA	Total ODA	Of which: Technical assistance	Bilateral ODA	Of which: Grants	Multi-lateral ODA	Of which: Grants
	$	$ mill.	As percentage of total ODA					$	$ mill.	As percentage of total ODA				
Bangladesh	13.3	1 312.1	12.6	57.9	45.6	42.1	10.7	14.3	1 633.8	16.9	51.6	51.3	48.4	13.1
Mozambique	31.4	422.6	14.4	78.2	60.3	21.8	14.4	69.0	1 083.5	17.3	68.3	61.8	31.7	18.1
United Rep. of Tanzania	31.5	687.8	24.8	77.2	71.0	22.8	9.7	36.5	1 016.0	22.5	68.1	69.8	31.9	12.5
Ethiopia	13.0	536.5	20.3	54.4	49.9	45.6	32.8	18.2	983.4	19.7	48.7	46.7	51.3	33.4
Zambia	49.3	339.2	25.9	78.7	58.8	21.3	9.4	95.1	722.8	19.7	64.7	66.5	35.3	11.9
Uganda	13.9	211.5	21.3	36.3	36.8	63.7	25.7	34.8	632.6	18.7	51.2	46.2	48.8	19.9
Sudan	31.8	683.3	21.7	66.2	57.9	33.8	21.4	21.5	546.4	24.0	47.3	47.1	52.7	37.0
Malawi	26.8	197.1	25.3	48.0	44.5	52.0	19.2	50.8	482.4	21.5	44.3	39.9	55.7	30.7
Rwanda	30.9	187.3	35.0	60.4	55.7	39.6	19.5	76.9	461.4	21.2	55.2	54.0	44.8	34.8
Mali	37.6	298.4	23.8	64.8	50.1	35.2	18.1	44.3	442.9	26.7	61.2	55.0	38.8	17.7
Somalia	49.9	391.7	31.7	62.5	50.7	37.5	27.3	48.2	434.2	15.2	73.1	73.5	26.9	23.2
Nepal	15.8	268.0	28.3	54.8	51.1	45.2	13.2	21.4	430.4	29.9	59.9	54.3	40.1	11.8
Burkina Faso	28.5	224.7	36.6	70.5	61.7	29.5	18.5	40.8	399.9	29.7	64.0	61.0	36.0	19.0
Dem. Rep. of the Congo	13.1	416.6	33.0	65.2	44.9	34.8	10.7	9.3	383.8	22.9	67.5	60.4	32.5	19.6
Guinea	27.4	137.4	18.4	55.3	31.9	44.7	16.5	55.2	364.4	18.8	51.5	43.8	48.5	20.0
Madagascar	23.2	247.0	19.9	60.4	34.1	39.6	12.0	25.8	355.9	27.1	62.2	70.2	37.8	16.0
Angola	13.1	104.8	27.3	68.7	48.8	31.3	30.5	34.7	347.2	20.4	55.8	46.7	44.2	38.9
Niger	39.1	258.3	30.5	65.2	58.4	34.8	17.5	40.3	338.9	32.0	68.8	70.6	31.1	21.4
Haiti	26.1	153.6	27.6	65.9	59.3	34.1	11.0	45.6	309.9	22.7	73.6	76.9	26.4	16.2
Yemen	21.2	203.8	40.7	56.3	47.0	43.7	20.3	21.2	282.1	30.0	65.7	57.2	34.3	14.8
Benin	26.6	106.5	32.9	55.3	49.6	44.7	20.2	52.6	263.0	21.7	59.7	54.0	40.3	17.3
Burundi	31.8	151.4	32.2	52.2	42.1	47.8	17.1	44.5	257.9	21.8	44.6	44.2	55.4	36.9
Chad	30.7	153.6	23.4	56.6	51.4	43.4	36.0	42.9	253.0	24.4	54.8	51.3	45.2	21.1
Cambodia	3.0	22.3	48.8	39.1	39.3	60.9	60.9	26.4	247.8	39.4	58.8	60.0	41.2	31.5
Mauritania	76.8	135.8	28.7	65.2	55.9	34.8	20.1	115.3	242.1	20.8	52.3	47.9	47.7	27.9
Afghanistan	1.7	25.2	82.8	65.0	91.1	35.0	39.8	14.0	240.1	31.7	64.0	65.6	36.0	36.1
Lao People's Dem. Rep.	12.3	44.4	35.6	48.0	52.3	52.0	31.1	44.4	200.0	26.6	48.2	51.5	51.8	15.0
Central African Republic	50.1	130.3	30.8	61.9	49.9	38.1	17.2	59.7	185.1	27.3	58.3	59.0	41.7	18.3
Togo	41.1	124.8	29.2	58.5	56.7	41.5	15.0	45.9	174.6	24.7	62.5	58.9	37.5	16.1
Sierra Leone	19.3	69.3	35.6	60.1	55.4	39.9	24.4	35.1	144.0	19.8	47.4	40.3	52.6	25.9
Myanmar	9.1	343.2	13.6	71.0	27.1	29.0	7.1	3.2	139.5	24.8	67.5	60.3	32.5	20.7
Guinea-Bissau	80.3	70.4	28.7	52.9	52.9	47.1	21.8	128.6	128.6	29.5	63.3	49.1	36.7	18.2
Lesotho	62.5	97.6	38.4	62.7	62.5	37.3	22.4	66.1	125.6	32.4	53.4	49.7	46.6	27.1
Liberia	43.9	96.6	31.0	76.0	57.9	24.0	9.7	52.5	120.7	16.2	38.0	32.1	62.0	58.5
Djibouti	173.5	68.3	50.7	78.6	77.1	21.4	13.4	199.6	119.8	36.5	82.1	74.7	17.9	10.8
Cape Verde	238.2	73.9	29.5	71.3	70.0	28.7	24.3	281.0	112.4	31.3	68.2	67.4	31.8	21.2
Gambia	92.1	69.3	30.4	56.2	53.6	43.8	22.1	82.4	82.4	30.3	51.6	52.7	48.4	22.1
Eritrea	-	-	-	-	-	-	-	22.2	66.7	27.9	72.0	68.8	28.0	27.4
Bhutan	17.4	24.0	42.0	36.6	36.6	63.4	48.8	35.9	61.1	41.6	62.7	63.7	37.3	28.8
Sao Tome and Principe	134.9	14.3	23.4	34.3	34.3	65.7	41.6	546.0	54.6	24.5	56.8	46.9	43.0	17.0
Equatorial Guinea	83.9	25.5	26.0	52.0	42.3	48.0	28.4	119.8	47.9	38.6	64.3	59.7	35.7	21.3
Comoros	85.5	39.0	33.4	56.3	46.7	43.7	28.1	78.2	46.9	37.3	55.0	54.2	44.8	31.1
Solomon Islands	124.5	33.7	35.9	60.9	53.7	39.1	25.9	152.3	45.7	46.8	75.9	68.7	24.1	16.0
Samoa	155.0	24.9	35.3	67.8	67.7	32.2	21.3	226.0	45.2	35.2	64.6	64.6	35.6	15.3
Vanuatu	230.5	30.5	49.6	80.0	78.5	20.0	17.8	210.5	42.1	53.7	81.7	79.8	18.3	11.2
Maldives	72.7	13.2	37.2	64.4	65.3	35.6	24.4	165.0	33.0	29.1	58.8	55.5	41.2	17.9
Kiribati	230.1	14.8	38.9	85.3	85.3	14.7	13.4	181.0	18.1	47.0	81.2	81.2	18.8	17.7
Tuvalu	1 087.6	9.0	20.4	94.3	94.3	5.7	5.5	627.3	6.9	47.8	84.1	84.1	15.9	15.9
All LDCs	20.6	9 293.7	24.8	63.2	51.9	36.8	17.4	27.8	15 156.1	23.0	58.8	56.5	41.2	21.5
All developing countries	8.1	29 994.4	30.4	71.9	54.3	28.1	14.9	10.6	45 700.8	26.4	69.6	56.5	30.4	15.9

Source: UNCTAD secretariat estimates, mainly based on data from the OECD/DAC secretariat.

a Ranked in descending order of total ODA received in 1989–1996.

27. External debt (at year end) and debt service, by source of lending

	External debt (at year end)					% of total		Debt service					% of total	
	1985	*1990*	*1994*	*1995*	*1996*	*1985*	*1996*	*1985*	*1990*	*1994*	*1995*	*1996*	*1985*	*1996*
I. Long-term	**65 107**	**103 746**	**118 896**	**127 065**	**126 145**	**91.4**	**94.5**	**4 139**	**4 288**	**3 109**	**6 150**	**3 996**	**90.2**	**93.0**
A. Concessional	37 787	69 938	81 863	88 726	81 331	53.1	60.9	1 010	1 462	1 630	1 725	1 882	22.0	43.8
(a) OECD countries	9 759	17 928	17 094	19 877	18 486	13.7	13.8	262	495	499	540	540	5.7	12.6
(b) Other countries	14 444	20 685	19 476	19 061	11 851	20.3	8.9	343	390	179	1	27	7.5	0.6
(c) Multilateral agencies	13 584	31 325	45 293	49 788	50 994	19.1	38.2	405	577	952	1 184	1 315	8.8	30.6
B. Non-concessional	27 320	33 808	37 033	38 339	44 814	38.3	33.6	3 129	2 863	1 480	4 425	2 114	68.2	49.2
(a) OECD countries	12 709	15 648	14 156	15 282	15 668	17.8	11.7	1 932	1 370	684	1 106	1 286	42.1	29.9
(i) official/officially guaranteed	9 685	12 880	11 862	12 748	13 226	13.6	9.9	1 442	854	446	759	844	31.4	19.6
(ii) financial markets	3 024	2 768	2 294	2 534	2 442	4.2	1.8	490	516	238	347	442	10.7	10.3
(b) Other countries	8 315	11 597	16 841	17 783	24 077	11.7	18.0	192	232	174	573	406	4.2	9.4
(c) Multilateral agencies	6 296	6 563	6 036	5 274	5 069	8.8	3.8	1 005	1 225	622	2 746	422	21.9	9.8
II. Short-term	**6 165**	**11 083**	**8 942**	**7 868**	**7 381**	**8.6**	**5.5**	**450**	**499**	**226**	**282**	**303**	**9.8**	**7.0**
Total	71 272	114 830	127 838	134 933	133 526	100.0	100.0	4 589	4 759	3 336	6 433	4 299	100.0	100.0
Of which: use of IMF credit	4 938	5 063	5 595	6 212	6 073	6.9	4.5	837	840	415	2 587	449	18.2	10.4

Source: UNCTAD secretariat calculations, based on information from the OECD secretariat.
Note: Figures for total debt and total debt service cover both long-term and short-term debt as well as the use of IMF credit.

28. Total external debt and debt service payments of individual LDCs

(Millions of dollars)

Country	Debt (at year end) 1985	1990	1994	1995	1996	Debt service 1985	1990	1994	1995	1996
Afghanistan	2 275	5 086	5 586	5 472	5 507	47	115	5	8	31
Angola	3 045	8 061	9 443	10 306	9 740	372	328	130	459	669
Bangladesh	6 781	12 212	16 132	16 697	16 533	396	634	593	755	663
Benin	774	1 351	1 361	1 764	1 783	38	48	31	38	44
Bhutan	9	82	101	107	104	0	6	7	9	14
Burkina Faso	545	1 098	1 121	1 579	1 576	32	36	47	58	62
Burundi	472	1 017	1 177	1 223	1 175	26	54	43	38	32
Cambodia	715	1 785	1 862	1 964	2 014	14	37	5	41	43
Cape Verde	108	139	172	224	214	6	7	8	8	7
Central African Republic	354	860	838	1 048	1 018	30	36	23	17	15
Chad	172	583	744	1 006	1 109	15	15	15	17	28
Comoros	135	210	192	243	242	2	3	3	2	2
Dem. Republic of the Congo	5 795	10 380	10 334	9 537	9 051	654	555	68	72	115
Djibouti	237	211	277	302	308	40	28	12	13	13
Equatorial Guinea	111	197	260	271	269	12	7	2	2	5
Eritrea	-	-	33	41	47	-	-	-	-	-
Ethiopia	4 091	3 713	4 702	4 956	5 124	153	189	95	133	323
Gambia	241	391	440	446	478	13	35	26	25	26
Guinea	1 355	2 608	2 881	3 318	3 117	82	174	109	162	100
Guinea-Bissau	380	557	683	806	804	17	8	8	15	21
Haiti	732	873	670	826	947	45	34	32	73	37
Kiribati	11	15	18	10	10	1	1	1	1	1
Lao People's Dem. Republic	1 142	1 765	2 132	2 212	2 322	14	10	20	28	17
Lesotho	168	471	991	1 207	1 122	22	29	45	59	57
Liberia	1 400	1 746	1 512	1 513	1 517	87	71	43	34	37
Madagascar	2 139	3 868	3 515	3 903	3 785	145	265	83	78	86
Malawi	1 027	1 536	2 180	2 296	2 384	120	116	81	113	98
Maldives	59	74	162	189	206	12	10	11	12	13
Mali	1 448	2 592	2 265	2 898	2 906	56	80	84	87	118
Mauritania	1 469	2 088	2 002	2 181	2 190	115	151	101	120	126
Mozambique	2 276	4 356	5 267	5 669	5 572	184	125	127	187	160
Myanmar	2 976	4 761	5 978	6 032	5 349	274	105	167	186	159
Nepal	607	1 687	2 420	2 487	2 445	24	75	80	86	80
Niger	1 238	1 789	1 347	1 698	1 647	124	136	67	63	44
Rwanda	352	806	937	1 086	1 072	27	32	6	22	20
Samoa	74	93	158	171	178	7	6	6	5	5
Sao Tome and Principe	86	130	184	249	242	4	2	3	2	3
Sierra Leone	632	685	941	948	995	43	28	146	54	20
Solomon Islands	294	152	192	191	147	16	12	20	16	9
Somalia	1 884	2 165	2 073	2 106	2 066	56	35	6	11	7
Sudan	8 346	11 487	10 223	10 134	9 965	281	236	90	198	167
Togo	970	1 465	1 212	1 448	1 431	78	124	26	30	47
Tuvalu	-	1	1	-	123	-	-	-	-	4
Uganda	1 156	2 443	3 158	3 420	3 493	150	121	146	136	142
United Republic of Tanzania	3 393	5 463	5 398	5 582	5 678	112	177	159	230	259
Vanuatu	128	484	129	107	93	17	26	9	12	10
Yemen	5 148	5 812	8 864	9 450	9 297	406	191	138	111	122
Zambia	4 521	5 482	5 571	5 607	6 131	219	246	411	2 605	238
Total LDCs	71 271	114 830	127 838	134 933	133 526	4 589	4 759	3 336	6 433	4 299

Source: UNCTAD secretariat calculations, based on information from the OECD secretariat.
Note: Figures for total debt and total debt service cover both long-term and short-term debt as well as the use of IMF credit.

29. Debt and debt service ratios
(Percentage)

Country	Debt/GDP					Debt service/exports[a]				
	1985	*1990*	*1994*	*1995*	*1996*	*1985*	*1990*	*1994*	*1995*	*1996*
Afghanistan	62	..	..	..	..	7	-	-	-	-
Angola	45	88	137	167	145	15	8	4	12	13
Bangladesh	43	55	63	57	52	32	31	17	17	14
Benin	74	73	89	85	81	11	12	8	7	8
Bhutan	5	29	36	35	34	0	7	8	7	12
Burkina Faso	38	40	60	68	62	20	10	17	19	21
Burundi	41	90	118	115	103	20	60	45	29	28
Cambodia	-	160	79	71	64	67	168	1	4	5
Cape Verde	101	51	53	53	50	19	11	13	10	8
Central African Republic	50	66	96	93	96	17	16	13	7	8
Chad	24	48	82	88	95	16	6	8	5	11
Comoros	118	84	95	107	105	10	9	8	4	..
Dem. Republic of the Congo	81	-	-	-	-	33	24	..	..	..
Djibouti	70	50	57	61	64	27	10	6	7	7
Equatorial Guinea	139	149	202	160	97	50	17	3	2	3
Eritrea	..	..	..	..	..	..	..	..	..	..
Ethiopia	61	43	97	94	85	25	32	14	17	41
Gambia	111	118	121	116	132	15	21	12	14	12
Guinea	99	93	85	90	79	16	21	16	23	13
Guinea-Bissau	241	236	281	314	297	94	42	24	63	38[b]
Haiti	36	29	41	40	36	13	11	48	38	19
Kiribati	48	47	46	23	23	11	9	4	5	5
Lao People's Dem. Republic	48	203	139	126	125	19	10	5	7	4
Lesotho	68	78	112	117	126	54	29	25	59	28
Liberia	128	..	..	..	..	19	14	6	4	4
Madagascar	75	126	118	122	91	41	56	13	10	11
Malawi	91	83	170	157	108	44	26	21	27	20
Maldives	69	51	67	70	76	13	6	4	4	3
Mali	137	105	122	119	109	24	19	22	16	21
Mauritania	215	205	195	204	200	29	32	24	24	21
Mozambique	89	302	359	386	325	129	55	37	46	33
Myanmar	..	..	..	..	..	72	33	15	14	10
Nepal	24	48	60	59	55	8	18	8	8	7
Niger	86	72	87	91	83	42	26	26	20	39
Rwanda	20	31	125	96	81	17	22	17	29	23
Samoa	84	64	102	107	109	27	14	13	8	7
Sao Tome and Principe	246	241	368	553	538	44	25	..	..	..
Sierra Leone	53	76	106	115	106	27	13	68	51	18
Solomon Islands	184	72	62	54	41	20	13	..	..	..
Somalia	215	236	..	..	..	44	38	5	8	5
Sudan	81	127	..	..	..	34	47	15	29	25
Togo	127	90	126	115	101	21	19	7	7	11
Tuvalu	-	-	-	-	-	-	-	-	-	-
Uganda	33	57	79	60	57	40	68	28	21	18
United Republic of Tanzania	61	141	160	155	97	26	33	17	18	19
Vanuatu	108	197	71	46	40	30	35	9	11	..
Yemen	83	85	195	197	155	131	15	7	5	3
Zambia	201	167	150	138	181	25	18	35	199	19
All LDCs	69	81	105	101	90	29	22	14	23	15

Source: UNCTAD secretariat, mainly based on information from the OECD secretariat, the World Bank and the IMF.
Note: Debt and debt service are defined as in table 27.
a Exports of goods and services (including non-factor services).
b Exports of goods only.

30. LDCs' debt reschedulings with official creditors, 1988–1997

Country		Date of meeting	Cut-off date	Consolidation period (months)	Percentage of principal and interest consolidated	Grace period[a]	Repayment period (years/months)	Arrears	Rescheduling of previously rescheduled debt	Goodwill clause	Estimated amounts rescheduled ($ million)
Angola	I	July 1989	31/12/86	15	100	6y 0m	3y 6m	Yes	Yes	Yes	446
Benin	I[b]	June 1989	31/3/89	13	100	Toronto terms		Yes	No	Yes	193
	II[c]	Dec. 1991	31/3/89	15	100	London terms		Yes	Yes	Yes	160
	III[c]	June 1993	31/3/89	29[d]	100	London terms		Yes	No	Yes	25
	IV[e]	Oct. 1996	31/3/89	-	-	Naples terms (67%)[f]		Yes	Yes	No	209
Burkina Faso	I[b]	Mar. 1991	1/1/91	15	100	Toronto terms		Yes	No	Yes	63
	II[c]	May 1993	1/1/91	32[d]	100	London terms		Yes	No	Yes	36
	III[e]	June 1996	1/1/91	-	-	Naples terms (67%)[f]		No	Yes	No	64
Cambodia	III[e]	Jan. 1995[g]	31/12/85	30[d]	100	Naples terms (67%)		No	Yes	No	249
Central African Republic	IV[b]	Dec. 1988	1/1/83	18	100	Toronto terms		Yes	Yes	Yes	28
	V[b]	June 1990	1/1/83	12	100	Toronto terms		No	Yes	No	4
	VI[c]	Apr. 1994	1/1/83	12	100	London terms		Yes	Yes	Yes	33
Chad	I[b]	Oct. 1989	..	15	100	Toronto terms		Yes	..	..	38
	II[e]	Feb. 1995[g]	30/6/89	12	100	Naples terms (67%)		Yes	Yes	No	24
	III[e]	June 1996[g]	30/6/89	32	100	Naples terms (67%)		Yes	Yes	No	..
Dem. Rep. of the Congo	X[b]	June 1989	30/6/83	13	100	Toronto terms		Yes	Yes	Yes	1 530
Equatorial Guinea	II[b]	Mar. 1989[g]	..	..	..	Toronto terms		Yes	No	Yes	10
	III[c]	Apr. 1992[g]	..	..	..	London terms		Yes	Yes	Yes	32
	IV[c]	Feb. 1994[g]	..	..	..	London terms		Yes	Yes	Yes	51
Ethiopia	I[c]	Dec. 1992	31/12/89	37[d]	100	London terms		Yes	..	Yes	441
	II[e]	Jan. 1997	31/12/89	34[d]	100	Naples terms (67%)		Yes	No	Yes	184
Guinea	II[b]	Apr. 1989	1/1/86	12	100	Toronto terms		Yes	Yes	Yes	123
	III[c]	Nov. 1992	1/1/86	..	100	London terms		Yes	Yes	Yes	203
	IV[e]	Jan. 1995	1/1/86	12	100	Naples terms (50%)		Yes	Yes	Yes	156
	V[e]	Feb. 1997	1/1/86	36[d]	100	Naples terms (50%)		Yes	Yes	Yes	..
Guinea-Bissau	II[b]	Oct. 1989	31/12/86	15	100	Toronto terms		Yes	Yes	Yes	21
	III[e]	Feb. 1995	31/12/86	36[d]	100	Naples terms (67%)		No	Yes	Yes	195
Haiti	I[e]	May 1995	1/10/93	13	100	Naples terms (67%)		Yes	No	Yes	117
Madagascar	VI[b]	Oct. 1988	1/7/83	21	100	Toronto terms		Yes	Yes	Yes	254
	VII[b]	July 1990	1/7/83	13	100	Toronto terms		No	Yes	Yes	139
	VIII[e]	Mar. 1997	1/7/83	35[d]	100	Naples terms (67%)		Yes	Yes	Yes	247
Malawi	III	Apr. 1988	1/1/82	14	100	9y 11m	9y 6m	Yes	Yes	Yes	27
Mali	I[b]	Oct. 1988	1/1/88	16	100	Toronto terms		Yes	No	Yes	63
	II[b]	Nov. 1989	1/1/88	26[d]	100	Toronto terms		Yes	No	Yes	44
	III[c]	Oct. 1992	1/1/88	35[d]	100	London terms		Yes	No	Yes	20
	IV[e]	May 1996	1/1/88	-	-	Naples terms (67%)[f]		No	Yes	No	33
Mauritania	IV[b]	June 1989	31/12/84	12	100	Toronto terms		Yes	Yes	No	52
	V[c]	Jan. 1993	31/12/84	24[d]	100	London terms		Yes	Yes	Yes	218
	VI[e]	June 1995	31/12/84	36	100	Naples terms (67%)		No	Yes	Yes	66

Table 30 (cont.)

Country		Date of meeting	Cut-off date	Consolidation period (months)	Percentage of principal and interest consolidated	Grace period[a]	Repayment period (years/months)	Arrears	Rescheduling of previously rescheduled debt	Goodwill clause	Estimated amounts rescheduled ($ million)
Mozambique	III[b]	June 1990	1/2/84	30[d]	100	Toronto terms		Yes	Yes	Yes	719
	IV[c]	Mar. 1993	1/2/84	24[d]	100	London terms		Yes	Yes	Yes	440
	V[e]	Nov. 1996	1/2/84	32[d]	100	Naples terms (67%)		Yes	Yes	Yes	664
Niger	V	Apr. 1988	1/7/83	13	100, 75[h]	10y 0m	9y 6m	no	No	No	37
	VI[b]	Dec. 1988	1/7/83	12	100	Toronto terms		No	Yes	Yes	48
	VII[b]	Sep. 1990	1/7/83	28[d]	100	Toronto terms		Yes	Yes	Yes	116
	VIII[c]	Mar. 1994	1/7/83	15	100	London terms		Yes	Yes	Yes	160
	IX[e]	Dec. 1996	1/7/83	31[d]	100	Naples terms (67%)		Yes	Yes	Yes	128
Sierra Leone	V[c]	Nov. 1992	1/7/83	16	100[i]	London terms[j]		Yes	Yes	Yes	164
	VI[c]	July 1994	1/7/83	17	100	London terms		Yes	Yes	Yes	42
	VII[e]	Mar. 1996	1/7/83	24	100	Naples terms (67%)		No	Yes	Yes	39
Togo	VI	Mar. 1988	1/1/83	16	100	7y 10m	7y 6m	Yes	Yes	No	139
	VII[b]	June 1989	1/1/83	15	100	Toronto terms		No	Yes	Yes	76
	VIII[b]	July 1990	1/1/83	24[d]	100	Toronto terms		No	Yes	No	88
	IX[c]	June 1992	1/1/83	24[d]	100	London terms		No	Yes	Yes	52
	X[e]	Feb. 1995	1/1/83	33[d]	100	Naples terms (67%)		No	Yes	Yes	239
Uganda	IV[b]	Jan. 1989	1/7/81	18	100	Toronto terms		Yes	Yes	Yes	89
	V[c]	June 1992	1/7/81	18	100	London terms		Yes	Yes	Yes	39
	VI[e]	Feb. 1995[g]	1/7/81	-	-	Naples terms (67%)[f]		No	Yes[k]	No	110
United Rep. of Tanzania	II[b]	Dec. 1988	30/6/86	6	100	Toronto terms		Yes	Yes	Yes	377
	III[b]	Mar. 1990	30/6/86	12	100	Toronto terms		Yes	Yes	Yes	200
	IV[c]	Jan. 1992	30/6/86	30[d]	100	London terms		Yes	Yes	Yes	691
	V[e]	Jan. 1997	30/6/86	36[d]	100	Naples terms (67%)		Yes	Yes	Yes	608
Yemen	I[e]	Sep. 1996	1/1/93	10	100	Naples terms (67%)		Yes	..	Yes	113
	II[e]	Nov. 1997	1/1/93	36[d]	100	Naples terms (67%)		Yes	No	Yes	..
Zambia	IV[b]	July 1990	1/1/83	18	100	Toronto terms		Yes	Yes	Yes	963
	V[c]	July 1992	1/1/83	33[d]	100	London terms		Yes	Yes	Yes	917
	VI[e]	Feb. 1996	1/1/83	36[d]	100	Naples terms (67%)		Yes	Yes	Yes	566

Source: Paris Club Agreed Minutes.
Note: Roman numerals indicate the number of debt reschedulings for the country since 1976.

a The grace period is defined as starting at the beginning of the consolidation period and running up to the date of the first payment: y = years; m = months.
b Beneficiary of the concessional debt relief measures agreed upon at the Toronto summit.
c Beneficiary of new terms going beyond the Toronto terms following the Trinidad proposal (1990), and the London Summit recommendations of 1992.
d Multi-year rescheduling.
e Naples terms; number in brackets indicates the percentage of reduction applied.
f Stock reduction.
g Dates of informal meeting of creditors on the terms to be applied in the bilateral agreements, as creditors did not call for a full Paris Club meeting.
h The first percentage relates to principal, and the second to interest.
i Including 50 per cent of moratorium interest.
j Does not apply to moratorium interest or to arrears on short-term debt.
k Only the two agreements concluded in 1987 and 1989 are included in the debt eligible for reduction.

31. Arrangements in support of structural adjustment in LDCs
(As of December 1997)

Millions of SDRs (except where otherwise indicated)

	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	Period	Amount	Period	Amount	Date of approval	IDA	African Facility[1]	Co-financing[2]	Date of approval	IDA	African Facility[1]	Co-financing[2]	Purpose
Bangladesh	July 1979 - July 1980	85.0											
	Dec. 1980 - Dec. 1983[3]	800.0[4]											
	March 1983 - Aug. 1983	68.4											
	Dec. 1985 - June 1987	180.0	Feb. 1987 - Feb. 1990	201.3					June 1987	147.8			Industrial policy reform
									Apr. 1989	137.0		Germany (DM 26m)	Energy sector
									Oct. 1989	1.8[6]			"
			Aug. 1990 - Sep. 1993	345[5]					June 1990	132.7		USAID (18.2)	Financial sector
									Nov. 1990	2.5[6]			"
									Nov. 1991	2.2[6]			"
									May 1992	109.3			Public resource management
									Oct. 1992	72.2			Industry
									Dec. 1992	2.5[6]			"
									Feb. 1994	175.0			Jute sector
									May 1994	2.4[6]			"
									Dec. 1994	2.3[6]			"
									Dec. 1995	2.3[70]			"
									Nov. 1996	2.0			"
Benin			June 1989 - June 1992	21.9[7]	May 1989	33.5							
			Jan. 1993 - May 1996	51.9[5]	June 1991	41.3							
					May 1995	25.8							
									Nov. 1993	3.7		DANIDA (4); ACBF (2)	Economic management
			Aug. 1996 - Aug. 1999	27.2[5]									
Burkina Faso									Feb. 1985	13.8		France/CCCE (3.2); Netherlands (2.1); Germany/GTZ (2); France/FAC (1.7);	Fertilizers
			Mar. 1991 - Mar. 1993	22.1[8]	June 1991	60.0		EC (30); AfDB (20); France (17); Canada (13); Germany (12)	Feb. 1992	49.6		EDF (99); AfDB (60.6); CIDA (29.8); Germany (28.6); West African Development Fund (10.2); BADEA (8.5); CCCE & FAC (7.8); IsDB (5.5); BOAD (3.1); UNDP (0.6);	Transport sector
									June 1992	20.6		France (21); EC (20); AfDB (13)	Agriculture
			Mar. 1993 - Mar. 1996	53.0[5]					Mar. 1994	18.0			Economic recovery
			June 1996 - June 1999	39.8[5]									
Burundi	Aug. 1986 - March 1988	21.0	Aug. 1986 - Aug. 1989	29.9	May 1986	13.2	14.3	Japan (11); Switzerland (7.7);					
					June 1988	64.9		Japan (18.1); Germany (6); Saudi Arabia (2.9)					
			Nov. 1991 - Nov. 1994	42.7[5]									
					June 1992	22							
Central African Republic	Feb. 1980 - Feb. 1981	4.0											
	April 1981 - Dec. 1981	10.4[9]											
	April 1983 - April 1984	18.0[10]											
	July 1984 - July 1985	15.0											
	Sep.1985 - March 1987	15.0[11]			Sep. 1986	12.3	14						
	June 1987 - May 1988	8.0	June 1987 - May 1990	21.3					July 1987	11.5		Saudi Arabia (2); Japan (6)	Cotton sector
					June 1988	28.9		ADF (25)					
					June 1990	34.5							
	Mar. 1994 - Mar. 1995	16.5											

Table 31 (cont.)

Country	IMF arrangements: Stand-by/Extended Facility: Period	IMF arrangements: Stand-by/Extended Facility: Amount	IMF arrangements: SAF/ESAF: Period	IMF arrangements: SAF/ESAF: Amount	World Bank loans and credits: Structural adjustment: Date of approval	Structural adjustment: Amount: IDA	Structural adjustment: Amount: African Facility[1]	Structural adjustment: Amount: Co-financing[2]	Sector and other adjustment: Date of approval	Sector and other adjustment: Amount: IDA	Sector and other adjustment: Amount: African Facility [1]	Sector and other adjustment: Amount: Co-financing [2]	Purpose
Chad			Oct. 1987 - Oct. 1990	21.4					July 1988	11.9	(16.2)		Public finance and cotton sector
									April 1989	45.4		USAID (23) Germany (22.7): CCCE (13.1); ADF (11.3); BDEAC (10.6); EDF (4.8); OPEC Fund for Int.Dev.(4.5); FAC (3.3); UNDP (0.5)	Transport sector
	Mar. 1994 - Mar. 1995	16.5							Mar. 1994	14.4			Economic recovery
			Sep. 1995 - Aug. 1998	49.6[5]									
					Feb. 1996	20.2							
					June 1997	18.0							Public sector
Cambodia	May 1994 - Aug. 1997	84.0[5]	May 1994 - Aug. 1997	84					July 1988	11.9	(16.2)		
									Sep.1995	25.4			Economic rehabilitation
Comoros			June 1991 - June 1994	3.2					June 1991	6.0	ADF (17); UNDP (1)		Macroeconomic reform and capacity-building
Dem. Republic of the Congo	Aug. 1979 - Feb. 1981	118.0[59]											
	June 1981 - June 1984[21]	912.0[60]											
	Dec. 1983 - March 1985	228. 0[61]											
	April 1985 - April 1986	162.0											
	May 1986 - Mar. 1988	214.2[62]							June 1986	17.6	(60)		Industrial sector
			May 1987 - May 1990	203.7[63]					June 1987	42.2	(94.3)	Japan (15.7)	Agricultural and rural dev.
	May 1987 - May 1988	100.0[64]											
	June 1989 - June 1990	116.4[65]	June 1996 - June 1999	69.5									
Djibouti	April 1996 - June 1997	4.6											
Equatorial Guinea	July 1980 - June 1981	5.5											
	June 1985 - June 1986	9.2[12]											
			Dec. 1988 - Dec. 1991	12.9[13]									
			Feb. 1993 - Feb. 1996	12.9[5]									
Ethiopia	May 1981 - June 1982	67.5											
			Oct. 1992 - Nov. 1995	49.4	June 1993	176.5							
					Jan. 1994	0.3[6]							
					Dec. 1994	0.1[6]							
			Oct. 1996 - Oct. 1999	88.5[5]									
Gambia	Nov. 1979 - Nov. 1980	1.6											
	Feb. 1982 - Feb. 1983	16.9											
	April 1984 - July 1985 15	12.8[14]											
	Sep.1986 - Oct. 1987	5.1	Sep.1986 - Nov. 1988	12.0[16]	Aug. 1986	4.3	9.9	United Kingdom (4.5); ADF (9)					
			Nov. 1988 - Nov. 1991	20.5[5]	June 1989	17.9		ADF (6); Netherlands (2.5)					
Guinea	Dec. 1982 - Nov. 1983	25.0[17]											
	Feb. 1986 - March 1987	33.0[18]			Feb. 1986	22.9	15.6	France (26.7); Germany (9.4); Japan (27.8); Switzerland (4.8)					
	July 1987 - Aug. 1988	11.6	July 1987 - July 1990	40.5[19]									
					June 1988	47.0		ADF (12); Japan (11.2)					
									June 1990	15.4			Education sector
			Nov. 1991 - Nov. 1996	57.9[5]									
			Jan. 1997 - Jan. 2000	70.8	Dec. 1992	0.1[6]							

Table 31 (cont.)

	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	Period	Amount	Period	Amount	Date of approval	IDA	African Facility[1]	Co-financing[2]	Date of approval	IDA	African Facility [1]	Co-financing [2]	Purpose
Guinea-Bissau									Dec.1984	10.1		Switzerland (SwF 4.5 m)	Economic recovery programme[21]
			Oct. 1987 - Oct. 1990	5.3[20]	May 1987	8	4	Switzerland (5.2); Saudi Arabia (3.2); ADF (11.3); IFAD (5.3) Netherlands (4.8); USAID (4.5); ADF (12.0) [22]					
					May 1989	18							
			Jan. 1995 - Jan. 1998	9.0[5]									
Haiti	Oct. 1978 - Oct. 1981[24]	32.2[23]											
	Aug. 1982 - Sep. 1983	34.5											
	Nov. 1983 - Sep. 1985	60.0[25]											
			Dec.1986 - Dec. 1989	30.9[26]					Mar.1987	32.8			Economic recovery
	Sep.1989 - Dec.1990	21.0[18]											
									Dec. 1994	26.8			"
	Mar. 1995 - Mar.1996	20.0											
			Oct.1996 - Oct. 1999	91.1[5]									
Lao People's Dem. Republic	Aug. 1980 - Aug. 1981	14.0											
			Sep.1989 - Sep. 1992	20.5	June 1989	30.8							
					Oct. 1991	30.0							
			June 1993 - June 1997	35.2[5]									
					Feb. 1996	26.9							
Lesotho			June 1988 - June 1991	10.6									
			May 1991 - Aug. 1994	18.1[5]									
	Sep.1994 - Sep. 1995	8.4											
	July 1995 - July 1996	7.2											
			Sep.1996 - Sep. 1997	7.2									
Madagascar	June 1980 - June 1982	64.5[27]											
	April 1981 - June 1982	76.7[28]											
	July 1982 - July 1983	51.0[14]											
	April 1984 - Mar. 1985	33.0											
	April 1985 - April 1986	29.5							May 1986	19	(33)	KfW (4); Japan (3) ADF (40); Switzerland (8)	Agricultural sector
	Sep.1986 - Feb. 1988	30.0	Aug. 1987 - May 1989	46.5[29]									
									June 1988	90.5			Public sector
	Sep.1988 - July 1989	13.3[30]											
			May 1989 - May 1992	76.9[5]					Mar.1989	1.1[6]			Public sector
									Oct.1989	0.9[6]			"
									Nov.1990	1.2[6]			"
									Nov.1991	1[6]			"
									Dec.1992	1[6]			"
			Nov. 1996 - Nov. 1999	81.4[5]	Mar. 1997	48.6							Multisector rehabilitation
					Mar. 1997	0.4							
Malawi	Oct. 1979 - Dec. 1981[31]	26.3											
	May 1980 - March 1982	49.9[32]			June 1981	36.7[33]							
	Aug. 1982 - Aug. 1983	22.0							April 1983	4.6		IFAD (10.3)	Smallholder fertilizers
	Sep.1983 - Sep. 1986	81.0[34]			Dec. 1983	51.9							
					Dec. 1985	28.0	37.3	Germany/KfW (6.4); Japan/ OECF (22.6); USAID (15)					
	March 1988 - May 1989	13.0	July 1988 - Mar. 1994	67.0[5]									
			Oct.1995 - Oct. 1998	46[5]	Jan. 1987		8.4	Japan (17.7); United Kingdom (7.5); Germany (5)	June 1988	50.6		OECF (30); USAID (25); ADF (19.5); EEC (16)	Industrial and trade policy adjustment
									Mar. 1989	4.0[6]			"
									Oct. 1989	3.8[6]			"
									April 1990	52.6		USAID (25); United Kingdom (16.5); Netherlands (5); Germany, EEC and Japan (6.1)	Agriculture
									Nov. 1990	5.1[6]			Industry and trade

Table 31 (cont.)

	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	Period	Amount	Period	Amount	Date of approval	IDA	African Facility[1]	Co-financing[2]	Date of approval	IDA	African Facility [1]	Co-financing [2]	Purpose
Malawi (cont.)									Nov. 1991	4.0[6]			Agriculture
									June 1992	85.4		AfDB (13.4)	Entrepreneurship dev. & drought recovery
									Dec. 1992	4.3[6]			"
	Nov. 1994 - June 1995	15.0							Nov. 1994	27.6[6]			"
									Dec. 1994	3.2[6]			"
			Oct. 1995 - Oct. 1998	45.8[5]									
									April 1996	70.3			Fiscal restructuring & deregulation programme
									April 1996	2.9[70]			"
					Nov. 1996	2.4[70]							"
Mali	May 1982 - May 1993	30.4							June 1988	29.4		Japan (38.7); Saudi Arabia (5.9); ADF (45)	Public enterprise sector
	Dec. 1983 - May 1985	40.5											
	Nov. 1985 - March 1987	22.9[36]											
	Aug. 1988 - June 1990	12.7	Aug. 1988 - Aug. 1991	35.6[14]									
					Dec. 1990	50.3		EC (20); AfDB (18)	June 1990	40.7		FAC/CCCE (50.8); SDC (6.9); Netherlands (5.2); Germany (2.9)	Agricultural sector/ investment
			Aug. 1992 - March 1996	79.2[5]					Mar. 1994	18.2			Economic recovery
									Jan. 1995	34.3			Education
			April 1996 - April 1999	62.0[5]					June 1996	41.6			Economic management
Mauritania	July 1980 - March 1982[38]	29.7[37]											
	June 1981 - March 1982	25.8											
	April 1985 - April 1986	12.0											
	April 1986 - April 1987	12.0	Sep.1986 - May 1989	23.7[39]									
	May 1987 - May 1988	10.0			June 1987	11.7	21.4	Saudi Arabia (4.8); Germany (2.8)					
			May 1989 - Jan. 1995	50.9[5]									
									Feb. 1990	19.4		CCCE (8); Germany (2); WFP (1);	Agricultural sector/ investment
									June 1990	30.7		Japan (50); SFD (19.8); KFAED (13.7); AFESD (10.3); Abu Dhabi Fund (6.1); Spain (5); Germany (4)	Public enterprises
									Nov. 1990	2.9[6]			Public enterprises
									Nov. 1991	1.9[6]			"
			Jan. 1995 - Jan. 1998	42.8[5]					Dec. 1992	1.6[6]			"
									Jan. 1994	1.0[6]			"
									Nov. 1996	0.4[6]			"
Mozambique									May 1985	45.5			Economic rehabilitation programme I
			June 1987 - June 1990	42.7					Aug. 1987	54.5	(18.6)	Switzerland (11.2)	Economic rehabilitation programme II
									May 1989	68.2		United Kingdom (17.5); Switzerland (12.8); Germany (10.9); Sweden (9.4); Finland (8.9)	Economic rehabilitation programme III
			June 1990 - Dec. 1995	130.1[5]									
									June 1992	132		Switzerland (6)	Economic recovery
									June 1994	141.7			Economic recovery II
			June 1996 - June 1999	75.6[5]	Feb. 1997	69.1							"
Myanmar	June 1981 - June 1982	27.0											
Nepal	Dec. 1985 - April 1987	18.7											
			Oct. 1987 - Oct. 1990	26.1	Mar. 1987	40.9							
					June 1989	46.2		KfW (5)					
			Oct. 1992 - Oct. 1995	33.6[5]									

Table 31 (cont.)

Country	IMF arrangements: Stand-by/Extended Facility: Period	IMF arrangements: Stand-by/Extended Facility: Amount	IMF arrangements: SAF/ESAF: Period	IMF arrangements: SAF/ESAF: Amount	World Bank loans and credits: Structural adjustment: Date of approval	Structural adjustment: Amount: IDA	Structural adjustment: Amount: African Facility[1]	Structural adjustment: Amount: Co-financing[2]	Sector and other adjustment: Date of approval	Sector and other adjustment: Amount: IDA	Sector and other adjustment: Amount: African Facility [1]	Sector and other adjustment: Amount: Co-financing [2]	Purpose
Niger	Oct. 1983 - Dec. 1984	18.0											
	Dec. 1984 - Dec. 1985	16.0											
	Dec. 1985 - Dec. 1986	13.5	Nov. 1986 - Dec. 1988	23.6[40]	Feb. 1986	18.3	36.6						
	Dec. 1986 - Dec. 1987	10.1											
									June 1987	46	15.4		Public enterprises
			Dec. 1988 - Dec. 1991	47.2[41]									
	Mar. 1994 - Mar. 1995	18.6							Mar. 1994	18.2			Economic recovery
			June 1996 - June 1999	58[5]									
					Mar. 1997	21.6							Public sector
Rwanda	Oct. 1979 - Oct. 1980	5.0[42]											
			April 1991 - April 1994	30.7[26]	June 1991	67.5		Switzerland (SwF 10m); Belgium (BF 400m)					
									Jan. 1995	34.3			Emergency recovery
Samoa	Aug. 1979 - Aug. 1980	0.7[42]											
	June 1983 - June 1984	3.4											
	July 1984 - July 1985	3.4											
Sao Tome and Principe					June 1987	3.1	2.3	ADF (8.5);					
			June 1989 - June 1992	2.8[43]	June 1990	7.5		ADF(12); IMF (2.6)					
Sierra Leone	Nov. 1979 - Nov. 1980	17.0											
	March 1981 - Feb. 1984[45]	186.0[44]											
	Feb. 1984 - Feb. 1985	50.2[46]							June 1984	20.3		IFAD (5.4)	Agriculture
	Nov. 1986 - Nov. 1987	23.2	Nov. 1986 - Nov. 1989	40.5[47]									
									April 1992	31.4			Reconstruction Imports
									April 1992	0.2[6]			"
									Dec. 1992	0.2[6]			"
					Oct. 1993	35.9							
			Mar. 1994 - Mar. 1995	27.0	Jan. 1994	0.1 [6]							
			Mar. 1994 - Dec. 1997	101.9[5]	Dec. 1994	0.2 [6]							
					Dec. 1995	0.2 [70]							
					Nov.1996	0.1							
Somalia	Feb. 1980 - Feb. 1981	11.5[48]											
	July 1981 - July 1982	43.1											
	July 1982 - Jan. 1984	60.0											
	Feb. 1985 - Sep.1986	22.1											
	June 1987 - Feb.1989	33.2	June 1987 - June 1990	30.9[26]					June 1989	54.2		ADF (25); BITS (0.5)	Agriculture
Sudan	May 1979 - May 1982[49]	427.0											
	Feb. 1982 - Feb. 1983	198.0[50]											
	Feb. 1983 - March 1984	170.0							June 1983	46.4			Agricultural rehabilitation
	June 1984 - June 1985	90.0[51]											
Togo	June 1979 - Dec. 1980	15.0[52]											
	Feb. 1981 - Feb. 1983	47.5[53]											
	March 1983 - April 1984	21.4			May 1983	36.9							
	May 1984 - May 1985	19.0											
	May 1985 - May 1986	15.4			May 1985	28.1							
					Aug. 1985		9.7						
	June 1986 - April 1988	23.0											
	Mar. 1988 - April 1989	13.0	Mar. 1988 - May 1989	26.9[54]	Mar. 1988	33.0		ADF (17.3); Japan (20.8)					
			May 1989 - May 1993	46.1[5]	Mar. 1989	0.1[6]							
					Oct. 1989	0.2[6]							
					Dec. 1990	39.6							
									Feb. 1991	10.2			Population and health
			Sep.1994 - Sep. 1997	65.2[5]									
									April 1996	32.2			Economic recovery and adjustment

Table 31 (cont.)

	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	Period	Amount	Period	Amount	Date of approval	IDA	African Facility[1]	Co-financing[2]	Date of approval	IDA	African Facility [1]	Co-financing [2]	Purpose
Uganda	Jan. 1980 - Dec. 1980	12.5											
	June 1981 - June 1982	112.5											
	Aug. 1982 - Aug. 1983	112.5											
									Feb. 1983	63.5		Italy/DCD (10)	Agricultural rehabilitation
	Sep.1983 - Sep. 1984	95.0[55]											
									May 1984	47.2			Reconstruction
			June 1987 - April 1989	69.7[56]					Sep.1987	50.9	18.8	United Kingdom/ODA (16)	Economic recovery
			April 1989 - June 1994	219.2[57]					Mar. 1989	1.3[6]			"
									April 1989	19[6]			"
									Oct. 1989	1.2[6]			"
									Feb. 1990	98.1	(12.8)		"
									Nov. 1990	1.5[6]			"
									Dec. 1990	69.5			Agriculture
					Dec. 1991	91.9			Nov. 1991	1.2[6]			Economic recovery
			Sep. 1994 - Nov. 1997	120.5[5]	Dec. 1992	1.0[6]			May 1993	72.8			Finance
					May 1994	57.8			Jan. 1994	0.8[6]			"
					Dec.1994	0.4[6]							
					June 1997	90.4							
United Republic of Tanzania	Sep.1980 - June 1982	179.6[58]											
	Aug. 1986 - Feb. 1988	64.2							Nov. 1986	41.3	38.2	Germany (17.3); Switzerland (9.2); United Kingdom (7.3);	Multisector rehabilitation
			Oct. 1987 - Oct. 1990	74.9									
									Jan. 1988	22.5	(26.0)	Saudi Arabia (4);	Multisector rehabilitation
									Dec. 1988	97.6		ADF (24); United Kingdom (15); Switzerland (14); Netherlands (10)	Industrial rehabilitation and trade adjustment
													"
													"
									Mar. 1989	9.7[6]			Industrial rehabilitation
									Oct. 1989	8.3[6]			Industry and trade adjustment
									Mar. 1990	150.4		Netherlands (40); United Kingdom (20)	Agriculture
									Dec. 1990	11.5[6]			Agriculture
			July 1991 - July 1994	181.9[5]					Nov. 1991	8.6[6]			"
									Nov. 1991	150.2		United Kingdom (16.8); Switzerland (6.6)	Finance
									Dec. 1992	8.2[6]			"
			Nov. 1996 - Nov. 1999	161.6[5]	June 1997	93.2[70]							
Yemen	Mar. 1996 - June 1997	132.4							April 1996	53.7			Economic recovery
Zambia	April 1978 - April 1980	250.0											
	May 1981 - May 1984[24]	800.0[66]											
	April 1983 - April 1984	211.5[67]											
	July 1984 - April 1986	225[68]							Jan. 1985	24.7	(10)	AfDB (23.4); CIDA (6.8); USAID (5); Switzerland (4.8); Germany (18.8)	Agricultural rehabilitation
	Feb. 1986 - Feb. 1988	229.8[69]											
									Mar. 1991	149.6			Economic recovery
									Mar. 1991	19.4[6]			"
									May 1992	7.6[6]			"
									June 1992	146			Privatization and industry
									Dec. 1992	15.1[6]			"
									June 1993	72.1			"
									Aug. 1993	7.0[6]			"
									Jan. 1994	12.1[6]			"
									Mar.1994	108.9			Economic and social
									Dec. 1994	9.7[6]			' adjustment
									June 1995	19.1			"
			Dec. 1995-Dec. 1998	701.7[5]					July 1995	90.0			Economic recovery and investment promotion
									Dec. 1995	8[70]			"
									June 1996	16.0			"
					Aug. 1996	62.4							Economic and social adjustment
					Nov. 1996	5.4							

Sources: IMF, *Annual Report* (various issues); *IMF Survey* (various issues); World Bank, *Annual Report* (various issues); *World Bank News* (various issues).
m = million

1. Special Facility for Sub-Saharan Africa; amounts in parentheses are expressed in millions of dollars.
2. Including special joint financing and bilateral support; amounts are in millions of dollars unless stated otherwise.
3. Extended Facility arrangement, cancelled as of June 1982.
4. SDR 580 m not purchased.
5. ESAF.
6. Supplemental credit.
7. SDR 6.3 m not purchased.
8. SDR 15.8 m not purchased.
9. SDR 2.4 m not purchased.
10. SDR 13.5 m not purchased.
11. SDR 7.5 m not purchased.
12. SDR 3.8 m not purchased.
13. SDR 3.7 m not purchased.
14. SDR 10.2 m not purchased.
15. Cancelled as of April 1985.
16. SDR 3.4 m not purchased.
17. SDR 13.5 m not purchased.
18. SDR 6.0 m not purchased.
19. SDR 11.6 m not purchased.
20. SDR 1.5 m not purchased.
21. Supported by IMF; (SDR 1.88 m purchased in first credit tranche).
22. Additional financing.
23. SDR 21.4 m not purchased.
24. Extended Facility arrangement.
25. SDR 39 m not purchased.
26. SDR 22.1 m not purchased.
27. Cancelled as of April 1981; SDR 54.5 m not purchased.
28. Augmented in June 1981 with SDR 32.3 m; SDR 70 m not purchased at expiration of arrangement.
29. SDR 33.2 m not purchased.
30. Cancelled as of May 1989; SDR 10.5 m not purchased.
31. Cancelled as of May 1980; SDR 20.9 m not purchased.
32. SDR 9.9 m not purchased.
33. IBRD loan.
34. Original amount decreased from SDR 100 m; SDR 24 m not purchased.
35. Extended Facility arrangement; cancelled as of August 1986.
36. SDR 6.6 m not purchased.
37. SDR 20.8 m not purchased.
38. Cancelled as of May 1981.
39. SDR 6.8 m not purchased.
40. SDR 6.7 m not purchased.
41. ESAF; original amount decreased from SDR 50.6 m.
42. Not purchased.
43. SDR 2 m not purchased.
44. Including an increase of SDR 22.3 m in June 1981. SDR 152 m not purchased.
45. Extended Facility arrangement; cancelled as of April 1982.
46. SDR 31.2 m not purchased.
47. SDR 29 m not purchased.
48. SDR 5.5 m not purchased.
49. Extended Facility arrangement; cancelled as of February 1982; SDR 176 m not purchased.
50. SDR 128 m not purchased.
51. SDR 70 m not purchased.
52. SDR 1.75 m not purchased.
53. SDR 40.3 m not purchased.
54. SDR 19.2 m not purchased.
55. SDR 30.0 m not purchased.
56. SDR 19.9 m not purchased.
57. ESAF; original amount increased from SDR 179.3 m.
58. SDR 154.6 m not purchased.
59. SDR 9.0 m not purchased.
60. Cancelled as of June 1982; SDR 737 m not purchased.
61. SDR 30 m not purchased.
62. Cancelled as of April 1987; SDR 166.6 m not purchased.
63. SDR 58.2 m not purchased.
64. SDR 75.5 m not purchased.
65. SDR 41.4 m not purchased.
66. Cancelled as of July 1982; SDR 500 m not purchased.
67. SDR 67.5 m not purchased.
68. Cancelled as of February 1986; SDR 145 m not purchased.
69. Cancelled as of May 1987; SDR 194.8 m not purchased.
70. From IDA reflows.