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**Review of progress in the implementation of the Programme of Action for the
Least Developed Countries for the Decade 2001–2010**

Policy lessons drawn from UNCTAD's implementation of the Brussels Programme of Action for the Least Developed Countries for the Decade 2001–2010: Key trends, challenges and policy conclusions¹

Report by the UNCTAD secretariat

Executive summary

Pursuant to paragraph 114 of the Programme of Action for the Least Developed Countries for the Decade 2001–2010, the United Nations General Assembly decided to convene the Fourth United Nations Conference on Least Developed Countries (LDCs) in order to make a comprehensive appraisal of the Programme of Action and to decide on subsequent actions. UNCTAD has continued its efforts to undertake concrete steps to mainstream actions and commitments contained in the Programme of Action into its activities and into the work of the intergovernmental machinery. Its activities focus on research and policy analysis, consensus-building, technical cooperation and capacity-building. Policy lessons drawn from UNCTAD's implementation experience, including sectoral appraisal of the Programme of Action as called for in paragraph 97 of the Programme of Action, form part of its contribution to the final appraisal of the Programme of Action and to the preparatory process for the Fourth Conference. This paper has been prepared to assist the deliberation of the fifty-first executive session of the Trade and Development Board on item 2 (b) on the provisional agenda.

¹ For a detailed analysis of progress in implementation of the Programme of Action please, see the UNCTAD publication *Comprehensive Appraisal of the Implementation of the Programme of Action for the Least Developed Countries for the Decade 2001–2010: Assessment of Progress and Lessons for LDC-IV and Beyond* (UNCTAD/ALDC/2009/2).

Introduction

1. The Brussels Programme of Action for LDCs for the decade 2001–2010 contains multiple sets of actions and commitments- encompassing social, economic, political and environmental issues. Each of the economic, social, political and environmental pillars of the Programme of Action is designed to be effectively managed and implemented in an integrated and interlinked manner in order to achieve the ultimate goal of accelerated and sustained poverty reduction, as economic growth alone is not sufficient to achieve sustainable development. Similarly, the exclusive focus on social policies aimed specifically at poverty reduction is not sustainable in the long run. In the same vein, environmental management and protection on its own is a necessary, but not a sufficient condition for achieving sustainable development. The Programme of Action was also conceived as a framework for partnership “based on mutual commitments by LDCs and their development partners to undertake concrete actions in a number of inter-linked areas” (para. 14). It articulates policies and measures by LDCs and their development partners to significantly improve living conditions in these countries, to accelerate their sustained economic growth and sustainable development, to end their continued marginalization by eradicating poverty, inequality and deprivation and to enable them to beneficially integrate into the global economy” (para. 4).

2. In addition to the guiding principles for its implementation, the Programme of Action contains a number of quantifiable and time-specific targets. This was to enable LDCs and their development partners to assess and monitor the implementation of the Programme of Action. Paragraph 94 provides that “the goals and targets set out in the Programme of Action will be used to review and evaluate the performance of LDCs and their development partners in implementing the various commitments”.

3. Several important policy lessons can be drawn from the implementation of the Programme of Action during the decade. These include:

(a) Since the adoption of the Programme of Action, national development policies and strategies of most LDCs have placed poverty reduction at the centre of their strategic development objectives and hence, Poverty Reduction Strategy Papers (PRSPs) became the defining feature of the trade and development agenda of LDCs;

(b) Virtually all LDCs have taken bold measures to remove anti-export biases and many have begun the arduous process of improving the institutional environment for private-sector development and addressing supply-side constraints. However, national policies and measures implemented in LDCs have not generated the form and quality of growth that reverses their continued marginalization. In fact, their persistent under-development and in many cases, long term decline, illustrates the fragility of their economies and how national policies and strategies alone, although necessary, are not sufficient to ensure sustained growth, development and poverty reduction in LDCs;

(c) Where socio-economic progress has been recorded, these were supplemented and sustained by predictable and well coordinated aid flows linked to an effective national mechanism for monitoring implementation and demonstrating accountability. This confirms the critical role of the development partnership in influencing the growth trajectory of LDCs;

(d) The focus of national and international policies and support measures has been on social sectors. While this is important in itself, it should not be at the expense of productive sectors of the economies of LDCs. Hence, there is a need for a paradigm shift in

development policies and strategies in LDCs. For several years, UNCTAD has advocated for a shift in designing development policies and strategies in the least developed countries. To this end, it is important to place the development of productive capacities – and the related expansion of productive employment – at the heart of national policies and strategies, including poverty reduction strategy papers.

4. The Fourth United Nations Conference on LDCs, which is being convened in 2011, needs to arrive at a consensus on ways and means of enhancing productive capacities of LDCs, taking into account the need for diversification and value addition, which remains critical more today than ever before owing to the continued volatility of primary product prices and the uncertainties related to long-run price trends. UNCTAD's work on LDCs has underscored the fact that, in the short- to medium-term, growth prospects of LDCs can be enhanced by improving their export competitiveness, particularly in areas where they have comparative advantages such as production and export of non-traditional items such as horticulture including flowers, fresh fruits and vegetables.

5. UNCTAD also undertook a comprehensive assessment and appraisal of the progress in implementation of the Programme of Action (UNCTAD/ALDC/2009/2). The study has been prepared to assist the review and appraisal of the Programme of Action by the Trade and Development Board as input to the comprehensive appraisal of the Programme of Action by the General Assembly pursuant to paragraph 114 of the Programme of Action. The study contains:

(a) A brief account of the challenges faced in undertaking an objective and results-oriented assessment of progress and impact evaluation of the Programme of Action. This is based on the implementation experience of UNCTAD and the annual review of progress by the regular session of the Trade and Development Board since the adoption of the Programme of Action in 2001;

(b) An assessment of trends in key areas that are within the mandates and competence of UNCTAD;

(c) An analysis of the role of commodities-especially non-traditional exports in LDCs in improving the growth and development prospects of LDCs; and

(d) Policy recommendations together with UNCTAD's perspectives and suggestions on possible issues needing attention by the Fourth United Nations Conference on LDCs (UNLDC-IV).

I. Review, monitoring and evaluation of impact: challenges and prospects

6. Section III of the Programme of Action recognizes that effective mechanisms and arrangements for implementation, follow-up, review and monitoring progress made are critical to the success of the Programme. This demonstrates the strong desire on the part of LDCs and their development partners for effective and result-oriented monitoring and evaluation of progress in implementing the actions commitments of the Programme of Action and the results achieved of the Programme of Action. Therefore, there is a growing support and interest for the use of monitoring and evaluation as an integral part of development activities at both the national and international levels. This is due to the fact that, by undertaking a systematic examination of the effects of a specific intervention, effective monitoring and evaluation of the Programme of Action provides governments in LDCs, international development partners and civil society with the means for learning from past experience, improving future performance, and demonstrating results as part of accountability and transparency in partnership. Traditionally, monitoring and evaluation

activities were confined mainly to projects, where the project cycle was designed to link ex-ante project appraisal with ex-post monitoring and evaluation. However, the shift “from projects to policies” in the 1980s and 1990s recognized that the policy environment plays a fundamental role in determining the pattern and pace of development, and focused the attention of decision-makers on issues relating to the design and delivery of “good” policies. During the mid-1990s the focus shifted again, from “first generation” policy reforms to “second generation” institutional reforms including legal, administrative and regulatory functions of governments in the delivery of “good governance”. This change in focus created the need for ex-post monitoring and evaluation of strategic-level programme and policy interventions.

7. In reviewing the progress made in the implementation of the Brussels Programme of Action, UNCTAD undertook country² and sector specific case studies³ in several LDCs. The recent research and policy analysis work of UNCTAD on LDCs⁴ also includes tracking their progress towards the goals and targets of the Programme of Action and the Millennium Development Goals (MDGs). The country-by-country assessments and sectoral reviews as well as the research and policy analysis work of the secretariat shed further light on the development problems, challenges and opportunities in LDCs. The work of UNCTAD also reveals that assessing the impacts of interventions at the strategic level, particularly with regard to internationally adopted programmes of action such as the Programme of Action for LDCs is complex. This is due to several reasons: first, determinants of growth are complex and varied, and the particular configuration of factors which is needed to achieve a higher growth trajectory, will vary from country to country. Also, sustainability of modest economic growth is fragile due to the excessive vulnerability of LDCs to various shocks-economic or otherwise; exogenous or internal - many of which are not covered (or anticipated) in the Programme of Action. For example, according to the latest estimates by the World Bank, as many as 53 million more people in developing countries -the majority of whom are in LDCs- could be trapped in poverty as economic growth slows around the world; and between 200,000 and 400,000 more babies could die each year between now and 2015 if the crisis persists. Out of some 40 per cent of developing countries identified by the World Bank as “highly vulnerable” to the effects of the global economic crisis, over 95 per cent belong to the LDCs’ group.

8. Secondly, the nature of the Programme of Action including the scope and extent of commitments, which are often part of a ‘package’ of development policies and strategies as well as interventions made the task of monitoring and evaluation complex. This is particularly the case in recent years with the greater use of sector- wide approaches and general budget support which makes it difficult to monitor and evaluate the effect of the separate components of a programme. Linked to this is the time period for the evaluation and the scope of the assessment. Generally, the effects of an intervention (e.g. through the Programme of Action) take time to emerge, and the evaluation may need to extend well

² Case studies on: Bangladesh (UNCTAD/LDC MISC/ 2006/4), Burkina Faso (UNCTAD/LDC MISC/2006/7), Cape-Verde (UNCTAD/LDC MISC/2006/6), Ethiopia (UNCTAD/LDC MISC/2006/5), Nepal (UNCTAD/LDC MISC/2006/3) are available at <http://www.unctad.org>.

³ Synthesis of sector specific case studies is contained in publication titled “Export Competitiveness and Development in LDCs: Policies, Issues and Priorities for Least Developed Countries for Action (UNCTAD/ALDC/2008/1).

⁴ For detailed analysis and comprehensive statistical information on where the LDCs and their development partners stand, over the years, in implementing the goals and actions of the Programme of Action for LDCs, see the UNCTAD Least Developed Countries Reports series: 2002, 2004, 2006, 2007, 2008 and 2009. See also UNCTAD’s contribution to the Mid-term Review of the Programme of Action (UNCTAD/LDC/2006/3).

beyond the programme's duration. Furthermore, the impact of some of the actions and commitments (e.g. on building productive capacities) are long-term in nature and may be invisible in the short-run or during the timeframe agreed in the Programme of Action. Building effective and durable capacity in countries that have structural and interrelated development problems such as the least developed countries is complex and daunting. Hence, capacity building especially the task of institutional and human resources development in LDCs should be seen from a long-term perspective. If the evaluation is carried out during or at the end of the programme, the magnitude and range of the effects that the intervention will have, may be understated. The issue of scale may also arise in terms of the spread of the effects of the programme. The intervention can have significant indirect effects, which extend well beyond the immediate targets or objectives of the intervention. If these effects are omitted from the evaluation, the full effect will again be underestimated. This also raises problems of causality. The Programme of Action involves a set of 'Actions' by LDCs and their development partners, at national and international levels. These policy interventions are made as part of an integrative and comprehensive national strategy for pro-poor growth. It is difficult, therefore, to attribute the progress towards achieving the goal of poverty reduction and sustainable development to any single programme, or set of interventions, such as the Programme of Action. For instance, what proportion of the change in the performance indicator can be attributed to the intervention and what proportion is due to exogenous influences? Dealing with the issue of attribution includes addressing the counterfactual: what would have happened in the absence of the intervention?

9. Thirdly, the objectives and priorities of the various frameworks are often viewed as competing with, not complementing, each other. For instance, most LDCs had structural adjustment programmes in the 1980s and the 1990s, and several of these countries are now supported by a Poverty Reduction Strategy Papers (PRSPs). There is a PRSP review process and mechanism in many LDCs (such as the World Bank Roundtable discussions). There are also other frameworks and coordination mechanisms at the country level, such as the Common Country Assessment Framework (CCAF), the United Nations Development Assistance Framework (UNDAF), the Enhanced Integrated Framework for Trade-related Technical Assistance to LDCs (EIF), review of the Millennium Development Goals (MDGs), the recent Aid for Trade initiative, etc. Combined with national development policies and sectoral strategies, these have often resulted in institutional bottlenecks, in which the Programme of Action tends to receive relatively low-priority attention. In addition to well documented data limitations and statistical inadequacies in LDCs, the sheer absence of systematic and coherent methodological framework at the national level rendered the tasks of tracking, impact evaluation and monitoring of progress more complex and cumbersome.

10. Finally, monitoring and evaluation of the impact of intervention at the national and/or sectoral level is costly, requiring significant amount of financial, technical and human resources. But the benefits outweigh the cost involving such an exercise. Without undertaking national or sectoral assessment of an intervention, it is extremely difficult to discern meaningful outcomes of the substantive impacts of the Brussels Programme of Action on the ground. In the context of the Brussels Programme of Action, there are no financial resources committed or pledged to undertake the review of progress and assessment of its impact at the national (or sectoral), regional and international levels. This limits not only the scope and extent of impact evaluation but also undermines efforts to enhance the substantive (or developmental) impact of technical cooperation and capacity building projects and programmes on institutions and economies of beneficiary countries.

11. Taking the above-mentioned factual shortcomings and limitations into account, UNLDC-IV should reach consensus on the need for systematic and coherent evaluation framework. Such a framework, if and when agreed at the Conference, needs to be

sufficiently flexible for application in a range of different contexts and with varying resource constraints. It also needs to have the capacity to provide clear and timely information to decision makers on the effects and effectiveness of the programme that is being evaluated. This is key in making the findings of any assessment or monitoring and evaluation exercises of the successor Programme of Action comprehensible to non-specialist decision makers, other stakeholders and interested parties. To encourage transparency and civil society participation in the process of policy making, and in particular their willing participation in consultative processes, it is equally important for the findings from assessment to be disseminated to all those who have taken part in the reform process.

12. If progress is to be made in addressing these difficulties and complexities of monitoring and evaluation at the strategy and policy level, there needs to be a shared understanding on what constitutes a satisfactory framework for carrying out programme evaluation and monitoring exercises. There is no single or ideal tool kit that can be applied to all evaluation assessments; rather, the methodological framework will need to be 'tailor made' to the requirements of the particular assessment, and different methods will be chosen to serve different tasks within the overall methodology. It is important to identify what the future programme of action or intervention is intended to achieve since this will determine the criteria to be used in monitoring and evaluating the impacts. In most cases, there will be a hierarchy of objectives, where intermediate targets are a stepping stone to achieving final goals. An initial policy or programme intervention results in a number of activities or inputs, which result in outputs and outcomes that in turn contribute to programme goals.

13. During and beyond UNLDC-IV, it is equally important that LDCs engage in constant dialogue with their development partners and international institutions to maximize the impact of programmes and projects implemented in their favour through the successor Programme of Action. Experience so far has shown that active involvement of beneficiary countries in the design and implementation of programmes and projects is of paramount importance in ensuring successful outcomes. It is equally important that requests from LDCs for direct programme and budgetary support should be based on a critical assessment of domestic gaps and needs so that, upon completion, the relevance and impact of projects/programmes could be judged based not only on the effectiveness of their implementation but also against their concrete contributions in addressing development problems and constraints. To that end ongoing efforts aimed at enhancing ownership and absorptive capacities of LDCs should be continued.

II. Key trends in economic performance of LDCs since the adoption of the Programme of Action

A. Real GDP and real per capita GDP growth

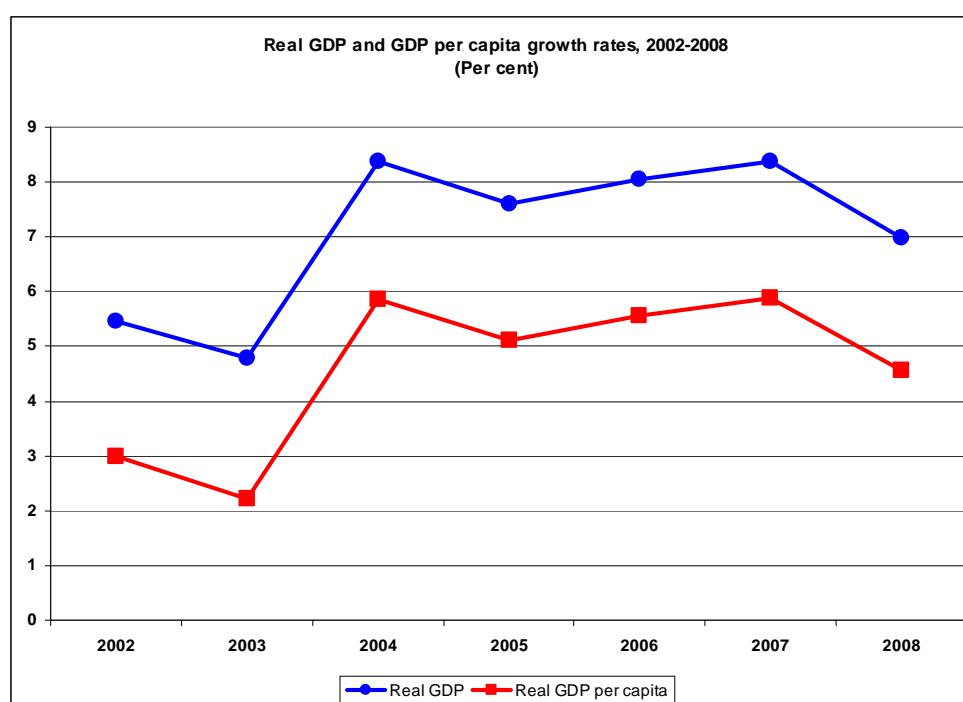
14. Despite the above-cited challenges, UNCTAD has been providing policy insights⁵ as to where the LDCs and their development partners stand, in a given time (or period), in implementing the goals and targets of the Programme of Action. The work of the secretariat indicates that the socio-economic performance of LDCs, though varied from region to region, from country to country and across sectors, has shown significant improvement since May 2001. In fact the performance of LDCs as a group remained vibrant and robust

⁵ Ibid.

until the start of the financial crisis. The average annual growth rate⁶ of LDCs as a group during 2005–2007 was nearly 8 per cent. This was about 2 percentage points higher than the 5.9 per cent per annum achieved during 2000–2004, and almost double the average annual rate of 4 per cent achieved in the 1990s. Consequently, the growth rate of the LDCs as a group during 2005–2007 surpassed the 7 per cent growth target of the Brussels Programme of Action. In fact, these growth rates were higher than the average growth rate for other developing countries during the same period. Nevertheless, due to a higher population growth rate in LDCs (2.5 per cent per annum, almost double the average rate in other developing countries), the GDP per capita growth in LDCs has continued to lag behind other developing countries. For instance, the average rate of growth of real GDP per capita for LDCs as a group during 2005–2007 was about 5.5 per cent against about 7 per cent for other developing countries during the same period⁷.

15. In 2008–2009 key economic indicators show a contraction in the performance of LDCs, particularly when compared to the 2006–2007 period. In 2008 for LDCs as a group, real GDP⁸ grew by 5.8 as compared to about 8 per cent in 2006–2007, with real GDP per capita declining from 5.6 per cent in 2007 to 4.6 per cent in 2008. This was the sharpest drop in real GDP per capita since 2003.

Figure 1
Real GDP and GDP per capita growth rate, 2002–2008



⁶ UNCTAD secretariat calculations based on UN/DESA Statistics and Population Divisions, January 2009.

⁷ Data refers to real GDP and real GDP per capita (1990 dollars) and figures for other developing countries are from the 2008 World Global Economic Prospect (GEP) of the World Bank.

⁸ Data on real GDP and real GDP per capita are UNCTAD secretariat's calculations based on UN/DESA Statistics and Population Divisions, August 2009 and refers to real GDP and real GDP per capita in (1990 dollars).

16. The economic performance of LDCs as a group masks regional, sectoral and country variations. At the regional level, in 2005–2007, the real GDP growth rate in the African LDCs exceeded that of Asian LDCs for the same period. However, the real GDP growth for African LDCs (plus Haiti) shrunk from about 8.5 per cent in 2006–2007 to 6.2 per cent in 2008, whereas in Asia and the Pacific region, it decreased from 6.9 per cent to 5.2 per cent during the same period. Consequently, for LDCs as a group, real GDP per capita grew by a mere 4.6 per cent in 2008 against 5.9 per cent in 2007. Overall, in 2008 the number of LDCs that registered a real GDP growth rate of 6 per cent and above was 14⁹ - against 21 during 2005–2007 (5 of which are oil and mineral exporters). During the same year, 16 other LDCs¹⁰ - against 17 countries during 2005–2007 (of which 5 are mineral and/or oil exporters) registered real GDP growth rate of 4–6 per cent while 9¹¹ more countries from the group grew between 3 and 4 per cent. In fact, in 2008, real GDP per capita growth was less than or equal to 1 per cent in 16 LDCs, while it actually remained below zero in 9 LDCs. This trend compares negatively with that of the 2005–2007 period, when only 2 LDCs registered negative per capita real GDP growth rate. However, these growth rates are still impressive when compared to the 2000–2004 period when only 6 out of the 46 LDCs (for which data are available) were able to meet or exceed an average annual growth rate of 7 per cent per annum.

17. At the sectoral level, although oil-importing African LDCs have continued to improve their economic performance, oil-exporting LDCs continue to be the driving forces behind their region's improved economic performance. Out of the 12 African LDCs, registering a high growth rate, 8 of them were oil or mineral exporters. Overall, during the period from 2000–2008, the highest growth rate in the LDCs as a group was evident in mining industries, the exploitation of crude oil and construction. Agriculture contributed a little over 30 per cent of GDP in 2005–2008 as compared to above 35 per cent 10 years earlier. The share of manufacturing in total value added increased only marginally from 10 per cent to 11 per cent of total GDP (the average for other developing countries is 24 per cent) over the same period-whilest the share of services declined marginally from 42 to 40 per cent.

B. International trade

18. Regarding international trade, LDCs' export structure remains concentrated on few primary commodities and low-skill labour-intensive manufactures. However, recent high rates of export growth have been key in driving their strong GDP growth performance. Consequently, international trade accounts for about 50 per cent of the GDP of LDCs as a group. In nominal terms, the value of LDCs' total merchandise exports has increased from \$83.3 billion in 2005 to \$128.5 billion in 2007¹² and to about \$172 billion in 2008. During the same period, the total merchandise import of LDCs as a group has also significantly increased, from \$ 87.9 billion in 2005 to \$101.4 billion in 2006, and to \$153 billion in 2008 (with a trade balance jumping in their favour, from a negative balance of \$4.5 billion in

⁹ Angola, Bangladesh, Bhutan, Democratic Republic of Congo, Lao People's Democratic Republic, Equatorial Guinea, Ethiopia, Liberia, Malawi, Rwanda, Solomon Islands, Timor-Leste, United Republic of Tanzania and Vanuatu.

¹⁰ Benin, Burkina Faso, Burundi, Cambodia, Djibouti, Gambia, Madagascar, Maldives, Mozambique, Myanmar, Nepal, Sao Tome and Principe, Sierra Leone, Sudan, Uganda and Zambia.

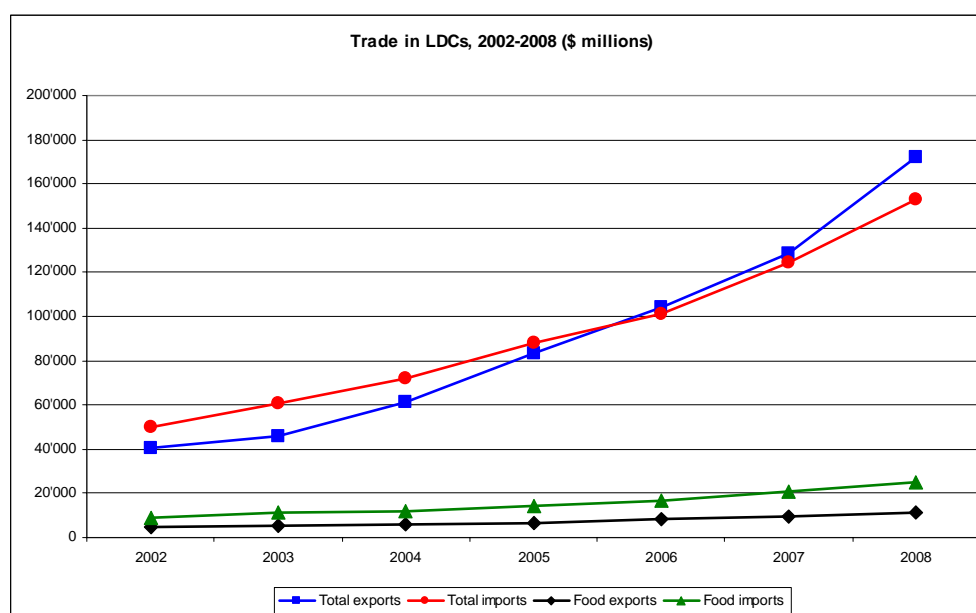
¹¹ Afghanistan, Guinea, Guinea-Bissau, Lesotho, Mali, Mauritania, Niger, Senegal and Yemen.

¹² Total imports and exports: UNCTAD secretariat estimates based on UN/DESA Statistics, COMTRADE data, January 2009.

2005 to \$19 billion in 2008. In fact, the trade balance in favour of LDCs was the highest in 2006, when it amounted to over \$27 billion. In comparison, the value of total merchandise exports achieved in 2008 was \$88.7 billion above the level in 2005 and \$131.8 billion above the value in 2002. This improved export performance was largely attributable to rising international commodity prices. With oil and mineral prices rising, exports from African LDCs (plus Haiti) increased from \$58.5 billion in 2005 to \$132.2 billion in 2008, whilst they increased from \$24.5 billion to \$38.9 billion in the Asian LDCs during the same period. Overall, despite the high rate of growth of exports of LDCs and despite the fact that trade accounts for over 50 per cent of their GDP, the share of LDCs in international trade remains marginal (at less than 1 per cent in 2006–2008).

19. As can be noted from the figure below, the 2005-2008 period was particularly remarkable for LDCs as a group, as their total merchandise exports grew from \$83.5 billion in 2005 to \$172 billion in 2008 (nearly 107 per cent increase), although, during the same period, merchandise imports also grew significantly.¹³ However, a major factor that affected the performance of LDCs in 2009 was the collapse of commodity prices. The commodity price boom that began in 2002 came to an end in early 2009¹⁴ and turned into a sharp decline during the second half of the year, reflecting the decline in global demand, largely due to global economic crises. Consequently, export earnings of LDCs as a group sharply declined (by up to 50 per cent) over the first half of 2009.¹⁵

Figure 2
International trade performance of LDCs, 2002–2008



¹³ Data on total imports and exports are UNCTAD secretariat estimates based on UN/DESA Statistics, COMTRADE data, January 2009.

¹⁴ For more details see the 2009 Trade and Development Report of UNCTAD: Responding to the global crisis, climate change mitigation and development.

¹⁵ This is based on estimates as the data for 2009 was not available when this report was prepared.

20. Another feature of international trade in LDCs is the increasing share of food imports, which nearly tripled from \$9.2 billion in 2002 to \$16.4 billion in 2006 and to \$24.8 billion in 2008. Food exports also increased, from \$4.8 billion in 2002 to \$8.1 billion in 2006 and to \$11.5 billion in 2008.¹⁶ The sharp rise in international food prices in 2006 and 2007 led to a substantial increase in food import bills for LDCs as a group.

21. The unprecedented rise in global food prices has also resulted in social, political and economic burdens for LDCs – many of which are not only net food importers but are also food insecure. The adverse impact of rising global food prices on LDCs could be seen as an emerging challenge but could also be a reflection of deep-rooted structural problems of LDCs' economies. Agricultural productivity in LDCs has been on a precipitous decline over the last several decades, while the demand for food has been on the rise, partly due to changing demographic trends in these countries. The sector was more productive 50 years ago than it is today and, in many LDCs, the annual growth of cereal production shrunk from 3–6 per cent of agricultural produce in the 1980s to just 1–2 per cent today (UNCTAD policy brief, No. 2, June 2008). The rising food prices may complicate an already precarious food security situation in LDCs. For instance, according to the International Fund for Agricultural Development (IFAD), rising international food prices have been transmitted to domestic markets in several LDCs¹⁷. This is despite the fact that many LDCs are also recipients of food aid year in and year out.

C. External financial resources flows

22. As shown in figure 3 below, in 2008, total external financial flows, (including debt forgiveness and technical assistance) to LDCs reached \$44.3 billion (at current prices), up from \$33.4 billion over the previous year. When compared to 2002 (when the amount was about \$17 billion), totally official flows actually more than doubled in 2008. Net official development assistance (ODA) flows to LDCs (excluding debt forgiveness grants and technical assistance) increased, in terms of volume, from \$32.2 billion in 2007 to \$37.6 billion in 2008,¹⁸ (although ODA distribution was uneven and there were instances where ODA actually declined for some LDCs). Similarly, FDI flows to LDCs also increased from about \$25.8 billion during the last quarter of 2008 to \$33.1 billion in 2009. FDI flows have almost quadrupled compared to the level in 2002, which was \$8.3 billion and doubled the level in 2005 (\$13.6 billion). However, much of this FDI was directed towards oil- and mineral-exporting LDCs. Only 12 oil and mineral exporting LDCs account for more than \$25.1 billion (or for about 76 per cent) of total inward FDI flows to LDCs in 2009.¹⁹

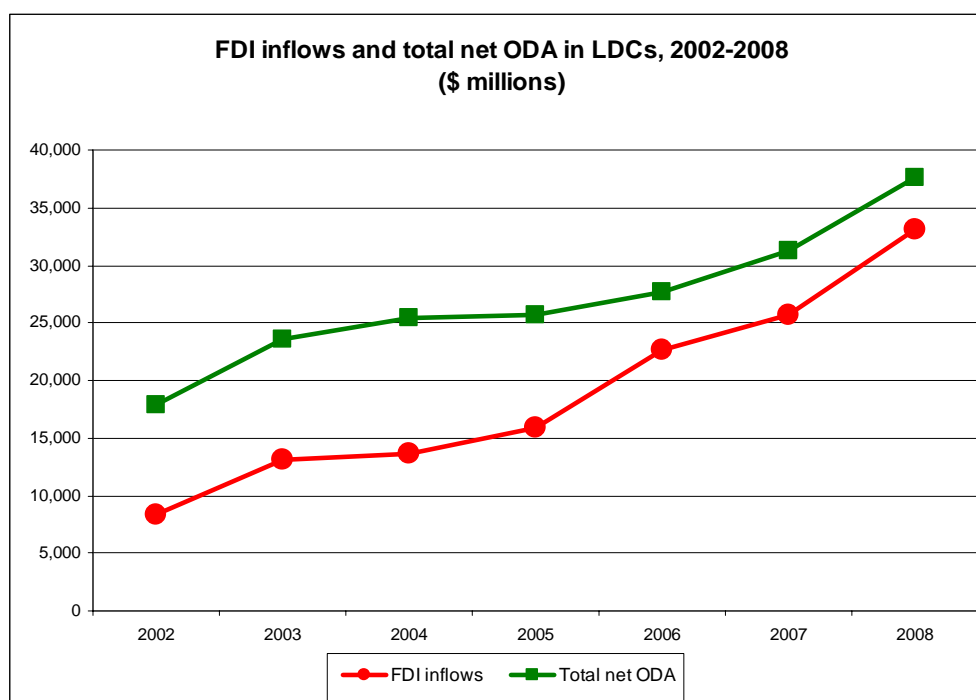
¹⁶ Data on food import is and exports are based on UNCTAD secretariat estimates based on UN/DESA Statistics, COMTRADE data January 2009.

¹⁷ For example, in Senegal, wheat prices by February 2008 were twice their level of a year earlier; this increased by almost 90 per cent in Sudan and tripled in the northern part of Somalia. The price of maize in Uganda (Kampala) was 65 per cent higher in March 2008 than in September 2007 while it was 43 per cent higher in Mozambique (Maputo). According to the FAO, in Ethiopia (Addis Ababa), wheat and maize prices also increased by 33 per cent between March 2007 and March 2008.

¹⁸ Data on external financial flows are from OECD/DAC, International Development Statistics, online data, 21 January 2010.

¹⁹ FDI data are from UNCTAD, FDI/TNC database, World Investment Report, October 2009.

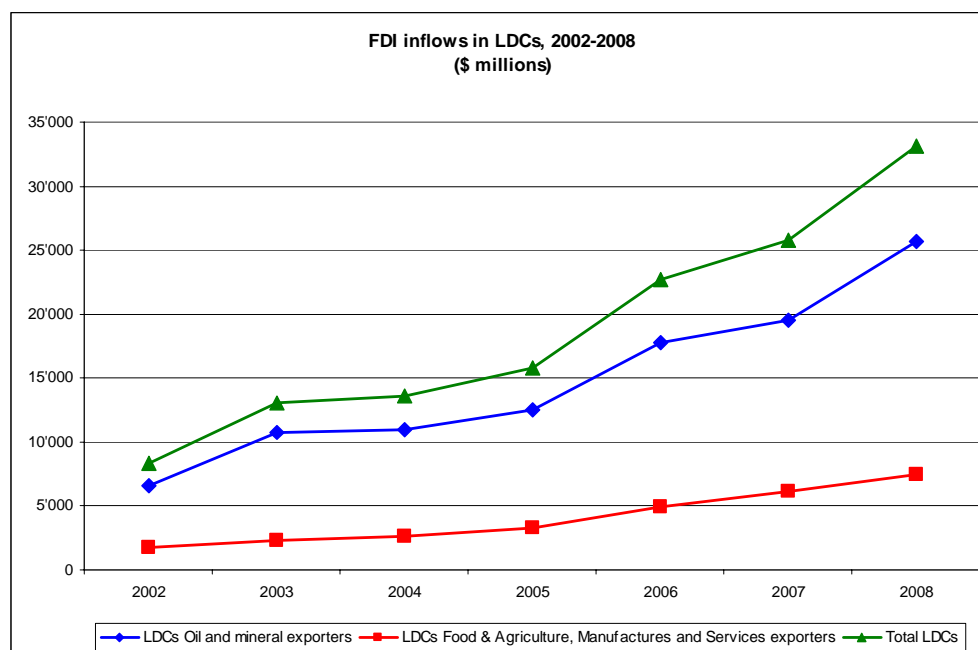
Figure 3
FDI inflows and total net ODA to LDCs, 2002-2008



Improved economic performance observed over recent years in LDCs has been accompanied by improved international support measures and sound policies at the national level. Financial flows to LDCs, notably Official Development Assistance and foreign direct investment have substantially increased and market access conditions for their exports significantly improved since the adoption of the Programme of Action. Moreover, since the adoption of the Programme of Action, there has also been significant progress in the untying of aid for these countries and in alleviating their external debt burden.

23. However, despite significant improvements in official and private capital flows to LDCs in recent years, ODA flows are largely provided in the form of debt relief and humanitarian (emergency) assistance. Moreover, despite an increase in official and private capital flows to LDCs (notably ODA and FDI), both ODA and FDI flows have continued to be concentrated geographically and/or sectorally. For instance FDI inflows to oil and mineral exporting LDCs have increased from US\$ 6.5 billion in 2002 (against US\$ 1.8 billion to food and agriculture, manufacture and services exporters) to US\$ 25.6 billion in 2008 (against only 7.4 billion to the LDCs that are food and agriculture, manufacture and services exporters. In 2008 nearly 77.5 per cent of total FDI inflows to LDCs, went to 12 oil and mineral exporting countries (see the below figure.)

Figure 4
Sectoral distribution of FDI in LDCs by export specialization, 2002-2008



D. Trends in savings and investments

24. As with economic growth, trends in investment and savings also paint a mixed picture. While overall domestic savings increased from 13 per cent of the GDP to the 21 per cent for LDCs as a group, it actually declined in half of the LDCs during 2000-2007. Over the same period, the highest domestic savings rates were found in the oil-and mineral exporting LDCs²⁰. Trends in overall resource gap reflect trends in domestic savings and paint a similar picture. For LDCs as a group, the resources gap, which indicates reliance on foreign resources, has fallen from 7 per cent of GDP in 2000-2002 to 1.6 per cent in 2006/2007. However, fifteen LDCs had negative domestic savings rates in 2007 and thus were relying on foreign savings to finance their domestic investment and consumption. Overall, LDCs are far behind the target of a 25 per cent investment to GDP ratio of the Brussels Programme of Action. This shows that external financial resources remain critical as most LDCs depend on external sources of capital to finance their development needs and, in some cases, for domestic consumption.

25. Linked to the inability of LDCs to mobilize domestic resources for development is their weak and inadequate banking sector. Despite far-reaching reforms of their financial sectors, which were pursued mainly in the context of structural adjustment programmes, the banking sector in most LDCs remains woefully underdeveloped. According to surveys by the World Bank, no less than 80 per cent of households and 80 per cent of small and medium-size enterprises in Africa never had access to banking services. Furthermore, according to the most recent data, banks in African LDCs provided only 14 per cent of their loans to agriculture, even though agriculture in these countries accounted for more than 36 per cent of total value added and employed, on average, 86 per cent of the total labour force

²⁰ Angola, Chad, Equatorial Guinea, Mauritania, Mozambique and Sudan, plus the Lao People's Democratic Republic.

(UNCTAD 2008). This institutional weakness combined with the high cost of lending, constrained the access of enterprises especially SMEs to finance in these countries. This calls for urgent action to build institutional capacities of the banking sector of LDCs in parallel with efforts to make the cost of borrowing affordable through appropriate economic policies. The spread (variation) between the lead interest rate and applied rates is relatively higher in LDCs than other developing countries: consequently, banks in LDCs are twice as profitable as elsewhere, indicating a lack of effective competition in their banking sector.

E. Market access

26. At the end of the Paris Programme of Action for the 1990s and the beginning the successor Programme of Action for the present decade, several trading partners improved market access conditions for exports originating from LDCs. For instance the Everything-But-Arms (EBA) initiative entered into effect on 5 March 2001, providing duty-free and quota-free market access to all products excluding arms. The scheme also excludes bananas, sugar and rice, for which customs duties are phased out over a transitional period and subject to tariff quotas. In May 2000, the United States promulgated the African Growth and Opportunity Act (AGOA), whereby the United States GSP scheme was amended in favor of designated sub-Saharan African countries to expand the range of products, including textiles and clothing. This was followed by the expansion of Canadian GSP scheme to allow 570 products originating in LDCs to enter its market duty-free. In January 2003, the scheme was greatly improved by expanding product coverage to all products, including textiles and clothing, and new rules of origin with some minor exclusion of selected agricultural products. Similarly, following a review of the GSP scheme of Japan, conducted in December 2000, the scheme was revised to provide duty-free treatment for an additional list of industrial products originating in LDC beneficiaries. Following a second review in April 2003, an additional list of agricultural products was added for LDCs and duty-free access was granted for all products covered by the scheme for LDCs. A latest significant change to Japanese scheme was made in 2007²¹. These and other bilateral preferential arrangements in favour of LDCs, have significantly improved market access conditions for many items of export interest to these countries. Overall, nearly 85 per cent of total developed country imports by value from LDCs were admitted preferential duty-free and quota-free during the period 2001–2007, although some LDCs' exports still face punitive tariffs in some developed country markets. Recently duty-free-quota-free coverage increased to 91 per cent of manufactured products and 93 per cent in the case of agriculture. Further efforts should be pursued to move towards the objective of duty-free and quota free market access for all LDC products and to remove market-entry barriers including non-tariff trade barriers.

27. As noted above, improved economic performance observed in LDCs since the Third United Nations Conference in May 2001 has been accompanied by improved international support measures and sound policies at the national level. An important challenge, for the coming decade, is to make the progress achieved thus far through partnership more sustainable and long-lasting so as to improve the day-to-day lives of the ordinary people in the poorest countries, especially given the current global economic crisis.

²¹ For more details on these and other market access schemes see UNCTAD/ALDC/2008/4.

F. Policy implications

28. The key constraints for LDCs - as identified by UNCTAD's research and policy analysis work - remain their weak productive capacities. This has been reconfirmed, including through national case studies and sector specific analysis contained in document UNCTAD/ALDC/2009/2. Building productive capacities requires effective policy actions at the national, regional and global levels.

29. The implications of the findings from the studies for UNLDC-IV are that:

(a) There are sectors where national and international efforts, if properly targeted, could contribute to poverty reduction in LDCs. For instance, case studies confirm that the horticulture sector offers employment opportunities improving household incomes with a direct positive impact on poverty reduction in many of the countries covered by the case studies;

(b) While diversification into value addition and manufacture is important for the long-term sustainability of economic growth and development in LDCs, horizontal diversification is essential for the growth and development prospects of many of the poorest countries of the world. Several LDCs could join successful exporters provided that they put in place effective development policies and strategies coupled with targeted and well structured incentive schemes;

(c) Targeting investment, including resources from ODA, FDI and private sources to sectors of strategic interest to LDCs can have a direct impact on socio-economic development of LDCs.

30. The case studies also confirm the fact that, given the high technological and information requirements for participation in increasingly sophisticated global commodity chains (notably horticulture), foreign involvement is essential for LDC success in exporting. Transfer of technology, financing, and market connections can be provided through foreign direct investment (FDI), donor assistance, or both, thereby overcoming local market failures in finance and information. In the successful African exporters, notably Kenya, Ghana, and recently Ethiopia, foreign investment has played a pivotal role in establishing and developing a domestic horticulture industry. Multinational companies such as Dole and Compagnie Fruitière have the experience and capacities, as well as the incentive, to help develop domestic African supply capabilities, including through training and assistance in satisfying GlobalGAP requirements.

31. Moreover, large investors find that it is their interest to promote development through investment in local communities in the form of infrastructure and social services. The most important conclusion, therefore, is that countries should create conditions that are favorable to attracting FDI from the leading global horticulture multinationals. v) For LDCs, particularly those countries emerging from severe political and social conflicts, attracting FDI is difficult. Donors including international financial institutions such as the World Bank can provide an initial injection of capital and know-how, and have played a crucial role in jump-starting export horticulture in some countries, for example through research on adapting crops to local climate conditions and in constructing refrigerated storage depots. Donor assistance is less dependable than foreign investment, however, given the short-term focus of donors and their limited resources, and the sustainability of industries created with donor support is uncertain. Donors should also consider that smallholders are increasingly vulnerable to various shocks and may not be always viable economically in the long-run. For instance, the ever-rising standards of global horticulture chains have adverse impacts on the production and export of horticulture by small land holders. Donors should therefore focus their support on public goods such as investments in transportation systems and storage depots that will assist all producers, regardless of size.

32. Supportive government policies that foster a favorable investment climate are a necessary condition for FDI and donor involvement. This includes provision of basic services, avoidance of excessive intervention, and transparent and well-functioning investment incentives. In addition, recent developments in countries such as Kenya, Cote D'Ivoire and Zimbabwe have reinforced the fundamental importance of effective governance so as to avoid social conflicts. Beyond these basics, the precise role of government can vary, depending on local circumstances and capabilities. In Senegal, the horticulture industry has developed thanks in part to the absence of the kind of intrusive government intervention that has adversely affected Senegalese industries in the past. Ethiopia's experience in boosting floriculture, however, suggests that active government promotion efforts, including subsidies to foreign investors, can be successful, if well designed and implemented. As in the case of donor-supported industries in countries such as Uganda, the sustainability of Ethiopia's subsidized floriculture industry remains to be seen. Ethiopia's experience should be closely monitored to draw lessons for other countries. LDC governments and donors must also work together to foster effective support organizations for producers that promote the interests of the horticulture sector and act as a coordinating group in matters of mutual interest, particularly in the area of upgrading standards. GlobalGAP allows for the creation of national GAP systems adapted to local conditions as a way of obtaining certification, but progress has been slow in establishing local GAP systems.

33. Further policy lessons that successor programme of action should take into account relate to overdependence of LDC economies on primary commodities. The recent expansion of exports and economic growth in LDCs has not been accompanied by an increase in value-addition. In other words, there is a lack of economy-wide improvement in terms of productivity, value-added by domestic producers and long-term structural change in LDCs. The increase in export earnings of these countries is simply the result of improvements in world commodity prices and growth in traditional and non-traditional commodity exports. While such an improvement is cause for optimism, there is concern that this has not been accompanied by structural transformation, thereby, implying a high degree of vulnerability to shocks and crises. Therefore, in order for LDCs to take advantage of globalization, while minimizing its risks, they should diversify their economic base through developing their productive capacities into production of higher value - added goods and services leading to a fundamental socio-economic transformation. Overall, gains from decades of liberalization policies and strategies have fallen short of expectations.

34. For the last several decades, most LDCs have been pursuing wide-ranging economic reform and adjustment programmes aimed at trade liberalization. These policies and measures were unable to generate the form and quality of growth that reverses their continued marginalization. However, this does not mean that protectionism is the best option for these countries. In fact, they should avoid any attempt or temptation to resort to protectionist policies. They should, instead, design their home-grown and endogenous development policies and strategies based on their specific socio-economic circumstances, resources base, institutional capability and overall local conditions.

35. Moreover, environmental degradation, climate change and disruptive weather patterns cause drought, famine, desertification, cyclones, floods, etc. The confluence of these natural disasters undermines socio-economic progress in LDCs which inherently lack the institutional and financial capacities to adapt to and mitigate the effects of adverse natural consequences. Experience shows that natural crises hurt poor countries and poor people the most and diminish their chances of escaping the poverty trap. The adverse impact of climate change may also result in millions of environmental refugees from LDCs. The destruction of Haiti by the 12 January earthquake is a further illustration of inherent vulnerability of LDCs to natural shocks and disasters as well as their inability to mitigate the devastating consequences of such shocks. The case of Haiti is also a wake up call for

LDCs and their development partners to build economic and institutional resilience. The international community should be further mobilized to assist the rehabilitation, recovery and reconstruction efforts in Haiti.