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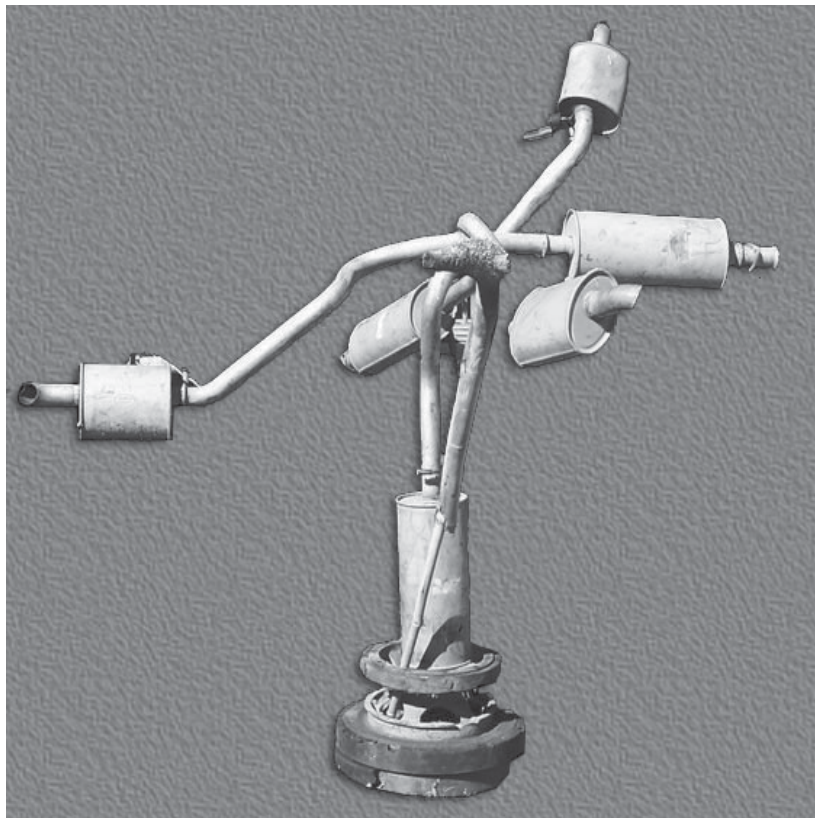
**PART I, Chapter 1**



**UNITED NATIONS**  
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# Part One

## RECENT ECONOMIC TRENDS AND UNLDC III DEVELOPMENT TARGETS





# Recent Economic Trends

## Chapter

# 1

### A. Introduction

This chapter examines trends in economic performance in the LDCs in 2003 and 2004, the latest years for which international data are available. It shows that the economic performance of the LDCs as a group continues to improve. The average GDP growth rate is the highest for two decades and merchandise exports are at record levels.

This good economic performance is partly due to favourable trends in oil-exporting LDCs, as a result of high oil prices. However, the improved growth performance is not limited to those countries. Higher non-oil commodity prices, particularly prices for minerals, have helped export growth in a number of LDCs. Moreover, there have been major increases in external finance, both ODA and FDI, flowing to the LDCs. Foreign capital inflows into the LDCs, like exports, are at record levels, and this has enabled increased investment.

Increases in both ODA and FDI are, however, geographically concentrated, with increases in ODA greatest in countries that have been affected by conflict, particularly Afghanistan and the Democratic Republic of the Congo, and FDI inflows focused on resource-rich oil and mineral economies. The heavy reliance on external sources for financing capital formation implies that the future sustainability of the recent growth and investment boom is not yet guaranteed. Rising international commodity prices are helping exports in a number of LDCs. But at the same time the combination of rising food prices and rising fuel prices is making many LDCs vulnerable, since they are net food importers as well as oil importers.

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*In 2004, the real GDP of the LDCs as a group grew by 5.9 per cent, which is the strongest growth performance that they have achieved over the last two decades.*

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### B. Overall economic growth trends

In 2004, the real GDP of the LDCs as a group grew by 5.9 per cent, which is the strongest growth performance that they have achieved over the last two decades. This represents an acceleration of the growth rate by 1.6 percentage points compared with the 2003 level. As a result, in 2002–2004 the GDP performance of the LDC group accelerated to reach an average of 5.2 per cent per annum in real terms compared with 4.9 per cent in 2000–2002 and 4.4 per cent in 1998–2000. Nevertheless, the real GDP growth rate remained slower than that in the group of other developing countries, which stood at 6.7 per cent in 2004 and 5.1 per cent in 2003.

A regional breakdown shows that whereas the real average GDP growth rates of African and Asian LDCs were almost comparable in 2003 (4.5 per cent versus 4.8 per cent), this was no longer the case in 2004 when the real GDP growth rate of African LDCs exceeded that of Asian ones by 1.5 percentage points. The improvement of the growth performance of the African LDCs is also apparent if the comparison is made over a longer period. The real average annual GDP growth rate of African LDCs accelerated from 2.7 per cent per annum in the 1990s to 5.2 per cent per annum in 2000–2004. In Asian LDCs it actually decelerated from 5.7 per cent per annum to 4.7 per cent per annum between the two periods (see table 1).

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*Foreign capital inflows into the LDCs, like exports, are at record levels, however, highly geographically concentrated.*

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TABLE 1. REAL GDP AND REAL GDP PER CAPITA GROWTH RATES OF LDCs AND OTHER DEVELOPING COUNTRIES, 1990–2000, 2000–2002 AND 2002–2004

(Annual average, percentage)

	Real GDP growth					Real GDP per capita growth				
	1990–2000	2000–2002	2002–2004	2003	2004	1990–2000	2000–2002	2002–2004	2003	2004
LDCs	3.9	4.9	5.2	4.6	5.9	1.1	2.6	3.0	2.3	3.6
of which:										
Bangladesh	4.8	4.8	5.4	5.3	5.5	3.0	3.0	3.6	3.4	3.7
Other LDCs	3.5	4.9	5.2	4.4	6.0	0.5	2.4	2.8	1.9	3.7
African LDCs	2.7	5.2	5.5	4.5	6.5	0.0	2.7	3.1	2.1	4.2
Asian LDCs	5.7	4.6	4.9	4.8	5.0	2.8	2.6	2.9	2.8	3.0
Island LDCs <sup>a</sup>	..	2.2	4.2	3.4	5.0	..	-0.4	1.0	0.2	1.8
Other developing countries	4.9	3.0	5.9	5.1	6.7	3.2	1.7	4.6	3.8	5.4

Source: UNCTAD secretariat estimates based on World Bank, *World Development Indicators*, online data, December 2005.

Notes: Real GDP is measured in constant 2000 dollars.

No data were available for Afghanistan, Myanmar, Somalia or Tuvalu.

The group of other developing countries is composed of 69 countries for which real GDP data were available.

a During the 1990s no data were available for Maldives and Timor-Leste.

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*The LDCs increased their already heavy reliance on external sources to finance their capital formation process in 2003 and 2004.*

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Data show that the real average GDP growth rate was consistently higher in the group of oil-exporting LDCs than in the non-oil-exporting LDCs in 2002, 2003 and 2004. In 2004, oil-exporting LDCs had an average real GDP growth rate of 7.9 per cent as compared with 5.3 per cent in the group of non-oil-exporting LDCs. But in the previous year the average real growth levels were 5.1 per cent and 4.5 per cent respectively. As a result, although oil-exporting LDCs drove the growth acceleration of the LDCs, the high growth rate of the LDC group in recent years is not solely the result of the high growth rate of oil-exporting LDCs, driven by high oil prices. In 2004, real GDP growth was 6 per cent or more in four oil-exporting LDCs and in 11 non-oil-exporting ones. Of those 15 LDCs, 12 are African LDCs.

Table 2 shows the diversity of the LDCs' growth performance. In 2004, the real GDP per capita growth rate either declined or stagnated in 15 of the 46 LDCs for which data are available.

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*Differences in the growth performance of the LDCs can be related to differences in access to external resources.*

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Despite the high real GDP growth performance of the LDCs, it should be noted, as shown in table 3, that the ratio of gross domestic savings to GDP remained at a depressed level in 2003 and even declined from 13.4 per cent in 2003 to 11 per cent in 2004. This does not compare favourably with the group of low- and middle-income countries, for which that ratio was more than twice as high as that for the LDCs in both years. The ratio of gross capital formation to GDP was also lower in the LDCs than in the group of low- and middle-income countries — by 4.1 and 5.6 percentage points respectively in 2003 and 2004. Whereas the resource gap deepened further, from -7.6 per cent in 2003 to -9.7 per cent in 2004 in the group of LDCs, the group of low- and middle-income countries showed an increasing resource surplus. Overall, this indicates that in contrast to the group of low- and middle-income countries, the LDCs as a group increased their already heavy reliance on external sources to finance their capital formation process in 2003 and 2004.

Differences in the growth performance of the LDCs can be related to differences in access to external resources associated with ODA, FDI and exports. Table 4 shows that the LDCs in which real GDP growth increased most in 2004 (group 1) are, on average, those for which the FDI and merchandise

TABLE 2. REAL GDP AND REAL GDP PER CAPITA GROWTH RATES OF LDCs, BY COUNTRY, 2000–2002, 2003 AND 2004  
(Annual average, percentage)

	Real GDP growth			Real GDP per capita growth		
	2002–2004	2003	2004	2002–2004	2003	2004
<b>Group 1 (2004 real GDP growth rate of 6% per cent and above)</b>						
Chad <sup>a</sup>	20.7	11.3	31.0	17.4	8.2	27.4
Ethiopia	4.5	-3.7	13.4	2.4	-5.6	11.2
Angola <sup>a</sup>	7.3	3.4	11.2	4.0	0.4	7.7
Equatorial Guinea <sup>a</sup>	12.3	14.7	10.0	9.6	11.9	7.4
Maldives	8.6	8.4	8.8	6.2	6.0	6.5
Gambia	7.5	6.7	8.3	5.2	4.3	6.2
Mozambique	7.4	7.1	7.8	5.5	5.1	5.9
Sierra Leone	8.3	9.2	7.4	6.3	7.1	5.4
Mauritania	7.4	8.3	6.6	5.2	5.9	4.5
Dem. Rep. of the Congo	5.9	5.6	6.3	2.8	2.5	3.2
United Rep. of Tanzania	6.7	7.1	6.3	4.6	5.0	4.3
Cambodia	5.7	5.3	6.0	3.9	3.5	4.2
Sudan <sup>a</sup>	6.0	6.0	6.0	3.6	3.6	3.5
Lao People's Dem. Republic	5.7	5.3	6.0	3.3	2.9	3.6
Senegal	6.2	6.5	6.0	3.9	4.0	3.8
<b>Group 2 (2004 real GDP growth rate of above 3% but below 6%)</b>						
Uganda	5.2	4.7	5.7	2.5	1.9	3.1
Bangladesh	5.4	5.3	5.5	3.6	3.4	3.7
Burundi	2.1	-1.2	5.5	0.2	-3.1	3.5
Cape Verde	5.2	5.0	5.5	2.7	2.4	2.9
Madagascar	7.5	9.8	5.3	4.7	6.8	2.6
Bhutan	5.8	6.7	4.9	3.1	3.9	2.3
Zambia	4.9	5.1	4.6	3.4	3.5	3.2
Sao Tome and Principe	4.5	4.5	4.5	2.4	2.4	2.4
Guinea-Bissau	2.4	0.6	4.3	-0.5	-2.3	1.3
Burkina Faso	5.2	6.5	3.9	2.8	4.1	1.6
Malawi	4.1	4.4	3.8	2.0	2.3	1.8
Solomon Islands	4.4	5.1	3.8	1.3	2.0	0.7
Nepal	3.4	3.1	3.7	1.2	0.8	1.6
Rwanda	2.3	1.0	3.7	0.8	-1.8	3.5
Samoa	1.1	-1.0	3.2	0.3	-2.0	2.6
Lesotho	3.2	3.3	3.0	2.2	2.4	2.1
Djibouti	3.3	3.5	3.0	1.7	1.8	1.6
Togo	2.8	2.7	3.0	0.7	0.5	0.8
Vanuatu	2.7	2.4	3.0	0.4	0.2	0.7
<b>Group 3 (2004 real GDP growth rate below 3%)</b>						
Yemen <sup>a</sup>	2.9	3.1	2.7	-0.2	0.1	-0.4
Benin	3.3	3.9	2.7	0.7	1.3	0.2
Guinea	1.9	1.2	2.6	-0.2	-0.9	0.5
Mali	4.8	7.4	2.2	2.3	4.9	-0.3
Liberia	-16.1	-31.0	2.0	-18.0	-32.6	-0.2
Comoros	2.0	2.1	1.9	-0.4	-0.3	-0.5
Timor-Leste	-2.3	-6.2	1.8	-7.3	-11.0	-3.5
Kiribati	2.1	2.5	1.8	0.5	0.7	0.3
Eritrea	2.4	3.0	1.8	0.3	0.8	-0.2
Niger	3.1	5.3	0.9	0.2	2.3	-1.9
Central African Republic	-2.3	-5.4	0.9	-3.9	-6.9	-0.8
Haiti	-1.7	0.4	-3.8	-3.5	-1.4	-5.5

Source: UNCTAD secretariat estimates based on World Bank, *World Development Indicators*, online data, December 2005.

Notes: Real GDP is measured in constant 2000 dollars.

No data were available for Afghanistan, Myanmar, Somalia or Tuvalu.

a Oil-exporting LDCs.

TABLE 3. GROSS CAPITAL FORMATION AND GROSS DOMESTIC SAVINGS IN LDCs, 2000–2004  
(Percentage of GDP)

	Gross capital formation			Gross domestic savings			Resource gap <sup>a</sup>		
	2000	2003	2004	2000	2003	2004	2000	2003	2004
Angola	12.7	12.8	11.6	63.0	36.7	..	-50.3	-23.9	..
Bangladesh	23.9	23.4	23.4	17.8	17.6	17.0	6.1	5.8	6.4
Benin	18.9	18.6	20.3	6.0	5.5	-1.3	12.9	13.2	21.6
Bhutan	48.4	..	..	19.5	..	..	28.8	..	..
Burkina Faso	22.7	18.7	19.1	6.5	3.9	4.8	16.2	14.8	14.3
Burundi	9.1	15.3	10.6	-5.7	4.3	-5.6	14.7	11.0	16.2
Cambodia	17.2	22.8	22.7	5.2	13.0	12.3	12.0	9.8	10.4
Cape Verde	19.7	20.2	21.6	-14.2	-16.0	-12.6	33.9	36.2	34.2
Central African Republic	10.8	6.0	6.9	7.8	11.9	..	3.1	-5.9	..
Chad	22.4	55.0	24.7	2.1	21.0	43.2	20.3	34.0	-18.5
Comoros	13.1	11.8	10.5	-1.4	0.6	..	14.5	11.1	..
Dem. Rep. of the Congo	3.5	13.7	17.6	4.8	..	..	-1.4	..	..
Djibouti	12.9	..	..	-5.3	..	..	18.2	..	..
Eritrea	31.9	22.4	21.8	-34.7	-62.9	-51.1	66.6	85.4	72.8
Ethiopia	15.9	20.5	19.8	0.9	1.0	1.3	15.0	19.4	18.6
Gambia	17.4	19.2	23.9	8.1	14.6	19.6	9.3	4.6	4.3
Guinea	22.0	9.9	10.5	16.8	7.4	8.6	5.1	2.5	1.9
Guinea-Bissau	11.3	12.4	12.4	-8.5	-1.1	4.0	19.8	13.5	8.4
Haiti	27.3	31.0	23.3	6.6	..	..	20.7	..	..
Lao PDR	21.1	22.0	18.9	16.8	20.5	..	4.3	1.5	..
Lesotho	42.2	44.3	41.1	-20.4	-24.1	-24.2	62.6	68.4	65.3
Liberia	..	8.7	13.5	..	..	..	..	8.7	13.5
Madagascar	15.0	17.9	24.4	7.7	7.8	8.8	7.3	10.1	15.5
Malawi	13.6	11.2	11.1	-2.8	-5.0	0.0	16.4	16.2	11.2
Maldives	26.3	..	..	44.2	51.4	..	-17.9	..	..
Mali	24.6	23.9	19.7	9.7	18.9	..	14.9	4.9	..
Mauritania	30.5	..	..	15.0	3.2	1.6	15.5	..	..
Mozambique	21.1	26.9	22.2	10.6	11.3	..	10.5	15.6	..
Myanmar	12.4	..	..	12.4	..	..	0.1	..	..
Nepal	24.3	25.8	..	15.2	13.7	12.9	9.1	12.1	..
Niger	11.4	14.2	15.9	3.5	5.0	7.6	7.9	9.2	8.3
Rwanda	17.5	18.4	20.8	1.4	1.1	..	16.1	17.3	..
Sao Tome and Principe	43.5	30.1	33.1	-6.0	-14.4	-17.9	49.5	44.5	51.0
Senegal	18.5	20.1	21.0	8.6	8.0	10.0	10.0	12.0	11.0
Sierra Leone	8.0	14.3	19.6	-8.2	-11.5	-10.7	16.2	25.8	30.3
Sudan	17.9	18.2	20.0	20.0	24.7	5.9	-2.1	-6.5	14.1
Timor-Leste	33.0	27.0	..	-50.0	..	..	83.0	..	..
Togo	17.8	18.9	18.0	-2.2	5.3	4.5	20.0	13.6	13.5
Uganda	19.8	20.7	21.7	7.9	6.6	7.9	11.9	14.0	13.8
United Rep. of Tanzania	17.6	18.6	19.2	9.3	9.5	..	8.3	9.1	..
Yemen	17.3	16.9	17.0	24.9	12.4	9.3	-7.6	4.4	7.7
Zambia	18.7	26.1	24.6	8.3	18.7	18.9	10.4	7.4	5.7
LDCs	19.5	21.1	20.7	13.7	13.4	11.0	-5.8	-7.6	-9.7
Low- and middle-income countries	24.4	25.1	26.3	25.2	26.7	27.1	0.8	1.6	0.8

Source: UNCTAD secretariat estimates based on World Bank, *World Development Indicators*, online data, December 2005.

Note: No data were available for Afghanistan, Equatorial Guinea, Kiribati, Solomon Islands, Somalia, Tuvalu and Vanuatu.

a Measured by gross capital formation % GDP less gross domestic savings % GDP.

TABLE 4. LDCs' RELIANCE ON EXTERNAL FINANCE AND MERCHANDISE EXPORTS, 2000 AND 2004  
(Percentage of GDP)

	Net ODA			Net FDI			Merchandise exports		
	2000	2004	% point change	2000	2004	% point change	2000	2004	% point change
<b>Group 1 (2004 real GDP growth rate of 6% per cent and above)</b>									
Angola	3.4	5.7	2.3	9.6	10.2	0.6	86.8	67.4	-19.4
Cambodia	11.1	10.4	-0.7	4.1	2.9	-1.3	39.0	52.5	13.6
Chad	9.4	7.5	-1.9	8.3	11.2	2.9	13.2	36.1	23.0
Dem. Rep. of the Congo	4.3	27.6	23.4	0.5	13.7	13.2	17.7	21.5	3.8
Equatorial Guinea	1.6	0.9	-0.7	8.0	51.4	43.4	81.8	89.9	8.1
Ethiopia	10.6	22.6	12.0	2.1	6.7	4.7	7.4	7.3	-0.1
Gambia	11.7	15.3	3.6	10.3	14.5	4.1	3.6	4.8	1.3
Lao PDR	16.4	11.2	-5.2	2.0	0.7	-1.3	19.2	18.9	-0.3
Maldives	3.1	3.8	0.7	2.1	1.7	-0.4	17.5	22.8	5.4
Mauritania	22.6	13.3	-9.3	4.3	22.1	17.8	38.1	23.2	-14.9
Mozambique	23.8	22.2	-1.6	3.8	2.4	-1.4	9.9	16.7	6.8
Senegal	9.7	13.7	4.0	1.4	0.9	-0.5	21.0	20.0	-1.1
Sierra Leone	28.8	33.5	4.7	6.1	0.5	-5.7	2.1	12.9	10.9
Sudan	1.8	4.5	2.7	3.2	7.7	4.5	14.8	19.3	4.5
United Rep. of Tanzania	11.3	16.1	4.8	3.1	4.3	1.2	7.3	12.3	5.0
<b>Group 2 (2004 real GDP growth rate of above 3% but below 6%)</b>									
Bangladesh	2.6	2.5	-0.1	0.6	0.8	0.2	14.1	14.7	0.7
Bhutan	10.9	11.7	0.7	0.0	0.1	0.2	21.1	26.0	4.9
Burkina Faso	12.9	12.7	-0.3	0.9	0.7	-0.2	8.0	9.2	1.2
Burundi	13.7	53.4	39.8	1.7	0.5	-1.3	7.4	7.2	-0.2
Cape Verde	17.7	14.8	-2.9	6.1	2.2	-4.0	2.1	1.3	-0.8
Djibouti	12.9	9.8	-3.2	0.6	5.0	4.4	5.8	6.2	0.4
Guinea-Bissau	37.3	27.4	-9.9	0.3	1.8	1.5	28.8	28.9	0.1
Lesotho	4.3	7.5	3.2	3.7	3.8	0.1	25.6	43.3	17.7
Madagascar	8.3	28.3	20.0	2.1	1.0	-1.1	21.3	21.3	0.1
Malawi	25.6	26.3	0.7	1.5	0.9	-0.6	21.7	24.9	3.2
Nepal	7.1	6.4	-0.7	0.0	0.1	0.2	14.6	11.3	-3.4
Rwanda	17.8	25.4	7.6	0.4	0.6	0.1	2.9	5.3	2.4
Samoa	11.9	8.6	-3.2	-0.7	0.2	0.8	6.1	3.0	-3.0
Solomon Islands	22.9	50.8	27.9	0.5	-2.1	-2.5	21.7	41.4	19.7
Togo	5.3	3.0	-2.2	3.1	2.9	-0.2	34.6	31.0	-3.6
Uganda	13.9	17.0	3.1	3.1	3.5	0.4	7.8	9.4	1.6
Vanuatu	18.7	12.1	-6.6	8.3	6.9	-1.4	11.0	11.1	0.0
Zambia	24.6	20.1	-4.5	3.8	6.2	2.4	20.6	21.9	1.3
<b>Group 3 (2004 real GDP growth rate below 3%)</b>									
Benin	10.6	9.3	-1.3	2.6	1.5	-1.2	17.4	16.5	-0.9
Central African Republic	7.9	7.9	0.0	0.1	-1.0	-1.0	16.9	11.3	-5.6
Comoros	9.2	6.8	-2.4	0.0	0.5	0.5	3.4	3.8	0.4
Eritrea	27.8	28.1	0.3	4.4	3.2	-1.2	3.0	5.4	2.4
Guinea	4.9	8.0	3.1	0.3	2.9	2.5	21.4	18.0	-3.4
Haiti	5.3	6.9	1.6	0.3	0.2	-0.2	8.0	11.1	3.0
Mali	14.8	11.7	-3.2	3.4	3.7	0.3	22.7	23.1	0.3
Niger	11.7	17.4	5.7	0.5	0.6	0.2	15.7	12.0	-3.7
Yemen	2.8	2.0	-0.8	0.1	-0.2	-0.2	43.2	39.8	-3.4
Group 1	11.3	13.9	2.6	4.6	10.1	5.5	25.3	28.4	3.1
Group 2	14.9	18.8	3.9	2.0	1.9	-0.1	15.3	17.6	2.3
Group 3	10.6	10.9	0.3	1.3	1.3	0.0	16.9	15.7	-1.2

Source: UNCTAD secretariat estimates based on World Bank, *World Development Indicators*, online data, December 2005; and UNCTAD FDI/TNC database and *Handbook of Statistics, 2005*.

Notes: Insufficient data are available for Afghanistan, Kiribati, Myanmar, Somalia, Timor-Leste and Tuvalu.  
Group averages are simple averages.  
Liberia and Sao Tome and Principe are outliers and are therefore excluded from the estimates.



*The extent to which the real GDP growth performance of LDCs will be sustained over time will also partly depend on the way in which ODA, FDI and exports are productively channelled in the economy.*

exports to GDP ratio was highest in 2004 and increased most over the last five years. In contrast, the LDCs that on average displayed the lowest real GDP growth rate in 2004 (group 3) are those in which the ratio of FDI, net ODA and merchandise exports to GDP was lowest and increased least over the last five years. The countries in the middle of the spectrum (group 2) are those in which the net ODA to GDP ratio was highest and increased most between 2000 and 2004.

Overall, it is most likely that the high growth performance of the LDCs in 2004 was driven by the combination of positive trends in merchandise exports and external finance. The extent to which the real GDP growth performance of LDCs will be sustained over time will also partly depend on the way in which ODA, FDI and exports are productively channelled in the economy so as to contribute to the countries' capital formation process and to promote an inclusive form of growth.

## C. Trends in merchandise trade

### 1. OVERALL PICTURE

UNCTAD merchandise trade data show that LDC revenues from merchandise exports totalled \$57.8 billion in 2004. Compared with the 2002 and 2003 levels, this represents an additional \$18.4 billion and \$11.9 billion

TABLE 5. LDCs' EXPORTS, IMPORTS AND BALANCE IN MERCHANDISE TRADE, BY GROUP, 2000–2004

	\$ millions				% change <sup>a</sup>			
	2001	2002	2003	2004	2000–2004	2001–2002	2002–2003	2003–2004
<b>Merchandise exports</b>								
LDCs	36 056	39 397	45 929	57 839	60.7	9.3	16.6	25.9
Oil-exporting LDCs	13 075	15 625	18 727	25 345	70.1	19.5	19.9	35.3
Non-oil-exporting LDCs	22 981	23 772	27 202	32 494	54.0	3.4	14.4	19.5
African LDCs	21 313	23 724	28 991	37 170	78.6	11.3	22.2	28.2
excluding oil-exporting LDCs	11 453	11 557	14 024	16 934	69.5	0.9	21.3	20.8
Asian LDCs	14 521	15 423	16 638	20 312	35.9	6.2	7.9	22.1
Island LDCs	223	252	301	357	48.8	13.0	19.4	18.6
<b>Merchandise imports</b>								
LDCs	46 308	47 867	56 474	64 435	49.8	3.4	18.0	14.1
Oil-exporting LDCs	8 564	9 290	11 068	13 267	80.1	8.5	19.1	19.9
Non-oil-exporting LDCs	37 744	38 577	45 406	51 168	43.5	2.2	17.7	12.7
African LDCs	26 831	28 546	34 251	40 929	69.9	6.4	20.0	19.5
excluding oil-exporting LDCs	34 193	34 757	41 082	45 487	38.4	1.6	18.2	10.7
Asian LDCs	18 373	18 167	20 875	21 896	22.4	-1.1	14.9	4.9
Island LDCs	1 105	1 154	1 346	1 610	53.2	4.4	16.6	19.6
<b>Net trade</b>								
LDCs	-10 252	-8 470	-10 545	-6 596	-6.1	-17.4	24.5	-37.4
Oil-exporting LDCs	4 511	6 335	7 659	12 078	60.3	40.4	20.9	57.7
Non-oil-exporting LDCs	-14 763	-14 805	-18 204	-18 674	28.3	0.3	23.0	2.6
African LDCs	-5 518	-4 822	-5 260	-3 759	14.9	-12.6	9.1	-28.5
excluding oil-exporting LDCs	-22 740	-23 200	-27 058	-28 553	24.9	2.0	16.6	5.5
Asian LDCs	-3 852	-2 744	-4 237	-1 584	-46.1	-28.8	54.4	-62.6
Island LDCs	- 882	- 902	-1 045	-1 253	54.5	2.3	15.9	19.9

Source: UNCTAD secretariat estimates based on UNCTAD, *Handbook of Statistics 2005*.

Notes: Estimates are based on a group of 49 LDCs for which data are available. No data are available for Timor-Leste. Chad is not included as an oil-exporting LDC in this table.

a Percentage change in trade values between initial year and end year.

respectively (see table 5). Despite this impressive performance, LDCs generated only 0.6 per cent of world merchandise exports. The four traditional oil-exporting LDCs — Angola, Equatorial Guinea, Sudan and Yemen — accounted for 52.7 per cent and 55.6 per cent of the 2003 and 2004 increases, respectively. The percentage of total LDC merchandise exports from those four economies increased steadily from 36.3 per cent in 2001 to 43.8 per cent in 2004. As a result of the lower rate of growth of the LDCs' total merchandise imports, the LDC trade deficit improved from -\$10.5 billion in 2003 to -\$6.6 billion in 2004. This improvement is, however, attributable almost exclusively to oil-exporting LDCs. If the latter are excluded, the LDC trade deficit worsened further, from -\$18.2 billion in 2003 to -\$18.6 billion in 2004. In fact, with the exception of Sudan, all oil-exporting LDCs have consistently displayed a trade surplus since 1999. Moreover, Chad, which started to export oil in the last quarter of 2003, first displayed a merchandise trade surplus in 2004. The merchandise trade balance worsened in 28, 35 and 33 LDCs in 2002, 2003 and 2004 respectively.

As shown in chart 1, five out of the six LDCs in which the value of merchandise exports increased most between 2003 and 2004 are oil exporters. The increasing oil price made a particularly strong contribution to this performance in 2004, when, according to UNCTAD secretariat estimates, the price index for crude petroleum rose by about 35 per cent. Despite the spectacular export performance of oil-exporting LDCs, it should be noted that non-oil-exporting LDCs also performed well in 2003 and 2004. In nominal terms, the merchandise export growth rate of the traditional oil-exporting LDCs averaged 19.9 per cent and 35.3 per cent respectively.<sup>1</sup> For their part, the non-oil-exporting LDCs displayed nominal rates of increase of 14.4 per cent and 19.5 per cent respectively.

Regional data show that, in 2003, African LDCs performed better than Asian ones, even excluding oil-exporting LDCs. But in 2004 the group of Asian LDCs outperformed the group of African non-oil-exporting LDCs (a nominal growth rate of 22.1 per cent versus 20.8 per cent). A breakdown by country shows that a few LDCs did not participate in the increase in the merchandise exports of this group of countries (see chart 1). Between 2002 and 2003, the value of exports actually decreased in nominal terms in the Central African Republic, The Gambia, Guinea, Mauritania, Myanmar and Somalia. Between 2003 and 2004 exports declined in Cape Verde, Eritrea, Liberia, Malawi and Samoa. In contrast, Angola, Bangladesh, Cambodia, Equatorial Guinea, Senegal, Sudan and Yemen were among the 10 best-performing LDCs during both periods in terms of the nominal value of exports. For Bangladesh, Cambodia and Senegal, this good performance is driven by exports of manufactures, while for the others it is driven by oil exports.

## 2. TRENDS IN INTERNATIONAL COMMODITY PRICES

The improved export performance of a large number of LDCs in 2003 and 2004 was supported by higher international commodity prices. Between 2002 and 2003 the average price indices of food, agricultural raw materials, and minerals, metals and ores increased by 3.9 per cent, 19.1 per cent and 12.6 per cent respectively. Between 2003 and 2004, the average price indices rose by 13.1 per cent for food and 39.8 per cent for minerals, metals and ores, whereas it rose by 9.8 per cent for agricultural raw materials. The crude petroleum price index increased by 15.8 per cent between 2002 and 2003 and by 30.7 per cent between 2003 and 2004.

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*The LDC trade deficit improved from -\$10.5 billion in 2003 to -\$6.6 billion in 2004. This improvement is, however, attributable almost exclusively to oil-exporting LDCs.*

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*Despite the spectacular export performance of oil-exporting LDCs, it should be noted that non-oil-exporting LDCs also performed well in 2003 and 2004.*

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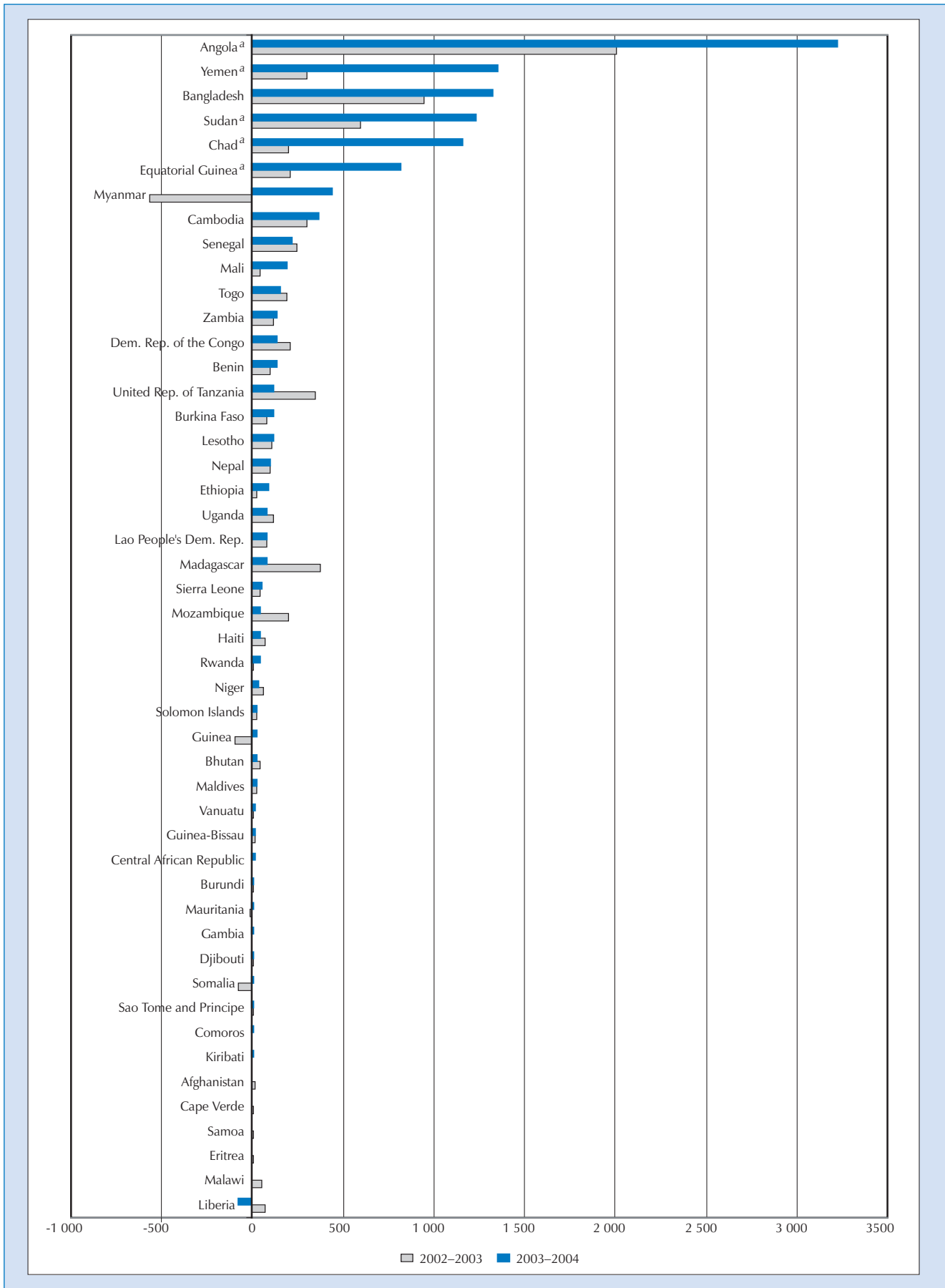


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*The improved export performance of a large number of LDCs in 2003 and 2004 was supported by higher international commodity prices in many commodities relevant to their exports.*

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CHART 1. NOMINAL CHANGE IN THE VALUE OF LDCs' MERCHANDISE EXPORT REVENUES, 2002–2003 AND 2003–2004  
(\$ millions)



Source: UNCTAD secretariat estimates based on UNCTAD, *Handbook of Statistics 2005*.

Notes: Estimates are based on a group of 49 LDCs for which data are available. No data are available for Timor-Leste.

<sup>a</sup> These countries are oil-exporting LDCs. Chad started to export oil in the last quarter of 2003.

However, there is a very mixed trend that is affecting different LDCs in different ways. Available data on non-oil primary commodities that are of importance to LDC trade reveal that, compared with their levels in the year 2000, the price indices of coffee, tea, sugar and tobacco were actually lower in 2004. In contrast, it appears that between those two years, the price indices of cocoa, non-coniferous woods, copper, gold and crude petroleum increased by at least one third (see table 6).

TABLE 6. PRICE INDICES OF SELECTED PRIMARY COMMODITIES OF IMPORTANCE TO LDCs, 2001–2004  
(Index, 2000=100)

	2001	2002	2003	2004
<b>All food</b>	100	103	107	121
Coffee (Arabicas)	72	72	74	93
Coffee (Robustas)	66	72	88	86
Cocoa	123	200	198	174
Tea	80	72	78	80
Sugar	106	84	87	88
Fish meal	118	147	148	157
<b>Agricultural raw materials</b>	96	94	112	123
Cotton	81	78	107	104
Non-coniferous woods	98	105	118	136
Tobacco	100	92	89	92
<b>Minerals, metals and ores</b>	89	87	98	137
Aluminium	93	87	92	111
Iron ore	105	103	112	132
Copper, Grade A	87	86	98	158
Copper, wire bars	87	86	97	153
Gold	97	111	130	147
<i>Memo items:</i>				
Crude petroleum	87	88	102	134
Unit value index of manufactured goods exported by developed countries	98	98	107	115

Source: UNCTAD secretariat estimates based on UNCTAD, *Commodity Price Bulletin*, various issues.

### 3. COMPOSITION OF MERCHANDISE TRADE

UNCTAD data show that in 2000–2003 primary commodities constituted almost two thirds of the merchandise exports of the LDCs as a group and over one third of their total merchandise imports. As illustrated in table 7, fuel exports were in 2000–2003 the leading source of total LDC export revenues and surpassed export receipts from manufactures, the second source of merchandise export receipts in the LDCs. In that period, fuel exports represented 40 per cent of the LDCs' total merchandise export receipts, while exports of manufactured goods averaged 33 per cent. Food items were in third position (14 per cent of total LDC merchandise exports), followed by agricultural raw materials (6 per cent) and minerals, metals and ores (5 per cent).

During the same period, the LDCs as a group had a trade surplus in fuels, agricultural raw materials and minerals, metals and ores. But the LDCs' trade surplus in fuels was driven by the few oil-exporting LDCs. The majority of the LDCs are likely to have been quite adversely affected by the recent surge in the price of oil. Petroleum products<sup>2</sup> imports accounted for 10.7 per cent of the LDCs' total merchandise imports bill in 2000–2003, compared with 8.9 per cent in the group of other developing countries.

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*The majority of the LDCs have been adversely affected by the recent surge in the price of oil which accounted for over 10.7 per cent of their total merchandise imports in 2000–2003.*

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TABLE 7. MERCHANDISE TRADE STRUCTURE IN LDCs, 2000–2003  
(Sectors as per cent of exports, imports and net trade)

	% of total LDC exports	% of total LDC imports	% of LDC net trade
All food items	13.6	19.6	-38.6
Agricultural raw materials	6.0	2.5	8.6
Fuels	39.7	11.1	79.5
Metals and ores	5.3	1.2	11.5
Manufactured goods:	32.8	62.7	-157.5
Chemical products	1.6	9.3	-33.7
Other manufactured goods	29.6	27.6	-21.4
Machinery and transport equipment	1.6	25.8	-102.4
Unallocated	2.7	2.9	-3.6
Primary commodities	64.6	34.4	61.1
Non-fuel primary commodities	24.8	23.3	-18.5

Source: UNCTAD secretariat estimates based on UN COMTRADE.

Notes: No data are available for Timor-Leste.

Products have been classified by sector according to the SITC Revision 2 group (3-digit level). All food items include codes 0+1+22+4; agricultural raw materials include codes 2 less (22+27+28); fuels include codes 3; ores and metals include codes 27+28+68; manufactured goods include codes 5 to 8 less 68; chemical products include code 5 products; other manufactured goods include code 6+8 less 68 products; machinery and transport equipment include code 7 products. Primary commodities are the sum of all sectors with the exception of manufactured goods and unallocated goods. Non-fuel primary commodities are primary commodities excluding fuels.

Negative value means a deficit in the sector.

Interestingly, if fuels are excluded from the LDC trade basket, the LDCs were net primary commodity importers during 2000–2003. This non-fuel net primary import position has been apparent since 1998 and is explained by the deepening of the LDCs' deficit in food trade, which outweighed the LDCs' traditional trade surplus position in agricultural raw materials and in minerals, metals and ores. In contrast, the other developing countries (excluding China) remained net primary commodity exporters throughout the whole of the 1990–2003 period, even when fuel products are excluded.

Although food exports constituted 13.6 per cent of the LDCs' total exports in 2000–2003, the overwhelming majority of LDCs were net food-importing countries, with food imports averaging almost one fifth of their total imports. The group of other developing countries were less dependent on food trade, which accounted for 7 per cent of their total exports and imports respectively. It should be noted that the food import capacity of LDCs deteriorated drastically over the 1997–2003 period as the result of a substantial escalation of their food import bill. Between 2002 and 2003, the LDCs' food import bill increased by over \$1 billion and reached \$7.6 billion in the latter year, whereas the LDCs' food export receipts decreased by \$0.2 billion and barely totalled \$2.2 billion. The negative trend in the LDCs' food import capacity accelerated particularly in 2000–2001, which coincides with the beginning of the period of increasing food prices (see chart 2). Against this background, the short-term food price effects of the removal of agricultural export subsidies in OECD countries, agreed as part of the Doha negotiations, will need to be closely monitored.

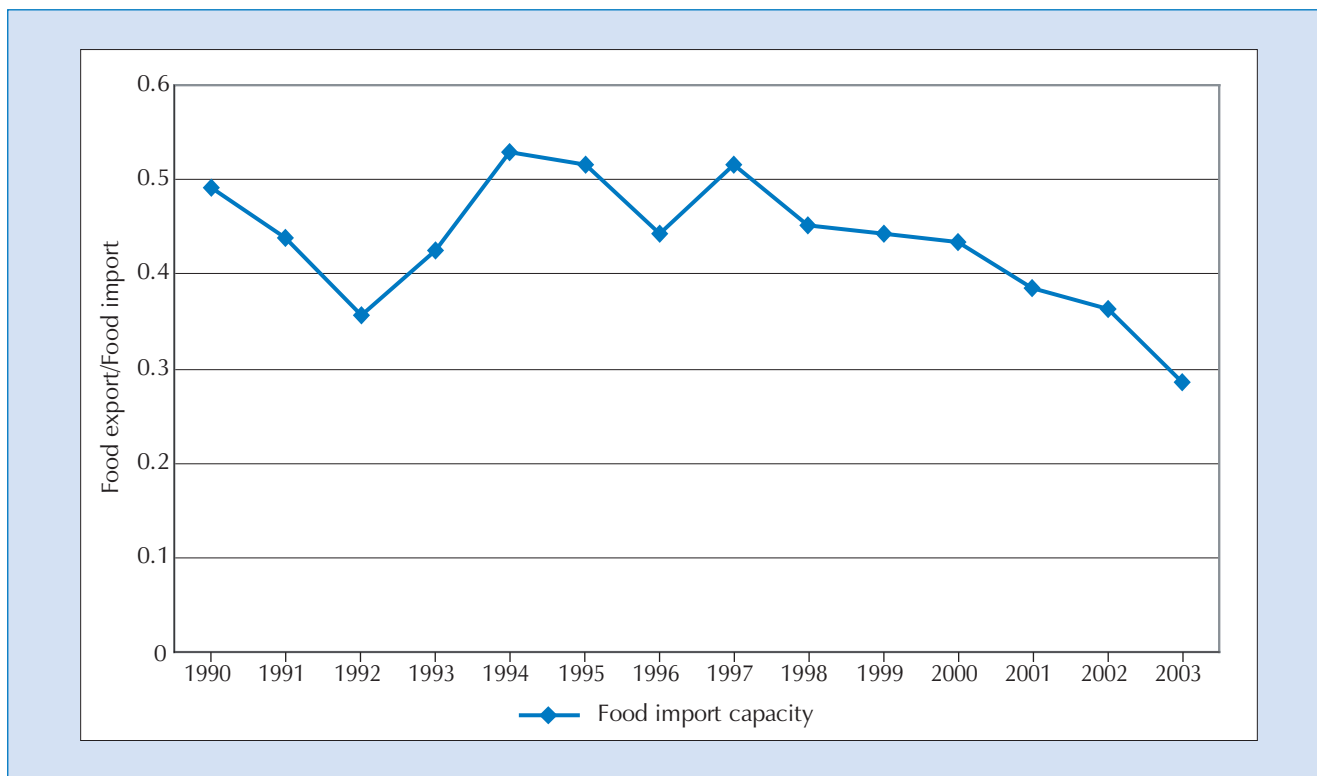
Because they are net food importers, most of the LDCs are particularly vulnerable to swings in the prices of food items and to the financial terms attached to food imports (i.e. their concessionality level). This is particularly relevant for cereal products, which constituted over 40 per cent of the LDCs' total food imports in 2000–2003. The combination of rising food prices and rising fuel prices is likely to have a marked negative impact on the trade balance of LDCs.

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*If fuels are excluded from the LDC trade basket, the LDCs were net primary commodity importers during 2000–2003, resulting from deepening of the deficit in food trade.*

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CHART 2. LDCs FOOD IMPORT CAPACITY, 1990–2003  
(Food export/food import)



Source: UNCTAD secretariat estimates based on FAOSTAT, online data.

Note: Food includes animals.

Exports of manufactured goods, in particular capital-intensive manufactured goods, constitute a much smaller share of total LDC exports than of other developing countries' exports. In 2000–2003 the share of manufactured goods in total merchandise exports of LDCs was 33 per cent (22 per cent without Bangladesh). In contrast, during the same period, exports of manufactured goods generated 70 per cent of the merchandise export revenues of the group of other developing countries (66 per cent without China). The LDCs' manufactured exports were mainly composed of labour-intensive products, such as textiles, garments and footwear. In 2000–2003 these constituted 23 per cent of total LDC merchandise exports (11.8 per cent without Bangladesh). In contrast, the manufactured exports of the group of other developing countries were dominated by capital-intensive products such as machinery and transport equipment. These constituted 37 per cent of their total merchandise exports (versus 1.6 per cent in the LDCs). On the import side, machinery and transport equipment represented a much lower share of total merchandise imports in the LDCs than in the group of other developing countries. The ratio of capital goods imports to total imports averaged 25.8 per cent in the LDCs versus 42.4 per cent in the group of other developing countries in 2000–2003.

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*The LDCs' manufactured exports were mainly composed of labour-intensive products, such as textiles, garments and footwear, which constituted 23 per cent of total merchandise exports in 2000–2003.*

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Finally, it should be noted that despite the impressive export performance, the share of LDCs in world exports remains marginal both in aggregate and in major export sectors. In 2000–2003, the exports of LDCs as a group constituted 0.54 per cent of total world merchandise exports. LDC exports averaged 2 per cent of world fuel exports in 2000–2003, 1.8 per cent of world agricultural raw materials exports, 1 per cent of world food exports, 1 per cent of world exports of minerals, metals and ores and 0.2 per cent of world manufactures exports.

## D. Trends in external finance

### 1. OVERALL PICTURE

Aggregate net foreign resource flows to LDCs increased in 2003<sup>3</sup> for the third consecutive year. It is estimated that between 2002 and 2003 long-term capital flows to the 46 LDCs for which data are available increased by \$7.3 billion, reaching a new record level of \$25.4 billion in 2003. As a result, in 2003, these flows were 40 per cent higher than in 2002, and almost double their level in 2000 (see table 8).

*In 2003, long-term capital flows to the 46 LDCs for which data are available increased by \$7.3 billion, reaching a new record level of \$25.4 billion. This increase was concentrated in a few African LDCs.*

This increase from 2002 to 2003 is mostly attributable to a large rise in grants disbursements and a large rise in FDI inflows. The former accounted for 72 per cent of the total increase, while the latter accounted for 16 per cent of it. Both increases were concentrated in a few African LDCs. In particular, there was a major jump in grants (debt relief in particular) to the Democratic Republic of the Congo, an increase in FDI inflows into Equatorial Guinea and Sudan and in publicly guaranteed private debt flows into Angola. Indeed, if those four countries (which were the four LDCs in which long-term capital flows increased most) are omitted, long-term capital flows to LDCs can be said to have increased only marginally (2.1 per cent) between 2002 and 2003.<sup>4</sup> Asian LDCs and island LDCs did not, on average, benefit from the increase in long-term capital flows to LDCs. In nominal terms, aggregate net resource flows to those country groups decreased by 0.8 per cent and 0.3 per cent respectively between 2002 and 2003.

TABLE 8. LONG-TERM NET CAPITAL FLOWS AND TRANSFERS TO LDCs, 2000–2003

	2000	2001	2002	2003	2000	2001	2002	2003
	(\$ millions)				(% of aggregate net resource flows)			
<b>Aggregate net resource flows</b>	<b>12 913</b>	<b>16 323</b>	<b>18 086</b>	<b>25 388</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Official net resource flows	9 201	9 747	12 371	17 672	71.3	59.7	68.4	69.6
Grants excluding tech. cooperation	7 331	7 234	9 296	14 528	56.8	44.3	51.4	57.2
Official debt flows	1 870	2 513	3 075	3 144	14.5	15.4	17.0	12.4
Bilateral	- 564	- 395	- 211	- 381	-4.4	-2.4	-1.2	-1.5
Bilateral concessional	- 478	- 396	- 152	- 196	-3.7	-2.4	-0.8	-0.8
Multilateral	2 434	2 908	3 285	3 525	18.8	17.8	18.2	13.9
Multilateral concessional	2 562	3 006	3 444	3 522	19.8	18.4	19.0	13.9
Private net resource flows	3 712	6 576	5 715	7 716	28.7	40.3	31.6	30.4
Foreign direct investment	4 074	6 372	6 119	7 260	31.6	39.0	33.8	28.6
Portfolio equity flows	2	7	7	2	0.0	0.0	0.0	0.0
Private debt flows	- 365	197	- 410	454	-2.8	1.2	-2.3	1.8
Private, non-guaranteed	- 49	49	- 51	- 45	-0.4	0.3	-0.3	-0.2
Private, publicly guaranteed	- 315	148	- 359	499	-2.4	0.9	-2.0	2.0
					(% of aggregate net transfers)			
<b>Aggregate net transfers</b>	<b>9 306</b>	<b>12 354</b>	<b>12 850</b>	<b>19 409</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Interest payments on long-term debt	980	833	1 080	1 143	10.5	6.7	8.4	5.9
Profit remittances on FDI	2 626	3 136	4 155	4 836	28.2	25.4	32.3	24.9
<i>Memo item:</i>								
IMF net flows	- 70	217	310	- 53	-0.8	1.8	2.4	-0.3
IMF, concessional net flows	58	366	597	51	0.6	3.0	4.6	0.3
IMF, non-concessional net flows	- 128	- 149	- 287	- 105	-1.4	-1.2	-2.2	-0.5
Debt forgiveness or reduction	- 912	-3 194	-3 467	-1 847	-9.8	-25.9	-27.0	-9.5

Source: UNCTAD secretariat estimates based on World Bank, *Global Development Finance 2005*, CD-ROM.

No data are available for Afghanistan, Kiribati, Timor-Leste or Tuvalu.

Official flows, the major source of long-term capital flows to LDCs, and grants in particular, accounted for 70 per cent and 57 per cent respectively of aggregate net resource flows to LDCs in 2003. This contrasts markedly with the situation regarding the other developing countries as a group, in which official net resource flows constituted only 6 per cent of their long-term capital flows and FDI accounted for 71 per cent of them. Three other major observations emerge from a comparative analysis of the structure of long-term capital flows to LDCs and other developing countries. First, the share of debt flows is much higher in LDCs (14.2 per cent in 2003) than in other developing countries (2.5 per cent). Second, multilateral creditors are the primary source of long-term debt flows in LDCs as opposed to other developing countries, where debt flows from multilateral creditors were negative in 2002 and 2003 and where private non-guaranteed debt flows are the leading component of long-term debt flows. Third, portfolio equity flows to LDCs are insignificant, whereas they constituted over 12 per cent of long-term capital flows to other developing countries in 2003. In other words, the main feature distinguishing the group of LDCs from that of other developing countries with respect to external finance is the increasingly higher reliance of the former on external finance and on official creditors in particular.

The reliance of LDCs on external finance as measured by the ratio of aggregate net resource flows to GDP has increased significantly in recent years (see table 9). This ratio increased steadily from 7.8 per cent in 2000 to 12.7 per cent in 2003 in the group of 44 LDCs for which data are available. In contrast, it decreased from 3.5 per cent to 2.5 per cent between the same years in the group of other developing countries.<sup>5</sup> Thus, in 2003, in quantitative terms, the LDCs were over five times more dependent on long-term capital flows than other developing countries. A regional breakdown shows that the growing reliance of LDCs on external finance between 2000 and 2003 was driven by African LDCs, where the corresponding ratio increased from 10.8 per cent in 2000 to 18.9 per cent in 2003. In contrast, Asian LDCs and island LDCs were not only less but also decreasingly dependent on external flows.

As a direct result of increasing long-term capital flows, aggregate net transfers to the group of 46 LDCs for which data are available grew by 51 per cent between 2002 and 2003 and by 109 per cent between 2000 and 2003. When the four African outliers mentioned above are excluded, aggregate net transfers can be said to have increased by 0.3 per cent and 25.5 per cent respectively. Omitting the Democratic Republic of the Congo, whose debt relief drove the impressive increase in grant disbursements to LDCs in 2003, the ratio of long-term interest payments to grants slightly decreased from 13.6 per cent to 10.9 per cent between 2000 and 2003, while the ratio of profit remittances to grants

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*Official flows, and grants in particular, accounted for 70 per cent and 57 per cent respectively of aggregate net resource flows to LDCs in 2003.*

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*The LDCs were over five times more dependent on long-term capital flows than other developing countries in 2003.*

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TABLE 9. AGGREGATE NET RESOURCE FLOWS AS A SHARE OF GDP IN LDCs,  
BY REGION, AND IN OTHER DEVELOPING COUNTRIES, 2001–2003  
(Per cent)

	2000	2001	2002	2003
LDCs	7.8	9.6	10.1	12.7
African LDCs	10.8	13.6	14.7	18.9
Asian LDCs	3.5	3.7	3.1	2.9
Island LDCs	11.6	11.4	9.7	8.2
Other developing countries	3.5	3.2	2.4	2.5

Source: UNCTAD secretariat estimates based on World Bank, *Global Development Finance 2005*, CD-ROM, and World Bank, *World Development Indicators 2005*, CD-ROM.

Note: No data are available for Afghanistan, Kiribati, Myanmar, Somalia, Timor-Leste or Tuvalu.



increased from 36.5 per cent to 49.7 per cent between the same years. This means that in 2003 about 60 per cent of the amount of grants (excluding technical cooperation) disbursed to 45 LDCs were repatriated in the form of interest payments and profit remittances. In the four oil-exporting LDCs alone, namely Angola, Equatorial Guinea, Sudan and Yemen, the total amount of profit remittances on FDI was almost three times higher than that of grant disbursements (excluding technical cooperation) in 2003.

## 2. TRENDS IN AID FLOWS

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*In nominal terms, aid to LDCs actually doubled between 1999 and 2004.*

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According to the most recent data from OECD/DAC<sup>6</sup>, net ODA to the group of 50 LDCs increased in 2004 to a record level of \$24.9 billion. This increase was the continuation of an upward surge in aid to LDCs that began in 2000.<sup>7</sup> In nominal terms, aid to LDCs actually doubled between 1999 and 2004. During the period 1999–2004 the annual increase in real ODA to LDCs was four times faster than that to other developing countries. As a result, ODA disbursed to LDCs as a share of total ODA disbursed to all developing countries increased from 23.7 per cent in 1999 to 31.8 per cent in 2004.

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*Debt forgiveness, emergency aid, technical assistance and development food aid constituted 46.5 per cent of total net ODA disbursed to LDCs in 2004.*

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Despite the impressive increase in aggregate ODA to LDCs over the period 1999–2004, it is important to note three features of the current situation. First, in real terms the increase has been less substantial. Net ODA to the group of LDCs from all donors actually decreased by 4.4 per cent between 2003 and 2004 in real terms, having increased by 14 per cent between 2002 and 2003. Moreover, real ODA per capita disbursed to LDCs was actually 13.5 per cent lower in 2000–2004 than in 1990–1994 (see charts 3a and 3b). Nevertheless, the upward surge in aid to LDCs since 2000 is one of the most important recent economic trends in LDCs.

Second, an important feature of the recent upward surge in ODA to LDCs is that it is driven by debt forgiveness grants and emergency assistance grants. These grew by 22.6 per cent and 27.9 per cent per annum respectively in real terms between 1999 and 2004.<sup>8</sup> Taken together, debt forgiveness, emergency aid, technical assistance and development food aid constituted 46.5 per cent of total net ODA disbursed to LDCs in 2004 (see table 10). This was up from 37.5 per cent in 1995. In 2003 debt forgiveness grants accounted for almost one quarter of total net ODA disbursed to the LDCs. This ratio fell, however, to 15.1 per cent in 2004. Emergency assistance accounted for 10.5 per cent and 12.2 per cent of total ODA to LDCs in 2003 and 2004 respectively, while the share of technical cooperation was higher, having reached 17.2 per cent and 16.5 per cent respectively. Excluding debt forgiveness grants and emergency assistance, the share of technical cooperation to total net ODA to LDCs averaged 22.6 per cent in 2004 whilst net loan disbursements averaged only 17.3 per cent.

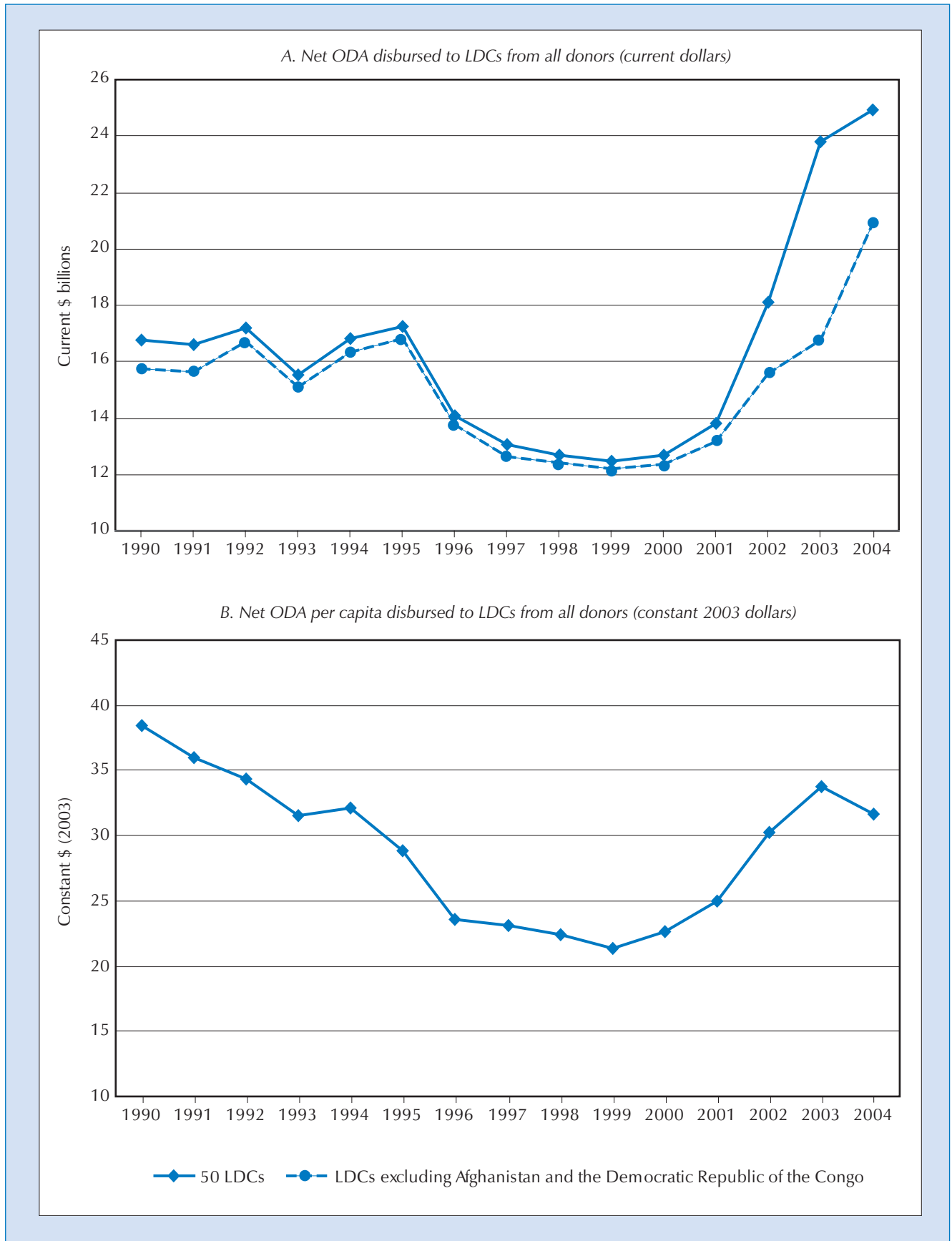
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*However, real ODA growth rates varied greatly by country.*

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Third, real ODA growth rates varied greatly by country (see table 11). ODA inflows increased by over 20 per cent per annum during this period in six LDCs, namely Afghanistan, Burundi, the Democratic Republic of the Congo, Lesotho, Sierra Leone and Sudan. All of these except Lesotho, are conflict-affected LDCs and the increases in ODA have mainly been driven by increases in debt relief and/or in emergency assistance. The increase in ODA was particularly marked in Afghanistan and the Democratic Republic of the Congo, where it increased by 79 per cent per annum and 93 per cent per annum respectively over the period 1999–2004. Indeed, 30 per cent of the increase in aid to LDCs in nominal terms can be attributed to increased aid flows to Afghanistan and the Democratic

CHART 3. NET ODA TO LDCs, 1990–2004



Source: UNCTAD secretariat estimates based on OECD/DAC, *International Development Statistics*, online data, December 2005.

TABLE 10. NET ODA AND NET ODA PER CAPITA DISBURSED TO LDCs, FROM ALL DONORS, 2002–2004

	2002		2003		2004	
	\$ million	\$ per capita	\$ million	\$ per capita	\$ million	\$ per capita
Total net ODA	18 094	28.0	23 791	36.0	24 935	35.4
Grants	14 344	22.2	20 359	30.8	21 774	30.9
Emergency aid	1 760	2.7	2 497	3.8	3 053	4.3
Debt forgiveness grants	2 423	3.8	5 859	8.9	3 762	5.3
Technical cooperation	3 406	5.3	4 095	6.2	4 104	5.8
Development food aid	603	0.9	624	0.9	658	0.9
ODA (OA) loans total net	3 750	5.8	3 432	5.2	3 134	4.4

Source: UNCTAD secretariat estimates based on OECD/DAC, *International Development Statistics*, online data, December 2005.

Republic of the Congo (see chart 3a). But at the other end of the spectrum, net ODA inflows either stagnated or declined in real terms in almost half of the LDCs during the period 1999–2004, including in 9 of the 10 island LDCs.<sup>9</sup> On average, real ODA to the latter declined by 3 per cent per annum in 1999–2004.

*Net ODA inflows either stagnated or declined in real terms in almost half of the LDCs during the period 1999–2004.*

A regional comparison shows that the share of part A net ODA, that is aid committed to technical assistance, debt forgiveness, emergency assistance and development food aid, in total net ODA was greatest in African LDCs. This share was also very large in the group of island LDCs owing to the larger contribution of technical assistance in total net ODA disbursed to this group of 10 LDCs relative to that disbursed to African or Asian LDCs.

*Social sectors, emergency assistance and action relating to debt absorbed 62.1 per cent of total ODA commitments to the LDCs in 2002–2004, as compared with 34.6 per cent in 1992–1994.*

OECD/DAC data on ODA commitments (rather than disbursements) enable the disaggregation of those commitments to recipient countries by broad sector, and also by type of flow, that is grants and concessional loans. This shows that the upward surge in ODA has reinforced the trends whereby an increasing proportion of ODA is provided in the form of grants and a decreasing proportion of ODA is committed to economic infrastructure and productive sectors. Table 12 shows that grants represented 76 per cent of total net ODA commitments from all donors to LDCs in 2002–2004. This was up from 62 per cent in 1992–1994 and 68 per cent in 1999–2001. ODA for economic infrastructure and productive sectors actually declined from 32 per cent of total ODA commitments in 1999–2001 to 24 per cent in 2002–2004. This is half the share in 1992–1994. The decline in the share of ODA going to economic infrastructure and productive sectors is related to the shift from loans to grants, because a larger proportion of aid in these areas is financed by loans. ODA commitments to social infrastructure and services constituted 32 per cent of total ODA commitments to LDCs in 2002–2004. This was slightly down from 1999–2001, when the share stood at 33 per cent, but was a major increase in relation to the early 1990s, when the share of ODA to social infrastructure and services was less than half that to economic infrastructure and productive sectors. The fall in the share going to social sectors between 1999–2001 and 2002–2004 does not reflect a shift of donor priorities away from those sectors, but rather the increasing importance of action related to debt and emergency assistance, noted in the discussion of disbursements above. Taken together, social sectors, emergency assistance and action relating to debt absorbed 62.1 per cent of total ODA commitments to the LDCs in 2002–2004, as compared with 34.6 per cent in 1992–1994.

TABLE 11. SELECTED INDICATORS ON NET ODA DISBURSED TO LDCs, BY COUNTRY AND BY REGION, AND TO THE GROUP OF OTHER DEVELOPING COUNTRIES, BY ALL DONORS, 1995–2004

	Real growth rate of net ODA (% per annum)	Level of Part A <sup>a</sup> net ODA (% total net ODA)		Distribution of Part A net ODA (% total net ODA)		
		1999–2004	1995–1999	2000–2004	Technical assistance	Remaining Part A net ODA <sup>b</sup>
					2000–2004	
Afghanistan	79.2	81.6	54.5	20.1	34.4	
Angola	17.0	54.6	44.3	12.7	31.6	
Bangladesh	-0.5	38.6	42.0	18.6	23.3	
Benin	4.9	33.7	44.0	27.1	16.9	
Bhutan	2.0	37.7	31.5	30.5	1.0	
Burkina Faso	5.4	32.1	36.6	19.5	17.1	
Burundi	29.0	53.6	51.2	11.3	39.9	
Cambodia	7.3	40.5	34.2	29.7	4.5	
Cape Verde	-0.6	43.6	40.8	30.8	10.0	
Central African Rep.	-9.0	38.2	50.9	34.2	16.6	
Chad	9.5	27.1	33.2	16.3	16.9	
Comoros	-0.3	49.1	50.2	40.5	9.7	
Dem.Rep. of the Congo	93.0	64.1	74.6	5.6	69.1	
Djibouti	-4.3	45.3	42.6	37.0	5.6	
Equatorial Guinea	0.5	56.5	60.9	45.8	15.1	
Eritrea	8.2	43.5	49.1	12.6	36.5	
Ethiopia	19.8	39.9	43.5	12.2	31.3	
Gambia	8.0	51.8	27.7	20.2	7.5	
Guinea	2.0	26.4	53.8	25.0	28.8	
Guinea-Bissau	4.9	39.8	46.4	19.2	27.2	
Haiti	-5.1	51.9	70.7	44.9	25.8	
Kiribati	-3.7	47.4	56.3	56.3	0.0	
Laos	-2.6	30.2	31.8	28.6	3.2	
Lesotho	21.0	37.0	22.3	18.9	3.4	
Liberia	13.4	50.3	77.7	19.7	58.1	
Madagascar	19.8	47.5	46.9	15.8	31.1	
Malawi	-2.2	28.6	39.1	24.1	15.1	
Maldives	-2.0	27.3	33.9	26.6	7.3	
Mali	6.7	33.2	41.3	25.5	15.8	
Mauritania	-5.2	25.7	42.4	14.9	27.5	
Mozambique	5.2	56.2	46.9	15.6	31.4	
Myanmar	5.3	80.7	70.4	43.1	27.3	
Nepal	0.7	37.7	37.3	30.9	6.4	
Niger	19.3	40.6	43.6	15.4	28.2	
Rwanda	-0.6	52.9	35.2	21.8	13.4	
Samoa	1.4	59.6	58.4	58.3	0.1	
Sao Tome and Principe	-3.2	43.8	50.5	36.1	14.4	
Senegal	5.9	44.6	57.8	30.5	27.3	
Sierra Leone	25.0	40.8	43.4	13.4	30.0	
Solomon Islands	7.2	47.9	66.6	64.5	2.1	
Somalia	7.5	70.4	63.9	12.3	51.6	
Sudan	27.6	75.0	69.2	10.7	58.5	
Timor-Leste	-8.5	63.8	56.3	43.2	13.1	
Togo	-9.0	39.2	75.0	52.1	22.8	
Tuvalu	2.7	39.4	38.1	38.1	0.0	
Uganda	6.5	30.6	32.1	18.3	13.7	
United Rep. of Tanzania	8.5	32.0	36.0	11.8	24.2	
Vanuatu	-7.4	59.5	66.7	65.9	0.8	
Yemen	-11.9	29.2	30.5	15.0	15.5	
Zambia	2.4	27.0	47.1	17.2	29.9	
LDCs	12.5	40.9	47.4	18.4	29.0	
African LDCs	13.7	40.7	48.4	16.2	34.9	
Asian LDCs	10.8	40.7	43.1	22.9	10.9	
LDC-SIDS	-3.0	47.5	53.4	44.8	8.6	
Other developing countries	2.9	43.8	48.7	32.5	16.3	

Source: UNCTAD secretariat estimates based on OECD/DAC, *International Development Statistics*, online data, December 2005.

a Part A net ODA is the sum of technical assistance, debt forgiveness, emergency assistance and development food aid.

b Remaining Part A net ODA is Part A net ODA excluding technical assistance.

TABLE 12. SECTORAL ALLOCATION OF ODA COMMITMENTS TO LDCs, FROM ALL DONORS, 1992–1994, 1999–2001 AND 2002–2004  
(Percentage)

	Total ODA commitments to LDCs			Financed by grants			Financed by loans		
	1992–1994	1999–2001	2002–2004	1992–1994	1999–2001	2002–2004	1992–1994	1999–2001	2002–2004
Total	100.0	100.0	100.0	62	68	76	38	32	23
Social infrastructure and services	21.2	33.1	32.2	74	68	81	26	32	18
Action relating to debt	8.3	8.8	17.8	55	94	88	45	6	12
Emergency assistance	5.1	8.1	12.2	85	86	91	15	14	9
Economic infrastructure, production sector and multisector	47.9	32.3	23.5	52	52	57	48	47	41
Economic infrastructure	21.6	16.0	12.7	45	46	47	55	52	50
Production sector	15.6	8.7	5.5	56	61	60	43	38	37
Multisector	10.7	7.6	5.2	59	54	76	41	46	23
Commodity aid/ general programme assistance	16.7	16.5	13.5	72	73	67	28	27	33

Source: UNCTAD secretariat estimates based on OECD/DAC, *International Development Statistics*, online data, December 2005.

### 3. TRENDS IN FDI INFLOWS

*FDI inflows into LDCs increased in 2004 to a record level of \$10.7 billion. However, this represents only 1.6 per cent of world FDI inflows.*

Following a slight decrease in 2002, FDI inflows into the group of LDCs recovered dramatically in 2003, when they stood at over \$10.4 billion, compared with \$6.3 billion the preceding year. FDI inflows into LDCs further increased in 2004, when they reached a record level of \$10.7 billion, which represents about 1.6 per cent of world FDI inflows (chart 4). In nominal terms, FDI inflows into LDCs increased by 63.6 per cent in 2003 and by 3.4 per cent in 2004. Between 2002 and 2004, FDI inflows into LDCs increased by 69.1 per cent. In 2004, the ratio of FDI to gross fixed capital formation averaged 20.8 per cent in the LDCs, which is twice as high as the share prevailing in the group of other developing countries.

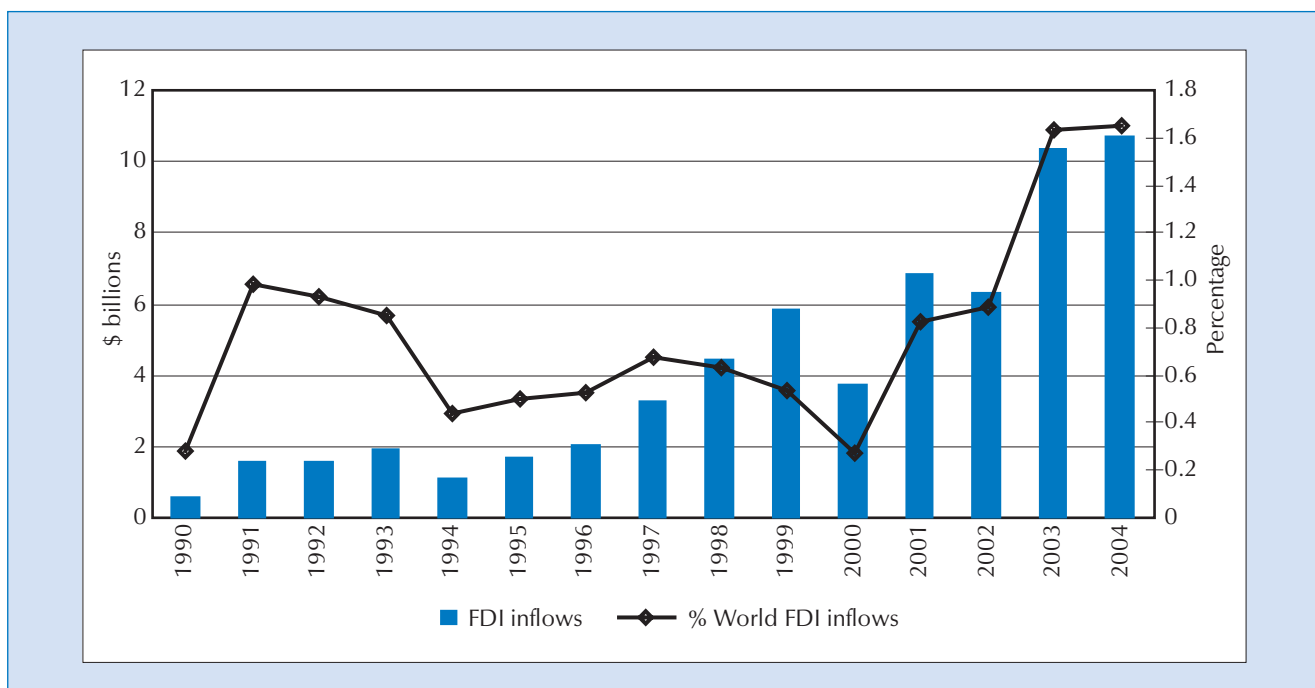
*FDI inflows into LDCs remain highly concentrated in resource-rich LDCs, which absorbed about 70 per cent of the total FDI inflows into the group.*

The data show that the distribution of FDI inflows into LDCs remain largely concentrated in resource-rich LDCs. The nominal change in the value of FDI inflows into LDCs was negligible in over half the countries for which data is available (see chart 5). Indeed, half of the increase in FDI inflows into LDCs between 2002 and 2004 occurred in the four traditional oil-exporting LDCs, namely Angola, Equatorial Guinea, Sudan and Yemen. In 2004, those four countries absorbed 48.6 per cent of total FDI inflows into the group of 50 LDCs. This ratio increases to 55.9 per cent if Chad and Mauritania, which recently received large oil-related FDI flows, are added to this list. In the same year, mineral-exporting LDCs attracted 12.7 per cent of the total FDI inflows into LDCs. Overall, about 70 per cent of FDI inflows into the group of LDCs was directed to oil- and mineral-exporting LDCs in 2004 (table 13).

The fact that FDI inflows into the LDCs increased less in 2004 than in 2003 is also related to changes in FDI inflows into oil-exporting LDCs. FDI flows to Angola in 2004 were \$1.46 billion lower than in 2003 and flows to Chad were \$234.5 billion lower.

Table 13 provides a further indication of the level of concentration of FDI into LDC economies and shows that the top 10 recipient LDCs absorbed 83.6 per cent of LDCs' FDI inflows in 2004. Those 10 countries were, in decreasing order of magnitude, Angola, Equatorial Guinea, Sudan, the Democratic Republic of the Congo, Myanmar, Ethiopia, Chad, the United Republic of Tanzania, Bangladesh and Zambia. With the exception of Bangladesh, the

CHART 4. FDI INFLOWS INTO LDCs, 1990–2004  
(In value and as a share of world FDI inflows)



Source: UNCTAD secretariat estimates based on UNCTAD FDI/TNC database.

Note: No data are available for Kiribati.

TABLE 13. FDI INFLOWS INTO LDCs, 2000–2004

	2000	2001	2002	2003	2004
<b>In \$ millions</b>					
LDCs	3 758.1	6 839.8	6 333.2	10 352.6	10 723.0
Top 10	2 766.0	5 689.3	5 303.2	9 099.3	8 966.7
Rest of LDCs	992.2	1 150.5	1 030.0	1 253.3	1 756.3
Oil-exporting LDCs <sup>a</sup> + Chad and Mauritania	1 539.9	4 352.1	3 852.0	7 216.8	5 979.9
Mineral-exporting LDCs <sup>b</sup>	223.8	201.6	241.4	427.8	1 366.2
Other LDCs	1 994.5	2 274.5	2 233.8	2 705.9	3 356.0
<b>In %</b>					
Top 10	73.6	83.2	83.7	87.9	83.6
Rest of LDCs	26.4	16.8	16.3	12.1	16.4
Oil-exporting LDCs <sup>a</sup> + Chad and Mauritania	41.0	63.6	60.8	69.7	55.8
Mineral-exporting LDCs <sup>b</sup>	6.0	2.9	3.8	4.1	12.7
Other LDCs	53.1	33.3	35.3	26.1	31.3

Source: UNCTAD secretariat estimates based on UNCTAD FDI/TNC database.

Note: No data are available for Kiribati.

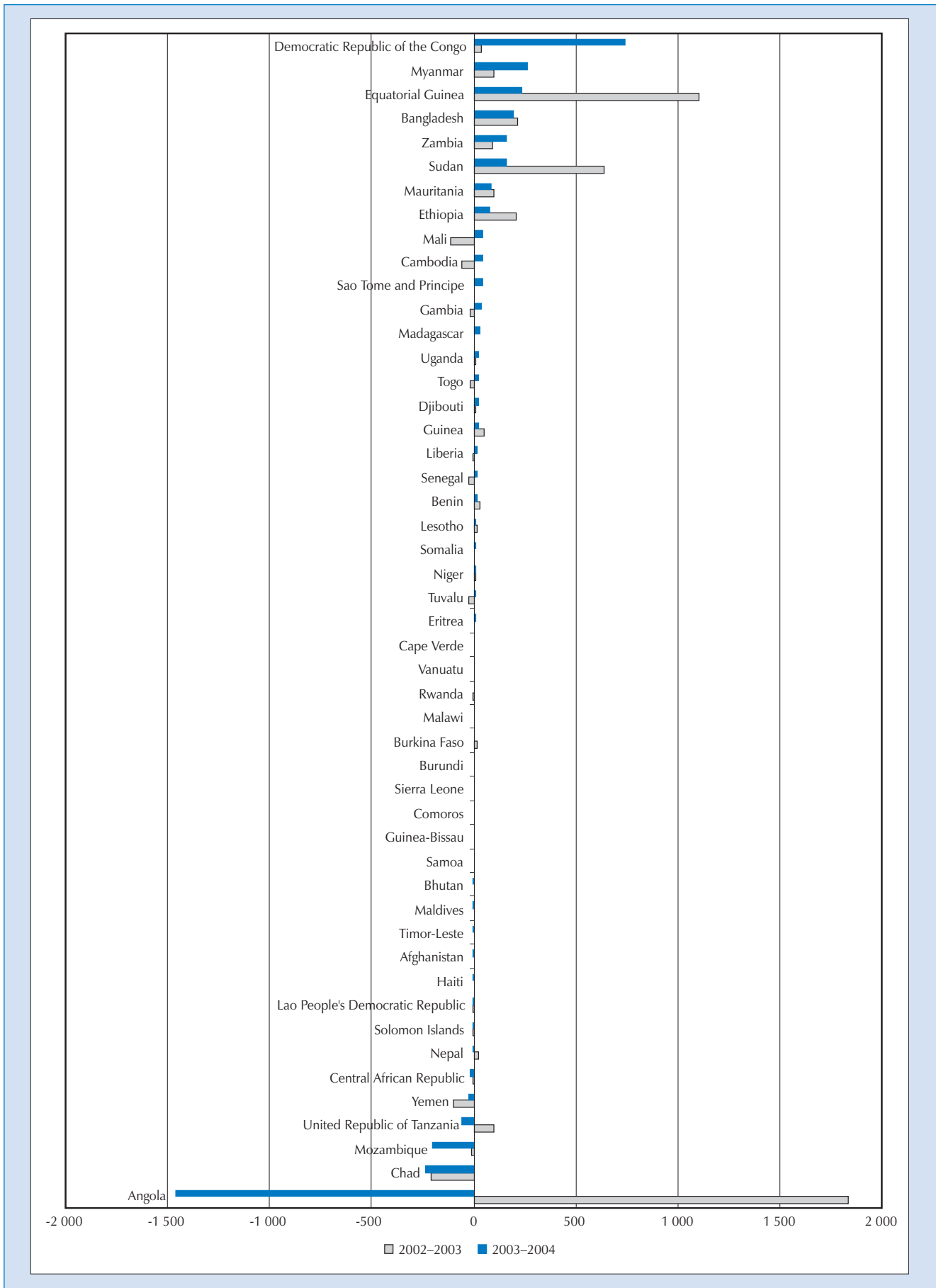
a The oil-exporting LDCs are Angola, Equatorial Guinea, Sudan and Yemen

b The mineral-exporting LDCs are the Central African Republic, Democratic Republic of the Congo, Guinea, Liberia, Niger, Sierra Leone and Zambia.

Democratic Republic of the Congo and Zambia, all the other countries were among the top 10 recipient LDCs throughout the whole period 2002–2004.

Evidence shows that between 2002 and 2004 FDI inflows into LDCs increased in all regions except the Pacific and Caribbean (see table 14). Annual data on FDI flows show the variability of these flows in all regions. In 2002–2003 and 2003–2004 FDI inflows into LDCs increased in nominal terms by 63.6 per cent and by 3.4 per cent respectively in the LDCs and by 4.5 per cent and 42.7 per cent respectively in the group of other developing countries. Within the group of LDCs, FDI inflows into African LDCs (where most of the resource-rich

CHART 5. NOMINAL CHANGE IN THE VALUE OF FDI INFLOWS INTO LDCs, 2002–2003 AND 2003–2004  
(\$ millions)



Source: UNCTAD secretariat estimates based on UNCTAD FDI/TNC database.

Note: No data are available for Kiribati.

TABLE 14. FDI INFLOWS INTO LDCs, BY REGION, 2000–2004

	\$ millions					% change			
	2000	2001	2002	2003	2004	2001– 2002	2002– 2003	2003– 2004	2002– 2004
LDCs	3 758.1	6 828.2	6 327.2	10 350.6	10 702.1	-7.3	63.6	3.4	69.1
African LDCs	3 035.8	6 118.4	5 765.2	9 624.3	9 496.2	-5.8	66.9	-1.3	64.7
Asian LDCs	689.9	697.2	524.0	704.5	1 173.3	-24.8	34.4	66.5	123.9
Pacific and Caribbean island LDCs	32.4	12.6	38.1	21.7	32.5	202.8	-42.9	49.6	-14.5

Source: UNCTAD secretariat estimates based on UNCTAD FDI/TNC database.

Note: In this table, small island LDCs are not presented as a distinct group and are therefore included in their respective regions.

LDCs are concentrated) grew by 66.9 per cent in 2002–2003 but decreased by 1.3 per cent in 2003–2004. In comparison, FDI inflows into Asian LDCs increased during both periods. It should be noted, however, that FDI inflows into the Lao People's Democratic Republic and Yemen declined during those two consecutive years.

## E. Trends in external debt

Following a downward trend between 1998 and 2001, and despite a large reduction in their debt arrears, the LDCs' total debt stock increased in 2003<sup>10</sup> for the second consecutive year and reached in 2003 a record level of \$158.9 billion, which represents a \$12 billion increase over the 2002 level and a \$20.8 billion increase over the 2001 level. Data on debt by creditor status show that, between 1990 and 2003, the share of debt stock from multilateral creditors in total debt stock increased significantly in the LDCs, whereas that of debt stock from bilateral creditors decreased. In 2003, multilateral debt constituted over 46 per cent of LDCs' total debt stock, compared with about 27 per cent in 1990 (chart 6). In fact, multilateral debt stock first exceeded bilateral debt stock in 1999, that is, since the inception of the enhanced HIPC Initiative<sup>11</sup>. Overall, almost 80 per cent of the increase in the LDCs' total debt stock between 2001 and 2003 is attributed to an increase in their multilateral debt stock. A regional breakdown shows that the trend in the LDCs' external debt stock has been driven by African LDCs, which accounted for 72.8 per cent of the LDCs' total debt stock in 2003, down from 76.7 per cent in 1998. Country data show that debt stock increased between 2001 and 2003 in all of the countries of the group of 46 LDCs for which data are available except the Democratic Republic of the Congo, which was granted \$10 billion of debt relief under the enhanced HIPC Initiative and received almost half of this in 2003.

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*The LDCs' total debt stock increased in 2003 reaching a record level of \$158.9 billion, which represents a \$20.8 billion increase over the 2001 level.*

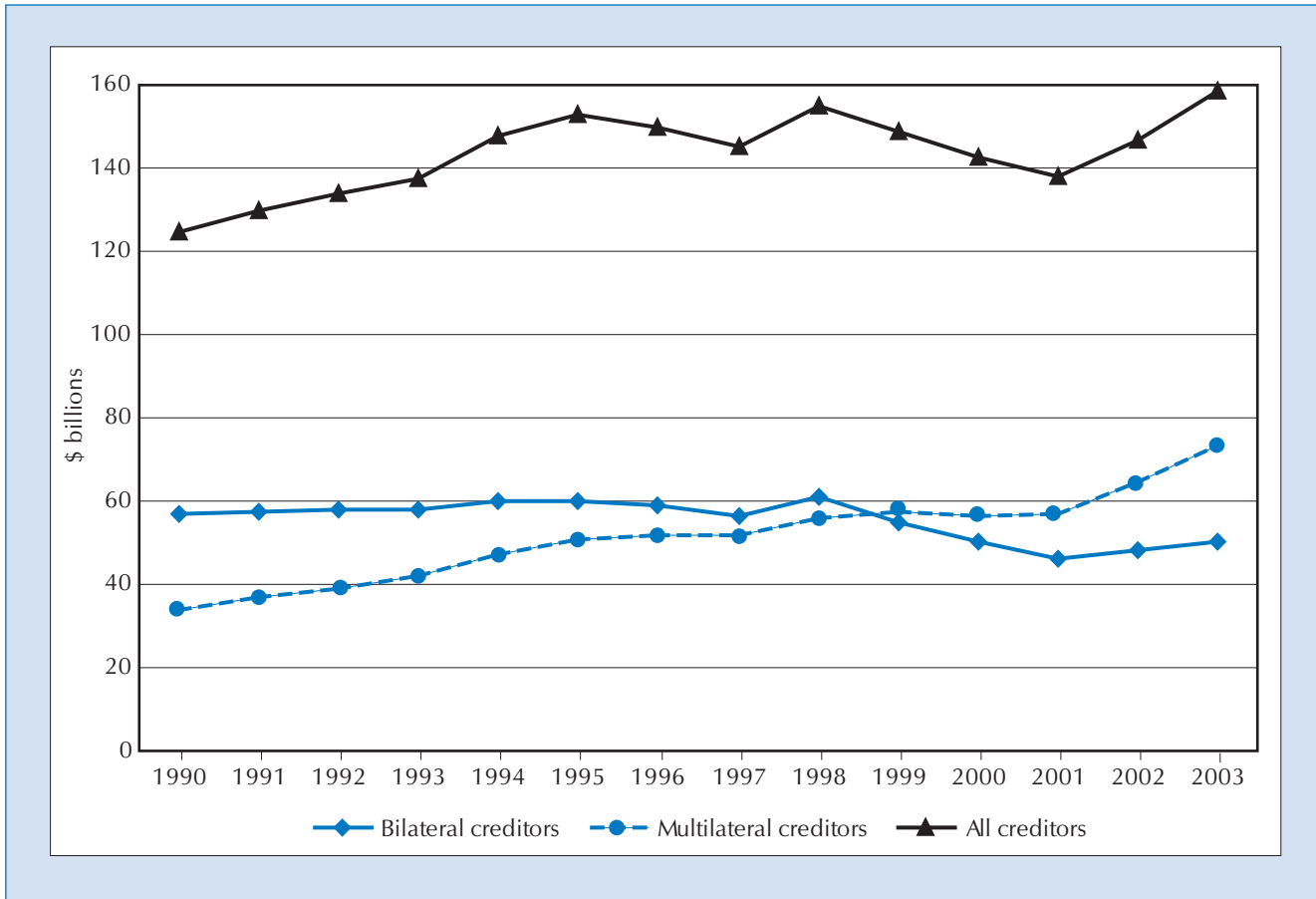
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Table 15 contains data on recent trends in four debt burden indicators for the LDCs and for the group of other developing countries, namely the debt stock to GDP ratio, the debt stock to exports of goods and services, income and workers' remittances ratio, the total debt service paid to exports of goods and services, income and workers' remittances ratio, and the present value of debt to GNI ratio. The data clearly show that the debt burden in the group of LDCs is about twice as great as the debt burden of other developing countries for three of the four indicators. The exception is debt service paid as a ratio of exports of goods and services, income and workers' remittances. This is less than half for the group of LDCs than for the other developing countries.

The low ratio of debt service paid to exports is, however, somewhat deceptive. It certainly reflects the good export performance of the LDCs in part. But also it arises because of the difficulty which a number of LDCs still have in



CHART 6. TRENDS IN THE LDC TOTAL DEBT STOCK, BY STATUS OF OFFICIAL CREDITORS, 1990–2003  
(\$ billions)



Source: UNCTAD secretariat estimates based on World Bank, *Global Development Finance 2005*, CD-ROM.

Note: Estimates are based on the 46 LDCs for which data are available. No data are available for Afghanistan, Kiribati, Timor-Leste or Tuvalu.

keeping up with contractual debt service payments. According to the Global Development Finance database, principal arrears on long-term debt were equivalent to 38 per cent of exports of goods and services, income and workers' remittances in the group of LDCs in 2003, as compared with 2.7 per cent in the group of other developing countries. Similarly, in the same year, the ratio of interest arrears to exports of goods and services, income and workers' remittances averaged 20.2 per cent in the LDCs versus 1.5 per cent in the group of other developing countries.

*The debt burden in the group of LDCs is about double the debt burden of other developing countries.*

A regional breakdown shows that the debt burden is much greater in African LDCs than in Asian LDCs. Despite the recent increase in the LDCs' total debt stock as outlined earlier, data show that relative to their GDP or to their exports of goods and services, income and workers' remittances, the debt burden of the group of LDCs improved between 2001 and 2003, a fact that suggests sizeable improvements in the LDCs' GDP and foreign exchange revenues between those years. As shown in table 15, this improvement in the LDC debt burden is mainly attributable to African LDCs. In Asian LDCs the debt burden continued to increase between 2001 and 2003.

In assessing these debt indicators, particular attention should be paid to the trends in workers' remittances in the LDCs. Relative to GNI, those remittances increased steadily in the LDCs and in the group of other developing countries during the period 1999–2003, reaching 4.8 per cent in the former group and 1.9 per cent in the latter in 2003. The increase in this ratio has been particularly impressive in the Asian LDCs, where workers' remittances averaged 7 per cent

TABLE 15. EXTERNAL DEBT BURDEN INDICATORS AND WORKERS' REMITTANCES IN LDCs, BY COUNTRY AND BY REGION, AND IN THE GROUP OF OTHER DEVELOPING COUNTRIES, 1999–2003

(Percentage)

	Total debt stock						Total debt service paid			Present value of debt			Workers remittances		
	% GDP			% exports of goods and services, income and workers' remittances			% exports of goods and services, income and workers' remittances			% GNI			% GNI		
	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003
Angola	97.5	82.2	73.5	136.6	108.1	108.1	22.7	16.3	14.9	142.0	120.5	101.7	0.0	0.0	0.0
Bangladesh	32.5	35.9	36.2	169.4	173.1	168.5	7.5	7.4	6.0	20.1	22.3	25.1	4.3	5.7	5.8
Benin	70.0	68.1	52.6	264.5	..	..	7.9	..	..	36.2	36.1	28.2	3.6	3.1	2.4
Bhutan	49.5	62.6	60.6	178.2	272.7	..	4.2	4.6	..	57.4	72.3	73.9	0.0	0.0	0.0
Burkina Faso	54.7	50.9	44.1	483.1	493.4	397.3	13.3	14.9	11.2	26.2	16.2	19.5	1.8	1.6	1.2
Burundi	155.2	191.7	219.9	2 313.5	3 157.5	2 950.6	49.7	61.1	65.8	95.1	115.1	150.4	0.0	0.0	0.0
Cambodia	72.8	72.5	74.3	119.1	114.9	114.5	1.0	0.9	0.9	66.5	67.7	70.2	3.7	3.7	3.4
Cape Verde	65.6	67.1	60.2	141.9	144.7	125.7	5.5	7.6	5.7	42.3	47.6	50.9	14.9	14.0	11.7
Central African Republic	85.0	101.8	110.8	..	..	..	..	..	..	54.6	77.9	154.9	0.0	0.0	0.0
Chad	66.3	64.0	57.5	..	..	..	..	..	..	41.5	36.8	44.9	0.0	0.0	0.0
Comoros	110.6	109.2	89.1	..	..	..	..	..	..	81.8	85.4	79.5	5.4	4.8	3.7
Dem. Rep. of the Congo	236.0	181.3	197.0	..	..	..	..	..	..	250.6	184.9	150.2	0.0	0.0	0.0
Djibouti	45.8	56.6	63.4	..	..	..	..	..	..	31.1	37.6	43.7	0.0	0.0	0.0
Equatorial Guinea	14.0	12.3	11.0	..	..	..	..	..	..	43.9	..	..	0.0	0.0	0.0
Eritrea	61.6	82.5	84.5	300.5	403.5	758.9	4.9	7.3	14.1	28.8	38.8	46.8	0.0	0.0	0.0
Ethiopia	88.0	107.5	107.5	565.2	585.4	537.4	18.0	7.6	6.8	45.1	62.9	24.4	0.3	0.5	0.7
Gambia	116.5	154.9	159.1	..	..	..	..	..	..	66.0	77.5	90.4	7.6	9.5	10.8
Guinea	107.0	106.0	95.2	381.1	414.6	398.9	12.3	15.2	15.1	55.3	46.8	58.7	0.3	0.5	3.1
Guinea-Bissau	335.8	343.5	312.2	862.7	879.0	794.7	30.1	13.8	16.2	213.4	235.5	245.8	5.5	9.2	7.9
Haiti	34.8	36.0	44.8	117.3	113.7	102.1	2.4	2.5	4.1	20.8	22.7	28.6	17.3	19.5	27.9
Lao PDR	142.6	155.0	134.1	516.4	614.3	591.3	9.0	10.3	10.3	81.0	84.7	90.6	0.1	0.1	0.0
Lesotho	77.9	89.2	62.0	107.6	113.1	93.2	12.3	11.7	8.8	38.4	44.4	47.3	22.2	20.5	13.3
Liberia	404.9	413.7	580.6	1 416.1	1 125.1	1 751.4	0.5	0.4	0.1	489.4	561.3	646.2	0.0	0.0	0.0
Madagascar	91.8	102.7	90.6	319.3	614.0	431.1	5.2	8.7	6.1	51.3	33.3	31.0	0.2	0.4	0.3
Malawi	152.8	154.9	182.9	537.5	608.5	677.9	8.0	6.3	7.7	87.3	50.7	108.1	0.1	0.1	0.1
Maldives	37.6	42.4	39.3	49.7	54.2	47.5	4.6	4.4	3.6	30.6	34.1	34.7	0.3	0.3	0.4
Mali	110.9	84.8	72.3	297.5	234.8	..	8.3	6.9	..	57.2	46.8	42.4	3.6	4.4	3.3
Mauritania	238.2	228.9	215.8	..	..	..	..	..	..	148.7	56.2	72.6	0.2	0.2	0.2
Mozambique	132.8	132.4	114.1	425.5	433.4	388.2	8.5	6.9	6.9	26.5	26.8	38.1	1.3	1.6	1.7
Myanmar	..	..	..	191.4	216.8	253.0	2.8	3.7	4.2	..	..	..	..	..	..
Nepal	48.6	53.4	55.6	201.0	180.2	173.7	6.9	6.2	6.0	29.1	30.9	37.7	2.6	12.2	13.4
Niger	81.7	82.9	77.5	..	..	..	..	..	..	53.8	26.1	25.5	0.4	0.4	0.3
Rwanda	75.5	83.9	94.1	718.8	970.8	1 044.8	10.3	11.5	14.4	37.3	39.7	57.5	0.5	0.4	0.4
Samoa	86.0	97.4	136.3	..	..	..	..	..	..	59.9	70.2	122.1	19.2	18.7	17.0
Sao Tome and Principe	655.4	622.8	567.4	1 876.7	1 738.7	1 586.6	24.6	25.0	31.0	232.5	252.6	314.2	2.3	2.2	2.0
Senegal	79.5	81.8	68.0	212.1	218.4	188.2	12.3	11.6	10.4	53.6	52.9	36.4	6.7	7.1	5.4
Sierra Leone	172.9	184.9	203.2	1 413.2	1 168.5	789.0	104.6	17.5	12.4	125.5	102.6	118.2	1.0	2.9	3.4
Solomon Islands	65.9	73.1	73.5	..	..	..	..	..	..	37.8	50.1	59.6	0.8	0.8	0.8
Somalia	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Sudan	113.2	106.6	98.3	626.2	532.0	459.6	2.3	0.8	0.9	136.7	129.7	120.4	6.1	6.9	7.5
Togo	105.9	107.5	97.1	277.6	253.1	203.1	6.4	2.1	1.9	73.2	87.1	91.1	5.4	7.2	6.1
Uganda	65.7	68.1	72.3	353.5	359.3	385.8	4.7	6.3	7.1	20.0	22.3	32.6	8.7	6.5	4.8
United Rep. of Tanzania	71.7	75.1	73.0	447.9	446.7	421.4	10.2	6.7	5.1	15.0	18.8	22.2	0.1	0.1	0.1
Vanuatu	32.5	38.6	33.5	41.6	72.9	65.0	0.9	1.5	1.4	16.5	24.7	28.1	24.5	3.5	3.2
Yemen	53.3	52.3	49.6	101.6	100.2	95.7	5.2	3.3	3.1	43.6	39.9	40.4	14.6	14.0	12.6
Zambia	155.9	161.7	148.2	512.9	525.1	459.6	11.3	25.4	27.8	127.1	127.3	121.1	0.0	0.0	0.0
LDCs	77.5	77.9	74.9	251.4	247.8	238.9	9.3	8.1	7.5	56.9	55.2	54.1	4.1	4.8	4.8
African LDCs	102.6	99.8	94.0	336.5	322.5	304.1	12.8	10.7	9.9	79.1	73.8	69.0	3.1	3.2	3.2
Asian LDCs	41.9	44.9	44.7	161.1	165.3	165.3	5.6	5.2	4.7	28.0	29.6	32.5	5.3	7.0	7.0
LDC-SIDS	74.0	78.7	75.3	107.1	119.3	104.6	4.5	5.4	4.5	45.9	52.8	60.8	9.4	7.0	6.2
Other developing countries	34.2	34.8	33.3	116.4	108.2	96.9	19.4	18.0	17.0	34.5	33.5	35.8	1.4	1.7	1.9

Source: UNCTAD secretariat estimates based on World Bank, *Global Development Finance 2005*, CD-ROM, and *World Development Indicators 2005*, CD-ROM.

Notes: Averages are weighted by the denominator and are subject to data availability.  
Data are systematically not available for Afghanistan, Kiribati, Timor-Leste and Tuvalu.

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of GNI in 2003, compared with 5 per cent in 1999. The corresponding ratio increased to a lesser extent — from 2.6 per cent to 3.2 per cent — in African LDCs between the same years. The heavy and increasing reliance of Asian LDCs on workers' remittances was, however, not sufficient to reverse the increase in those countries' ratio of debt stock to exports of goods and services, income and workers' remittances between 2001 and 2003. The overall higher level of reliance of LDCs on workers' remittances implies that the outcome of the multilateral trade negotiations on Mode 4 (movement of natural persons) of GATS (General Agreement on Trade in Services) may be of particular interest to those countries.

## F. Conclusions

The economic performance of the LDCs as a group continues to improve. The average GDP growth rate in 2004 was the highest for two decades. This was underpinned by record levels of merchandise exports and record levels of capital inflows, particularly in the form of grants and FDI. Most of the oil-exporting LDCs did particularly well, benefiting from higher oil prices in 2004 especially. But the good economic performance was not confined to those countries. Real GDP growth was 6 per cent or more in 15 LDCs in 2004, including 11 LDCs which do not export oil.

Within this overall growth performance the trend towards increasing divergence amongst the LDCs, which first emerged in the early 1990s, has continued. Real GDP per capita stagnated or declined in 2004 in 14 out of 46 LDCs for which data are available.

This divergence is partly related to the differential access to external finance. Both FDI inflows and ODA grants, the two major elements driving the surge in capital inflows, were highly concentrated. Ten LDCs absorbed 84 per cent of FDI inflows in 2004. In nominal terms, aid actually doubled between 1999 and 2004. But 30 per cent of this increase was absorbed by Afghanistan and the Democratic Republic of the Congo. For other countries, the nominal increase in aid was much smaller. Indeed, it either stagnated or declined in real terms in almost half of the LDCs during the same period, including 9 out of the 10 island LDCs.

Another issue of concern is the sustainability of the recent economic performance. Growth in the LDCs remains highly dependent on commodity prices, trends in external finance and preferences for exports of manufactured goods. The ratio of gross domestic savings to GDP, which is already much lower than in other developing countries, actually declined from 13.4 per cent in 2003 to 11 per cent in 2004. During that period, the LDCs' reliance on external finance savings to finance capital formation increased. Many LDCs are also particularly vulnerable because they are net importers of both food and oil. The combination of price increases in these sectors can considerably worsen their persistent trade deficits.

The sustainability of the recent growth performance will depend in particular on the extent to which existing and additional ODA and FDI are channelled into productive investment, both private and public, and support increased domestic savings, structural change and an upgrading and diversification of productive capacities. Unfortunately, a large share of the increase in ODA is attributable to debt relief and emergency assistance, which together accounted for 35 per cent of total net ODA disbursed to LDCs in 2003 and 27 per cent disbursed in 2004.

FDI inflows remain oriented towards exploiting extractive sectors. The external debt stock of the LDCs continues to increase in spite of major debt relief measures. In 2003, interest payments and profit remittances were equivalent to about 60 per cent of the value of grants received (excluding technical cooperation).

Finally, economic growth will not be sustainable unless it leads to improvements in human well-being that are socially inclusive. Progress in relation to a number of social indicators is considered in the next chapter.

## Notes

1. If Chad, a recent oil-exporting LDC is added, merchandise exports in the five LDCs increased by 20.9 per cent in 2003 and 40.7 per cent in 2004, while those of the rest of the LDCs increased by 13.7 per cent and 15.4 per cent respectively.
2. These are crude petroleum, refined petroleum products and residual petroleum products.
3. At the time of writing, 2003 was the latest year for which data from the World Bank's Global Development Finance database were available.
4. Excluding those four countries, LDC dependence on external finance as measured by the ratio of long-term capital flows to GDP, increased from 8.5 per cent of GDP in 2000 to 9.3 per cent of GDP in 2003.
5. Calculations are based on a group of 62 countries for which data are available. When Angola, the Democratic Republic of the Congo, Equatorial Guinea and Sudan are excluded, the LDC dependence on external finance as measured by the ratio of long-term capital flows to GDP can be said to have increased from 8.5 per cent of GDP in 2000 to 9.3 per cent of GDP in 2003.
6. Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD).
7. In real terms during 1999–2004, ODA to LDCs increased by 12.5 per cent per annum. When Afghanistan and the Democratic Republic of the Congo, which in 2000–2004 absorbed 16 per cent of total net ODA disbursed to the 50 LDCs, are excluded, the average annual growth rate in net ODA disbursed to the 48 remaining LDCs is reduced to 6.7 per cent per annum in real terms. In Afghanistan, net ODA increased by 79.2 per cent per annum during the period 1999–2004 mainly as a result of an unprecedented and sustained increase in emergency assistance and technical cooperation. In the Democratic Republic of the Congo, the 93 per cent per annum increase in real net ODA is attributed to a surge in debt forgiveness grants, particularly in 2003, when debt forgiveness amounted to \$4.46 billion, up from \$160 million in 2002.
8. If Afghanistan and the Democratic Republic of the Congo are excluded, the rate of increase was 5 per cent and 25.2 per cent per annum respectively.
9. Net ODA growth is regarded as having stagnated if in real terms it was lower or about equivalent to the population growth of the recipient country.
10. At the time of writing, 2003 was the latest year for which debt data were available in the World Bank's Global Development Finance database.
11. The Heavily Indebted Poor Country (HIPC) Initiative is a comprehensive approach to debt reduction of heavily indebted poor countries pursuing IMF- and World Bank-supported adjustment and reform programmes. The Initiative was first launched in 1996 and it was enhanced following a review in 1999.