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To: Members of the Executive Board

From: The Secretary

Subject: Report on the Sixth Session of the Intergovernmental Group
on the Least Developed Countries

Attached for the information of the Executive Directors is a report by the Fund observer on the sixth session of the Intergovernmental Group on the Least Developed Countries held in Geneva during September 30 - October 11, 1985.

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INTERNATIONAL MONETARY FUND

Report on the 6th Session of
the Intergovernmental Group on
the Least Developed Countries

Report by the Fund Observer

December 5, 1985

1. Introduction and summary

The Intergovernmental Group on the Least Developed Countries held its sixth session in Geneva during September 30 - October 11 under the chairmanship of Mr. T. Froysnes, Secretary of State of Norway. The purpose of the meeting was to carry out the mid-term global review of the progress made towards the implementation of the Special New Programme of Action (SNPA) since its adoption in 1981.

While the participants acknowledged that the social and economic situation of the Least Developed Countries (LDCs) had deteriorated significantly since the beginning of the decade, they held divergent views on the causes of this performance. The representatives of the LDCs argued that the efforts they had undertaken to implement the SNPA had been frustrated by a number of factors beyond their control, such as adverse climatic conditions in many countries, particularly in Africa, the mediocre performance of the world economy, and the failure of many donor countries to live up to their commitments under the SNPA. For their part, the representatives of the donor countries felt that the performance should be attributed not only to external causes but also to the failure to adopt appropriate policies over extended periods of time in many LDCs. The views of the participants also diverged as regards the measures which should be adopted to bring the program back on track. The representatives of the LDCs emphasized the need for a substantial increase in ODA flows, while the representatives of the donor countries stressed that foreign assistance could only supplement domestic efforts and, therefore, called on recipient countries to adopt more forceful adjustment policies, especially on the supply side.

The Group finally adopted two declarations dealing respectively with the progress made so far in the implementation of the SNPA and with the measures that should be adopted in the future if the objectives of SNPA were to be achieved. The first declaration welcomed the efforts which had been made by the international community and by the LDCs to implement the SNPA but noted with concern that the results attained so far under the program had fallen considerably short of the

targets set forth in 1981. The second declaration stressed that the SNPA objectives remained valid and took note with satisfaction of the fact that both the donor countries and the LDCs had reiterated their intention to continue making their best efforts in the pursuit of those objectives. The Group also agreed that a global review and appraisal of the implementation of the SNPA should take place in 1990 at a high level. Mr. Jack P. Barnouin attended the meeting as the Fund observer.

2. General debate

The UN Director General for Development and International Economic Cooperation, speaking on behalf of the Secretary General of the United Nations, said that the recent decline in the per capita GDP of the LDCs and the rapid growth in their external debt were a source of concern for the international community. Among the major causes of this discouraging performance he mentioned the natural disasters which had affected several LDCs, especially in Africa, the failure of many donors to reach the aid targets set forth in the SNPA, and the fact that the action undertaken by the LDCs to strengthen their economic base had not always been commensurate with the magnitude of their problems. To correct the situation he suggested that the LDCs' governments should adopt strong adjustment measures; that the international community should take adequate steps to increase the availability of external financial resources to the LDCs; that measures to alleviate their debt problems and to stabilize their export earnings should be adopted; and that the system of round tables and country review meetings should be further strengthened.

The Officer-in-Charge of UNCTAD stated that despite the serious efforts made by the LDCs to strengthen their domestic policies, their per capita GDP had declined in recent years and their external financial situation had deteriorated. Against that background, he was concerned that a number of donor countries which had accepted to transfer 0.15 percent of their GNP to the LDCs as ODA had not yet met this target. He called upon donor countries to indicate what steps they would take in the future to implement fully their commitments under the SNPA and invited them to "give thought to concrete steps designed to soften the debt service burden of LDCs arising from non-concessional debt owed to bilateral sources." He further urged them to provide export earnings stabilization support for all LDCs along lines similar to the STABEX, and to extend beneficiary status to all LDCs under existing GSP schemes.

The spokesman for the European Communities (EC) reaffirmed his constituents' support for the objectives of the SNPA. While he welcomed the domestic efforts undertaken by the LDCs, he argued that the EC had matched these efforts by increasing substantially their

financial assistance to these countries, particularly under the Third Lomé Convention, and by introducing further improvements in their GSP scheme. He also announced that, on October 3, 1985, the EC Council of Ministers had decided to extend the benefits of STABEX to the LDCs not signatories of the Lomé Convention, and he expressed the hope that other developed importing countries would follow suit.

The individual representatives of the EC Member States, who intervened in the debate, supported the statement of the EC spokesman while giving additional details on the aid performance of their respective countries. While the representatives of Denmark and the Netherlands stressed that their countries' annual assistance to LDCs currently amounted to 0.30 percent of GDP, the representative of France informed the Group that his country had reached the 0.15 percent ODA target in 1984. The representatives of Italy, the Federal Republic of Germany, and the United Kingdom emphasized that, although their countries had not yet met the 0.15 percent target, they intended to continue increasing substantially their ODA flows to LDCs.

The representative of Sweden stated that his country was currently transferring between 0.20 and 0.30 percent of its GNP on a grant basis to LDCs, and the representatives of Finland and Norway indicated that their countries were on the verge of reaching the 0.15 percent target. The representatives of Switzerland and Austria indicated that their countries had doubled their ODA flows to LDCs since the initiation of the SNPA, while the representatives of Spain and Portugal stated that, although their countries were not members of DAC, they had not ignored the difficulties faced by developing countries, particularly the LDCs.

The representative of the United States noted that, although his country did not accept aid targets, its ODA flows to LDCs had increased from US\$529 million in fiscal year 1981 to US\$1.6 billion in fiscal year 1985. His authorities, however, believed that the objectives of the SNPA would best be met "through the flexibility and dynamism of the private sector" and, they therefore considered that voluntary aid and private capital should usefully supplement official resource flows. Duty-free access to the U.S. market to over 70 percent of the LDCs' export was currently being granted.

The representative of Canada expressed the hope that the mid-term review would produce a document focusing on issues for priority action including, inter alia, the strengthening and rehabilitation of the food and agricultural sectors; the development and mobilization of human resources, the improvement of the LDCs' domestic policies; the strengthening of commercial policy measures designed to foster the expansion of LDCs' exports; and the promotion of economic and regional cooperation among developing countries. He reiterated his Government's longstanding policies of emphasizing assistance to the poorest countries, and he highlighted the fact that duty-free access had been granted to LDCs' products under the Canadian GSP scheme. The representatives of Australia and New Zealand stated that, while their authorities had endorsed the SNPA

as a useful program, they had reserved their position on quantitative financial targets. Their countries, however, had substantially increased their official assistance to LDCs, especially in the South Pacific, and had made considerable efforts to improve their GSP schemes for the benefit of the poorest developing countries.

The representative of Japan said that his Government had substantially increased its ODA flows to LDCs; it had fully implemented TDB Resolution 165 (S-IX) by giving cash grants to offset debt servicing with respect to ODA loans contracted by the LDCs before March 31, 1978; and it had accorded preferential treatment to LDCs' exports under its GSP scheme.

The spokesman for Group D argued that the poor performance of the LDCs was due to "the nefarious influences of the capitalist market on the LDCs' economies and the monopolistic exploitations of those countries by major Western powers and their transnational corporations." He felt, therefore, that "the transfer of financial resources to the LDCs should come from those countries responsible for their economic plight, i.e., the industrially developed capitalist countries." He said the socialist countries, on the other hand, would continue to strengthen their cooperation with the LDCs on the basis of giving high priority to the promotion of the exports of raw materials and semimanufactured and manufactured goods from LDCs to socialist countries under long-term agreements, and to providing economic and technical assistance to the LDCs in the agricultural, mining, and processing sectors, as well as in transport and communications. The representatives of the U.S.S.R., Bulgaria, Hungary, Czechoslovakia, and the German Democratic Republic spoke along the same lines as the spokesman for Group D.

The representatives of the LDCs who intervened in the debate (Afghanistan, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cape Verde, Chad, Djibouti, Ethiopia, The Gambia, Guinea-Bissau, Haiti, Laos, Malawi, the Maldives, Mali, Nepal, Niger, Sao Tome and Principe, Somalia, Sudan, Tanzania, Togo, Western Samoa, the Yemen Arab Republic, and the People's Democratic Republic of Yemen) reported on the measures adopted by their respective governments in the pursuit of the objectives of the SNPA. Most delegates complained that their governments' development efforts had been frustrated by natural disasters, the poor performance of the world economy, and the failure of donor countries to live up to their commitments under the SNPA. They complained, inter alia, about the mediocre increase in ODA flows from several major donor countries, the lack of uniformity in the implementation of TDB Resolution 165 (S-IX) regarding the retroactive adjustment of terms of ODA debt owed by LDCs, the failure of the IMF to introduce special provisions for the benefit of the LDCs under its CFF, and the maintenance of nontariff barriers by certain industrial countries against exports of crucial interest to the LDCs. A few of them (Afghanistan, Ethiopia, and Laos) also argued that some Western donors were imposing political and ideological conditions for providing assistance to some LDCs.

The representative of China said that, although his country was itself a developing country, it had extended substantial financial assistance to the LDCs in the form of concessionary loans that the Chinese authorities had agreed to reschedule on a case-by-case basis when the case had arisen. The resources so provided by China to the LDCs had been used to finance over 400 projects, of which 300 had been completed, while 100 were under way or in preparation.

The representative of Saudi Arabia indicated that his country, itself a developing country, had directed the bulk of its official assistance to the most seriously affected and least developed countries. Since the adoption of the SNPA in 1981, it had provided US\$3.9 billion in ODA to the LDCs, most of it in the form of grants and the rest in the form of untied and concessionary loans. Saudi Arabia had been among the first countries to give priority to the problem of drought and desertification in Africa. Since 1981 it had allocated more than US\$400 million for that purpose to countries in the Sahelian region. This assistance was in addition to a US\$100 million contribution to the World Bank's special fund for Africa and to contributions to several other programs for drought and famine relief in Africa, such as the programs of the High Commissioner for Refugees, the World Food Programme, and the Arab Gulf Programme for United Nations development organizations.

The representative of the World Bank found it disturbing that ODA flows to the LDCs had fallen since the adoption of the SNPA. In the light of the scarcity of resources and the limited alternative sources of finances for these countries, the Bank believed that ODA should focus increasingly on the needs of the poorest countries. Regarding the Bank's role in the LDCs, he said the Bank had given priority to the expansion of lending by its IDA affiliate, the enlargement of the Bank's role in technical assistance and aid coordination, and the establishment of a Joint Program of Action for sub-Saharan Africa. The Bank's continued capacity to provide strong financial assistance to LDCs was, however, dependent on the size of the IDA replenishment. This highlighted the importance of enlarging IDA resources in the forthcoming replenishment exercise.

The representatives of the United Nations Development Programme, the United Nations Capital Development Fund, the United Nations Fund for Population Activities, the FAO, the World Food Council, the International Fund for Agricultural Development, UNIDO, the Economic Commission for Africa, the Economic and Social Commission for Asia and the Pacific, the Economic and Social Commission for Western Asia, and the International Alliance of Women also intervened in the debate.

The representative of the IMF referred to the severe economic difficulties confronted by the poorest developing countries in recent years, which had resulted in a sharp decline in per capita income and protracted balance of payments problems. He went on to say that economic prospects for these countries were not very encouraging because, given their rapid population growth, inadequate infrastructure, and limited

resource base, they were not expected to benefit significantly from the economic recovery projected for the rest of the world. Turning to the role of the Fund, he stated that, from January 1, 1981 to June 30, 1985, drawings by the LDCs on the Fund's general resources under all facilities had totaled SDR 1,956 million. With repayment at SDR 657 million, net drawings by least developed members had amounted to SDR 1,299 million, or 4.2 percent of net drawings by all developing members. While this amount might seem modest, it should be related to the least developed members' quotas in the Fund, which represented 5.1 percent of the quotas of all developing countries and 1.9 percent of total quotas. Regarding future Fund support, the IMF representative said the Fund intended to continue to actively assist least developed countries, especially in sub-Saharan Africa, in appraising their macroeconomic policies, and to provide them with catalytic finance. He further told the participants that, at the recent annual meetings in Seoul, the Interim Committee had concluded that the repayments pertaining to loans from the Trust Fund (about SDR 2.7 billion) which might be supplemented with funds from other sources should be used to provide additional balance of payments assistance on concessional terms to the low-income countries eligible for IDA resources that are in need of such assistance and face protracted balance of payments problems. The Committee had also agreed that this assistance should be made available to countries implementing economic programs designed to promote structural adjustment and growth in a medium-term framework, and had urged the Fund Executive Board to complete its work on this matter before the Committee's next meeting, in the light of the guidance provided by the Committee.

3. Final recommendations

Following the general debate, the participants discussed two draft declarations which dealt respectively with the progress made so far in implementing the SNPA and with the measures which should be adopted in the future to accelerate the implementation of the program.

The first declaration, 1/ adopted after a brief discussion, deplored the fact that the overall social and economic situation of the LDCs had deteriorated significantly since the adoption of the SNPA in 1981. Per capita GDP in the LDCs as a group had declined progressively since 1981. Among major problem areas, the declaration mentioned the energy sector, where the intensive use of fuelwood and charcoal had contributed to the depletion of these natural resources and to the degradation of the ecosystem; the agricultural sector, where food production had declined by 1.4 percent per annum during 1980-84 for a number of reasons, including disastrous climatic conditions in most LDCs, the failure of certain countries to adopt an appropriate food strategy, and a lack of coordination in the sector at both the local and international level; and the manufacturing sector, where the maintenance over long periods of unrealistic price structures and rates of exchange had exerted a negative impact.

1/ TD/B/AC.17/L.24/Rev.1.

As regards international support measures, the declaration deplored that the SNPA objective of doubling the volume of ODA to LDCs by 1985 had not been reached, although a significant number of donors had taken steps to increase substantially their assistance. The declaration also welcomed the fact that many donors had taken debt relief measures in pursuance of TDB Resolution 165 (S-IX).

The second declaration 1/ was the subject of prolonged discussions as LDC representatives tried vainly to extract new commitments from the donor countries. The LDC delegates requested, in particular, that multilateral development assistance agencies should extend loans to the poorest countries only under highly concessional terms, and that they should renegotiate existing loans to those countries with a view to converting them to IDA terms. They also suggested that the Fund's CFF should be modified with a view to providing special and preferential treatment to the LDCs. The donor countries rejected these requests on the grounds that they would represent major additions to SNPA as it had been originally negotiated at ministerial level in 1981. The declaration finally adopted by the Group included language which, on all the controversial issues, did not go beyond that agreed upon in 1981. For example, the declaration called on multilateral development assistance agencies to provide credits to LDCs on highly concessional terms, but only "to the extent that their lending procedures permit." It also noted that the repayment of debt to multilateral development assistance institutions constituted an element of the LDCs' overall debt service burden, but it merely invited those institutions "to take this fact into account in their lending programs for LDCs." Finally, as regards the LDCs' use of the Fund's CFF, it invited the Fund to explore ways and means of improving such use "within its existing rules."

1/ TD/B/AC.17/L.269 and Add.1 to 4.

