United Nations TD/B/56/2

United Nations Conference on Trade and Development

Distr.: General
3 July 2009

Original: English

Trade and Development Board
Fifty-sixth session
Geneva, 14–25 September 2009
Item 4 (b) of the provisional agenda
UNCTAD-wide activities in implementation of the Programme of Action for the Least Developed Countries for the Decade 2001– 2010: eighth progress report

UNCTAD-wide activities in implementation of the Programme of Action for the Least Developed Countries (LDCs) for the decade 2001–2010: eighth progress report

Report by the UNCTAD secretariat

Executive summary

The Programme of Action for the Least Developed Countries (LDCs) contains multiple sets of actions and commitments – encompassing social, economic, political and environmental issues of interest to LDCs – for implementation at the national, regional and global levels. The objective and results-oriented assessment of progress and impact evaluation of such complex, multivariate, multi-sectoral interventions require, among other things, a methodological framework. In addition to well-documented data limitations and statistical inadequacies in LDCs, the absence of a methodological framework rendered the tasks of tracking, impact evaluation and progress monitoring more complex and cumbersome. 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 time frame agreed in the Programme of Action (PoA).

Despite these and related limitations, the Trade and Development Board has been consistently reviewing progress in the implementation of the PoA in areas within the UNCTAD mandates. The Board conducts its annual reviews pursuant to paragraph 97 of the PoA and in accordance with its subsequent decisions, contained in agreed conclusions 476(L) of 17 October 2003. The present report is prepared to assist the Board in its consideration of item 4b on its provisional agenda. It provides a brief assessment of recent trends towards key goals and actions together with the UNCTAD contribution to the implementation of the PoA.

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I. Background

1. The Programme of Action (PoA) for LDCs for the decade 2001–2010[1] invites "the organizations of the UN system and their executive bodies, within their respective mandates, to undertake the appraisal of the PoA at regular intervals and make available the outcomes of such appraisals to the annual global reviews" (paragraph 97 of the PoA). Consequently and as per its subsequent decision,[2] the Trade and Development Board (TDB) has been consistently reviewing progress in the implementation of the actions and commitments of the PoA that are within the UNCTAD mandate since 2001. The Board's reviews and assessments were based on the research and policy analysis work of UNCTAD on LDCs,[3] the outcome of which also feeds into other mandated reviews of the United Nations Economic and Social Council and the United Nations General Assembly. Therefore, the present report is prepared to assist the Board in its consideration of item 4b on its provisional agenda. The report provides a brief assessment of recent trends towards selected goals and targets together with the contribution of UNCTAD to the implementation of the PoA. It also includes policy conclusions, lessons learned and, to the extent possible, best practices drawn from the implementation of the Programme of Action.

II. Progress towards key goals and targets of the Programme of Action

2. The comprehensive evaluation of the substantive impacts of the PoA on socio-economic conditions and prospects of LDCs could be daunting for several reasons: first, the PoA contains multiple sets of actions and commitments for implementation at the national, regional and global levels. The actions and commitments of the PoA also address social, economic, political and environmental issues of interest to LDCs. Efforts to undertake assessment and impact evaluation exercises of such complex interventions require a methodological framework based on objective criteria. In addition to well-documented data limitations and statistical inadequacies in LDCs, the lack of such a methodological framework made the tasks of tracking progress, impact evaluation and monitoring of implementation of the PoA complex and burdensome. Secondly, 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 time frame agreed in the PoA. A third challenge is the difficulty to clearly establish the link between the initial intervention and the subsequent outcomes that can be attributed to the particular intervention: what proportion of the change in the performance indicator (or outcome) can be attributed to the intervention through the PoA and what proportion is due to exogenous influences? Or, what would have happened in LDCs in the absence of the PoA? A fourth challenge arises from

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1 A/CONF.191/11.

2 The Trade and Development Board in its agreed conclusions 476(L) of 17 October 2003 "urges the secretariat to continue to report to the Board at its regular sessions on UNCTAD's activities in favour of LDCs including on activities related to the Integrated Framework for Trade-Related Technical Assistance for least developed countries".

3 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 Report* series: 2002, 2004, 2006, 2007 and 2008. See also the UNCTAD contribution to the Mid-term Review of the PoA (UNCTAD/LDC/2006/3) and the sectoral assessment and review of export potential and competitiveness of LDCs (UNCTAD/ALDC/2008/1).

the nature of the commitments or actions of the PoA and the diversity of local conditions (heterogeneity) of LDCs: similar actions or commitments may give different results when implemented under different circumstances in different countries, misleading the interpretation of the results of the impact assessment. Finally, definitions used for the collection and measurement of a given data may diverge from the ideal definition required for assessment purposes. Some data may be unavailable from secondary sources or may be difficult to collect from primary sources. Different sources of data relating to the same indicator may be incompatible or difficult to use in combination, which in turn could create additional problems of comparability of performance indicators.

3. Notwithstanding the above challenges, UNCTAD has been providing policy insights[4] as to where the LDCs and their development partners stand in a given time (or period) in implementing the goals and targets of the PoA. The secretariat's work indicates that the recent socio-economic performance of LDCs, though varied from region to region, from country to country and across sectors, has shown significant improvement. The average annual growth rate[5] 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 period.[6]

4. However, such an impressive 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 year. At the sectoral level, although oil importing African LDCs have continued to improve their economic performance, oil exporting LDCs are still the driving force behind their region's improved economic performance. Out of the 12 African LDCs registering a high growth rate, eight of them were oil or mineral exporters. Overall, during the period 2000–2007, the highest growth rate in the LDCs as a group was evident in mining industries, the exploitation of crude oil and construction. Agriculture contributed about 33 per cent of the GDP in 2005–2007 as compared to 36 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, whilst the share of services declined marginally from 42 to 40 per cent. At the country level, a closer examination of growth performance on a country-by-country basis shows significant variations among the LDCs. In 2005–2007, real GDP grew on average by more than 6 per cent in 21[7] LDCs, between 3 and 6 per cent in 17[8] LDCs and by less than 3 per cent in 11[9]

4 Ibid.

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

6 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* of the World Bank.

7 Afghanistan, Angola, Bangladesh, Bhutan, Burkina Faso, Cambodia, Democratic Republic of the Congo, Ethiopia, Lao People's Democratic Republic, Liberia, Madagascar, Malawi, Maldives, Mozambique, Myanmar, Sierra Leone, Solomon Islands, Sudan, Timor-Leste, Uganda and the United Republic of Tanzania.

LDCs (even declining in two LDCs). These growth rates are impressive when compared to the 2000-2004 period when only six 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. It is important to note that despite the record level of overall GDP growth performance, during 2005–2007 GDP per capita grew by less than 0.5 per cent for LDCs as a group, declined in 17 LDCs (almost one third of the sample) and remained stagnant in nine others.

5. Regarding international trade, LDCs' export structure remains concentrated on a 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 increased from $83.3 billion in 2005 to $128.5 billion in 2007.[10] The total merchandise imports of LDCs as a group increased from $87.9 billion in 2005 to $101.4 billion in 2006, shifting the trade balance for 2006 to positive territory by over $27 billion. In comparison, the value of total merchandise exports achieved in 2007 was $45.2 billion above the level in 2005 and $72 billion above the value in 2004. 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 $95 billion in 2007, whilst they increased from $24.5 billion to $32.9 billion in the Asian LDCs during the same period. Overall, despite the high rate of growth of exports of LDCs and the fact that trade accounts for over 50 per cent of their GDP, the share of LDCs in international trade remains marginal (at about 0.8 per cent in 2006–2007).

6. The 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 (ODA) and foreign direct investment (FDI) have substantially increased and market access conditions for their exports have significantly improved since the adoption of the PoA. Moreover, despite an increase in official and private capital flows to LDCs (notably ODA and FDI), both ODA and FDI flows continued to concentrate geographically and/or sectorally. For instance, while ODA flows to LDCs are not oriented towards building their productive capacities, in 2006/2007, nearly 50 per cent of FDI inflows went to extractive industries (with a dominant share going to oil exporting countries). Total ODA flows to LDCs (excluding debt forgiveness grants and technical assistance) increased from $25.8 billion in 2005 to $28.2 billion in 2006 and to $32.5 billion in 2007.[11] Similarly, FDI flows to LDCs increased from $7.1 billion in 2005 to $12.7 billion in 2006 and to $13.2 billion in 2007.[12] Since the adoption of the Programme of Action, there has also been significant progress in untying aid for these countries and alleviating their external debt burden. However, despite significant improvements in official and private capital flows to LDCs in recent years, in addition to their sectoral bias, ODA flows are also largely dominated (or provided) in the form of debt relief and humanitarian (emergency) assistance.

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8 Benin, Burundi, Cape Verde, Central African Republic, Djibouti, Gambia, Guinea-Bissau, Lesotho, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Solomon Islands, Vanuatu, Yemen and Zambia.

9 Chad, Comoros, Eritrea, Guinea, Kiribati, Mali, Mauritania, Nepal, Somalia, Togo and Tuvalu.

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

11 Data on ODA is from OECD/DAC, International Development Statistics, online data, 17 February 2009.

12 Data on FDI is from UNCTAD, FDI/TNC database, October 2008.

7. With regard to market access, initiatives such as "Every Thing But Arms (EBA)" of the European Union, the "Africa Growth and Opportunity Act (AGOA)" of the United States of America and other bilateral preferential arrangements in favour of LDCs have significantly improved market access conditions for many items of export interest to these countries. 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. An important challenge for the coming years is to make the progress achieved thus far through partnership more sustainable and longer-lasting so as to improve the daily lives of the ordinary people in the poorest countries, especially given the current global economic crisis.

8. As with the 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 21 per cent for LDCs as a group, it actually declined in half the LDCs during 2000–2007. Over the same period, the highest domestic savings rates were found in the oil and mineral exporting LDCs.[13] Trends in overall resources gaps 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 2006 and thus were relying on foreign savings to finance their domestic investment and consumption. Overall, LDCs are far behind the target of 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, their domestic consumption.

9. 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 extremely markedly underdeveloped. According to surveys by the World Bank, no less than 80 per cent of households and 80 per cent of small and medium-sized enterprises (SMEs) in Africa have 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.[14] This institutional weakness combined with the high cost of lending encumbered the access of enterprises, especially SMEs, to finance in these countries. This calls for urgent action to build the institutional capacities of the LDCs' banking sector 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 in other developing countries; consequently, banks in LDCs are twice as profitable as elsewhere, indicating a lack of effective competition in their banking sector. This is particularly the case with countries that hold a relatively higher proportion of non-performing loans. For example, in 2003–2007 the share of non-performing loans in total loans was 13.3 per cent in sub-Saharan Africa (excluding South Africa) against 8.6 per cent in other developing countries (9.9 per cent in Asia and 5.1 per cent in Latin America). During the same period, the return on assets in African LDCs was 3.1 per cent against 2 per cent in other developing economies.[15]

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[13] Angola, Chad, Equatorial Guinea, Mauritania, Mozambique and Sudan, plus Lao People's Democratic Republic.

[14] *UNCTAD Trade and Development Report 2008.*

[15] Ibid.: 112.

III. Existing and newly emerging challenges

A. Existing challenges

10. The nature, magnitude and extent of poverty remain the biggest challenge for LDCs and for their development partners. Despite impressive and, at times, robust economic growth, the challenge of poverty reduction in these countries is immense. The UNCTAD assessment of progress towards poverty reduction goals consistently indicates that overall socio-economic progress towards the goals of the Programme of Action is mixed so far. Some countries made significant progress in some areas while they lag behind in others. Even in those countries where evidence suggests economic progress, this has not always resulted in poverty reduction and improved human well-being. For instance, in Bangladesh, during 2001–2007, there was a reduction in absolute poverty, particularly in urban areas, although poverty in rural areas continued to rise. Over the same period, there was significant growth performance, in excess of 5 per cent. Therefore, in the case of Bangladesh, there was and still is at least a positive correlation between poverty reduction and growth. In many other countries in Asia and Africa, we find no improvement in poverty reduction and, in some years, this was closely associated or correlated with negative growth performance, particularly from 2000 to 2005. This shows that, in the case of LDCs, it is extremely difficult, if not impossible, to clearly establish a causal relationship between economic growth and poverty reduction. This is because internationally comparable data to identify and analyse poverty trends in these countries continues to be inadequate. Against that background, the work undertaken by UNCTAD under various projects/programmes and through the *Least Developed Countries Report* series reveals that there is some evidence of casual correlation, suggesting that poverty reduction is linked to sound, inclusive and broad-based economic growth. The *UNCTAD Least Developed Countries 2008 Report* argued that “within the LDCs where GDP per capita increased and poverty fell, most were unable to raise the rate of poverty reduction above 2 per cent a year”. At this rate, the report asserts, “it will take 34 years to halve the poverty rate [in LDCs]”.

11. The second set of challenges facing the least developed countries relates to the lack of durability or sustainability of the economic growth achieved over the recent years. Their overdependence on few primary commodities for their export earnings is also part of the problem of their economic vulnerability and instability. Consequently, their economies remain fragile due to the excessive vulnerability of these countries to various shocks – economic or otherwise, exogenous or internal. For instance, the recent improvements in economic growth and expansion of exports of these countries have 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 their economies. The increase in export earnings of these countries is simply the result of improvements in world commodity prices and growth in traditional exports such as oil, copper, coffee, cocoa and groundnuts. Tourism and travel-related services have also contributed to the recent upsurge in export earnings of LDCs. While such improvement is cause for an optimistic outlook, there is a concern that this has not been accompanied by structural transformation in their economies, implying a high degree of vulnerability to shocks and crises. Thus, in order for LDCs to take advantage of globalization, while minimizing its risks, they need to diversify their economic base by developing their productive capacities into the production of higher value added goods and services, thereby leading to fundamental socio-economic transformation.

12. The third and perhaps the most daunting challenge facing LDCs and their development partners relates to their weak productive and supply capacities. UNCTAD has been advocating, for several years now, a paradigm shift in designing development policies

and strategies in the least developed countries, focussing more on building productive capacities. This calls for a better balance in the allocation of public resources including from ODA to productive sectors and social sectors. It also requires proactive policies to induce and coordinate investment to increase value added and to ensure that the development of productive capacities occurs in a way that generates employment opportunities. In addition to weak productive capacities, LDCs also lack the institutional capacity to design and implement development policies and strategies. This in turn undermines country ownership of development policies and strategies in LDCs and their effectiveness in attaining poverty reduction objectives, targets and goals.

13. Furthermore, higher population growth (at an average rate of 2.5 per cent for LDCs as a group), environmental degradation and vulnerability to climate changes, declining productivity of the agricultural sector, de-industrialization, unemployment, internal conflicts and political instability, malaria and other infectious diseases, lack of policy space and overdependence on external sources of development finance for investment and, in some cases, for consumption, are among the outstanding challenges that have compounded the growth and development constraints in LDCs and reinforced their vulnerability.

B. Emerging challenges

14. The recent unprecedented rise in global food prices resulted in social, political and economic burdens for LDCs – many of which are not only net food importers but are also food insecure. The rise in global food prices could be seen as an emerging challenge but could also be a reflection of the 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.[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, from $5.9 billion in 1994 to $8.1 billion in 2006.[17] 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 LDCs.[18] This is despite the fact that many LDCs are also recipients of food aid year in and year out.

15. The current global economic meltdown also poses new and emerging challenges for least developed countries. It is too early to have the full picture of the adverse impact of the current economic recession in major economies of the world and the impact of the resulting global economic slowdown on LDCs. However, due to the inability of LDCs’ economies to withstand and insulate themselves from major economic crises – such as one of the present magnitude – the repercussions of the current global economic crisis on LDCs could be wide and significant. According to the latest estimates by the World Bank, as many as 53 million

16 *UNCTAD Policy Brief*, no. 2, June 2008.

17 Data on food import is based on UNCTAD secretariat estimates based on UN/DESA Statistics, COMTRADE data January 2009.

18 For example, in Senegal wheat prices by February 2008 were twice the level of the previous year; they 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 Food and Agriculture Organization, in Ethiopia (Addis Ababa), wheat and maize prices also increased by 33 per cent between March 2007 and March 2008.

more people in developing countries – the majority of which are in LDCs[19] – 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 2009 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 are LDCs.

16. Furthermore, in the short to medium term, flows of external resources to LDCs, notably ODA flows, might decline considerably as donor countries could be forced to adopt "tightened belt" policies as a response to a growing economic meltdown. Secondly, remittances from LDC nationals abroad may be reduced significantly as employment opportunities in remittance-sending countries suffer and labour markets go through fundamental (or structural) changes. Remittances that account for a significant amount of resource flows to some LDCs such as Bangladesh, Ethiopia and many others could decelerate as the result of the economic downturn in migrant-receiving countries. The World Bank predicts that the outlook for remittance flows during 2009–2011 will be bleak as such flows are expected to fall by 5 to 8 per cent in 2009 alone (World Bank: brief 9, March 2009).Thirdly, the confluence of the current multiple crises (financial, high food and energy prices) may dampen global demand for LDCs' exports. Finally, as the global economic crisis deepens, competition among countries for attracting scarce capital may be intensified and countries that have the best overall investment climates may force FDI flows to stagnate, divert or shift away from LDCs. For instance, preliminary studies by the African Development Bank[20] indicate that the collapse of commodity prices resulting from the global economic crisis forced a number of international mining companies to close or terminate their operations, and, consequently, an estimated 350,000 jobs were lost in just the Katanga province of the Democratic Republic of the Congo in 2008/2009.

IV. The UNCTAD contribution to the implementation of the PoA

17. UNCTAD has been contributing to the implementation of the actions and commitments of the PoA that are within its mandates and competence. Through research and policy analysis work, including in the context of the *Least Developed Countries Report* series, the secretariat has been consistently providing periodic assessment of progress towards the goals of the PoA and the Millennium Development Goals (MDGs). The main purpose of the research and policy analysis work of the secretariat is to identify pressing development challenges facing these countries and to recommend policy actions to effectively address them at the national, regional and global levels. The analytical work also contributes to consensus building between LDCs and their development partners on the right policy approaches (or mix) required to address LDCs' development problems.

18. The secretariat has also been making further efforts to reach out to policy makers and practitioners, civil society actors, academic and research institutions in LDCs by disseminating its research and policy analysis work in the relevant countries and regions. For instance, a workshop for LDCs in the Asia-Pacific region was organized in Phnom Penh on 28–30 October 2008. The workshop brought together senior policy advisors, academics and practitioners from Afghanistan, Bangladesh, Bhutan, Cambodia, Lao People's Democratic Republic, Maldives, Myanmar and Nepal. They deliberated on the findings, policy conclusions and recommendations of the *Least Developed Countries*

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19 For more details on this, see the 2009 Policy Note of the World Bank entitled *The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens.*

20 See the World Bank's update on the impact of the financial crisis on African economies, 11 March 2009.

Report series. This workshop followed two similar workshops: one held in Dakar in February 2008 (for West and Central African LDCs and Haiti) and another one in Addis Ababa in February 2007 (for East and Southern African LDCs).

19. On international trade and related issues, the objectives of UNCTAD activities in favour of LDCs are to: (a) strengthen their institutional, policy-making and human resource capacities; (b) enhance their ability to formulate and implement trade policies/strategies; and (c) contribute to efforts to promote their overall development objectives. These include assisting LDCs in their participation in trade negotiations, especially in the Doha Round negotiations on modalities for agriculture and non-agricultural market access (NAMA), trade in services, trade facilitation, World Trade Organization (WTO) rules, trade-related aspects of intellectual property rights (TRIPS) and development issues such as aid for trade. Further assistance of the secretariat to LDCs in these areas focuses on issues such as market access, particularly in the areas of preference erosion and duty-free and quota-free market access in favour of these countries, and on competition advocacy as well as the implementation of competition policies. UNCTAD also continued to provide support to LDCs on accession to the WTO and regional trade negotiations among developing countries, as well as on negotiations between African, Caribbean and Pacific (ACP) countries and the European Union on Economic Partnership Agreements (EPAs).

20. The Integrated Framework for Trade-Related Technical Assistance to LDCs is another area of focus for UNCTAD and partner agencies in their support of LDCs. Currently, 45 countries are participating in the integrated framework[21] where Diagnostic Trade Integration Studies (DTIS) and validation workshops have been completed for 30 countries,[22] while 13 are at different stages of the DTIS process.[23] Two further LDCs are undergoing technical review, pending admission.[24] UNCTAD continued to participate actively in the DTIS process, either by providing substantive comments before the completion of the DTIS or by participating in the main DTIS missions. UNCTAD provided support from the preliminary stages of the integrated framework process through the project implementation stage. These activities comprised pre-DTIS workshops, advisory missions and participation in integrated framework meetings such as the DTIS validation workshops (e.g. in Angola, Burkina Faso, Lao People's Democratic Republic and Vanuatu).

21. With regard to international investment and related issues, the secretariat has been implementing various projects including Investment Policy Reviews (IPRs) and training workshops in many LDCs. The objectives of the various projects include: (a) enhancing the capacity of national investment agencies in areas such as the compilation, dissemination and analysis of data on FDI and operations of transnational corporations (TNCs); (b) improving institutional capacities for assessing the importance of FDI in beneficiary countries' economies; (c) addressing issues such as Good Governance in Investment

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21 Afghanistan, Angola, Benin, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Djibouti, Democratic Republic of the Congo, Ethiopia, Gambia, Guinea, Guinea-Bissau, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

22 Angola, Benin, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Djibouti, Ethiopia, Gambia, Guinea, Lao People's Democratic Republic, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Nepal, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

23 Afghanistan, Cape Verde, Democratic Republic of the Congo, Guinea-Bissau, Kiribati, Liberia, Samoa, Solomon Islands, Sudan, Timor-Leste, Togo and Tuvalu.

24 Equatorial Guinea and Haiti.

Promotion (GGIP), investment targeting and facilitation; (d) contributing to improve domestic investment framework though Investment Policy Reviews;[25] (e) building the capacities of small and medium-sized enterprises (SMEs) though the Business Linkage programme and the Entrepreneurship Development Programme (EMPRETEC); and (f) building the institutional and human resources capacities of LDCs in international investment agreements (IAA).[26] At the national level, a training workshop on investor targeting was organized in Ethiopia on 24–26 September 2008 for 22 participants from regional investment promotion offices. Furthermore, a two-week study tour to Malaysia (18–29 August 2008) and a one-week tour to the Netherlands (2–8 November 2008) were organized for officials from the Ethiopian Investment Agency.

22. LDCs also continued to benefit from the work of the secretariat on technology, knowledge sharing and trade logistics as well as from various institutional capacity-building programmes. These include efficient port management, transport and customs modernization (through the Automated System for Customs Data (ASYCUDA) programme); Science, Technology and Innovation Policy (STIP) reviews**;** capacity-building projects in trade and transport facilitation for landlocked and transit developing countries; information and communication technologies (ICTs)[27] including e-commerce and e-tourism; TrainForTrade; and the Virtual Institute.

23. In 2008, on ICT and related issues, support was provided to four LDC governments from the East African Community (Burundi, Rwanda, Uganda and the United Republic of Tanzania) in harmonizing their cyberlaws. In Asia, Cambodia and Lao People’s Democratic Republic also benefited from similar activities. In science and technology, Angola’s Science, Technology and Innovation Policy (STIP) review was completed in 2008, while for two more LDCs (Lesotho and Mauritania) the STIP reviews (focusing on knowledge-based and technology-driven sustainable development) are in the process of being finalized. Furthermore, universities in several LDCs (Mozambique, Senegal, Uganda and the United Republic of Tanzania) continued to benefit from training programmes provided though the UNCTAD Virtual Institute. In November 2008, a regional professional development workshop on the economic and legal aspects of investment was organized in Kampala, with the participation of 24 academics from 10 English-speaking African countries, including LDCs. The TrainForTrade programme is another important area of work from which LDCs such as Guinea[28] benefited in 2008. Madagascar, Mali, Mauritania and Senegal benefited from workshops on “Sustainable Tourism for Development” organized through the TrainForTrade programme. Through this programme, UNCTAD also continued to implement training on “Modern Port Management” for Benin (Cotonou), Guinea

25 New Investment Policy Reviews (IPRs) are being finalized for Burkina Faso, Burundi and Sierra Leone, bringing the total number of LDCs benefiting from the review to 13.

26 In 2008, several LDCs (Angola, Ethiopia, Guinea-Bissau, Lesotho, Mozambique, Rwanda, Sao Tome and Principe, Sudan, Uganda and the United Republic of Tanzania) benefited from various training workshops on International Investment Agreements and related activities of the secretariat.

27 For instance, in 2008, Bangladesh, Lao People’s Democratic Republic, Senegal, Sierra Leone and the United Republic of Tanzania participated in an expert group meeting on ICT and a global event on measuring the information society. UNCTAD also delivered a training course on the production of information statistics for participants from countries including Bangladesh, Bhutan, Cambodia, Lao People’s Democratic Republic and Nepal. The course was hosted by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and took place in the Republic of Korea on 18–22 February 2008.

28 A joint UNCTAD/International Trade Centre project on the “Strengthening of Guinean capacities in the field of international trade through training, support to intermediate institutions and direct assistance to food-processing units and enterprises” was launched in 2008. This two-year project aims to promote the integration of Guinea in international trade through capacity development and training.

(Conakry), Senegal (Dakar) and Togo (Lomé). Moreover, two "train the trainer" courses were organized for port operators of the French-speaking network – one in Marseille, France (from 18 February to 7 March 2008) and another one in Cotonou, Benin (from 19 to 30 May 2008). Twenty participants from eight African countries (including Benin, Guinea, Madagascar, Mauritania, Senegal and Togo) participated in the course offered in Marseille and five African countries, including four LDCs (Benin, Guinea, Senegal and Togo) took part in the one organized in Cotonou.

24. Another area of UNCTAD contribution is the Debt Management and Financial Analysis (DMFAS) programme to assist LDCs in effective debt management techniques. Support in this area includes the development, installation and maintenance of specialized software to meet operational, statistical and analytical needs of beneficiary countries. The programme also contributes to institutional and human resources capacity-building efforts through training and advisory services, debt data validation and basic debt analysis. In 2008, the number of institutions benefiting from the system in 22 LDCs reached 29,[29] with Cambodia becoming the latest beneficiary of the system that year. Two new installations in the respective ministries of finance of Haiti and Guinea-Bissau are planned for 2009 while negotiations are ongoing with two more LDCs (Cape Verde and Comoros).

25. The secretariat continued to provide technical support to small island developing states (SIDS), including though its work on vulnerability profiles of LDCs that were meeting graduation thresholds. The profiles, initiated at the request of the Committee on Development Policy (CDP), are of paramount importance to cast further light on the structural problems faced by these economies in order to enable the CDP to soundly respond to the question of graduation (most of the graduation cases are SIDS). The vulnerability profile for four graduation cases (Equatorial Guinea, Kiribati, Tuvalu and Vanuatu) together with the assessment of their structural progress towards graduation was prepared by the secretariat in 2008. The profile is a technical input to the work of the CDP on issues related to graduation and "smooth transition".

26. On landlocked countries, as part of the mid-term review of the Almaty Programme of Action for landlocked developing countries (LLDCs), UNCTAD, in collaboration with the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and the Small Island Developing States (UN-OHRLLS) and the World Bank organized a high-level investment forum on 1 October 2008 in New York. The objective of the forum was to bring together policy makers and private sector practitioners from LLDCs as well as current and potential international investors to analyse current trends in FDI flows to LLDCs, exchange experiences and best practices and explore future opportunities for FDI to these countries. The discussions showed that improved transport infrastructure and transit modalities, stronger regional integration and economic specialization in the production of tradables that are less affected by transport costs and distance are key elements of policies that help mitigate the adverse impacts of landlockedness. However, the meeting participants also agreed that attracting FDI flows to LLDCs is a challenge even more complex and daunting in the current context of financial

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[29] Angola (Central Bank), Bangladesh (Ministry of Finance and Central Bank), Burkina Faso (Ministry of Finance), Burundi (Ministry of Finance), Cambodia (Ministry of Finance), Central African Republic (Ministry of Finance), Chad (Ministry of Finance), Democratic Republic of the Congo (Separate Debt Management Office), Djibouti (Ministry of Finance), Ethiopia (Ministry of Finance), Guinea-Bissau (Ministry of Finance), Haiti (Central Bank), Madagascar (Central Bank and Ministry of Finance), Mauritania (Ministry of Finance), Rwanda (Ministry of Finance and Central Bank), Senegal (Ministry of Finance), Sudan (Central Bank), Togo (Ministry of Finance), Uganda (Ministry of Finance and Central Bank), Yemen (Ministry of Finance, Central Bank and Ministry of Planning) and Zambia (Ministry of Finance and Central Bank).

crisis and economic recession than before. Many LLDCs are also LDCs. On landlocked countries, our focus is on trade facilitation and contributing to improved transport infrastructure and transit modalities in LLDCs. This includes efforts to facilitate regional integration and economic specialization, as well as policy advice that helps mitigate the adverse impacts of landlockedness. For example, we have been supporting the development of business and cross-border clusters through public–private partnerships along selected transit corridors in Africa and Asia, namely the Trans-Caprivi Corridor (linking Namibia to Zambia) and the Bangkok-Vientiane Corridor (linking the Lao People's Democratic Republic with Thailand).

V. Conclusions, lessons learned and best practices

27. From the above brief assessment, it becomes evident that for LDCs key determinants of growth are complex and varied, and the particular configuration of factors that is needed to achieve a higher growth trajectory will vary from country to country. To this end, national development strategies need to be tailored to the specific needs of countries and their people. Attention should be given to the diversity of initial conditions, resource endowments and export structures. Moreover, there is a general consensus that sustained "year in, year out" economic growth is a necessary, but not sufficient, condition for poverty reduction. This also means that development policies and strategies in these countries should take into account the specific conditions and circumstances of a given country as there is no "one size fits all" set of policies applicable to LDCs as a group. At the same time, it is possible to identify a number of common areas where well-designed government interventions have had or are likely to have a significant impact on the economies of the countries concerned. Fiscal reform aimed at increasing the level of national savings and investment should be a priority for all LDCs. Also, creating an enabling environment for private sector development will strengthen the growth potential of the economy of these countries.

28. Closer examination of selected countries through UNCTAD research and analysis work as well as by undertaking national and sector-specific case studies provides further insight into the challenges and prospects of growth and development in LDCs. In particular it reveals that, after decades of implementation of adjustment and economic reform programmes, exports from LDCs as a group have shown marked improvement in recent years although their share in world trade remains marginal. Improvements in recent export performance are largely driven by oil and other mineral exporting LDCs and by those that managed to increase their exports of manufactures and services. Commodity dependent LDCs continue to face major problems of volatile world primary commodity prices. Experience also shows that in LDCs where the majority still earn their living in subsistence-oriented agriculture and where the economies are characterized by weak productive capacities, trade liberalization and adjustment programmes have not led to significant poverty reduction. Therefore, although trade is important for economic growth, there is a danger in the excessive emphasis on trade liberalization as a policy instrument for poverty reduction in LDCs. For trade liberalization to work for poverty reduction, it has to be gradual, linked to the development of supply capacities and it should not be equated with laissez-faire but entail a reassessment of the state's role in domestic policy. In situations of mass poverty prevailing in LDCs, poverty reduction will require development strategies that promote accelerated and sustained economic growth that is socially inclusive, broad-based and environmentally sustainable.

29. In the short to medium term, LDCs' growth prospects could also be enhanced by improving their export competitiveness, particularly in areas where they have comparative advantages. A recently concluded UNCTAD project in several LDCs reconfirms that

diversification is a decisive contributor to economic development. The case for diversification remains more persuasive today than ever before because of the continued volatility of primary product prices and the uncertainties about long-run price trends. Notwithstanding, the project clearly demonstrates that there is considerable scope for many LDCs to join the group of successful exporters, in traditional exports such as oil, copper, coffee, cocoa and groundnuts, as most of these products are not produced in developed countries. Non-traditional export areas for LDCs with significant growth potential include horticulture, fishing and tourism. For instance, according to our ongoing studies on the horticulture sectors of selected LDCs, horticultural exports from sub-Saharan Africa have expanded and now exceed $2 billion, but represent only 4 per cent of the world's total exports. Furthermore, for fish and fishery products, demand has been steadily growing in both developed and developing countries. In Uganda, fresh flowers, plants, fruits and vegetables now account for $19 million worth of exports annually, with floriculture exports growing 475 per cent in value since 1995. In Ethiopia, during 2004–2007, horticultural exports have shown an average growth rate of 167 per cent, with the subsector becoming the fifth largest export earner within the agricultural sector.

30. Fishery is another area where LDCs have increased their export earnings. In 16 out of 50 LDCs, fish exports are ranked in the top five merchandise exports. However, fish and horticultural products are perishable in nature. This, coupled with the high sanitary and phytosanitary standards of developed country markets, has undermined the potential contribution of these sectors. However, countries such as Bangladesh and the United Republic of Tanzania have shown that investments in raising and enforcing norms and standards, particularly for fish exports, can significantly boost their export earnings.

31. Tourism, the world's largest industry in value, also has great economic potential to contribute to growth and poverty reduction efforts in LDCs. Although the LDCs' current world market share of tourism is only about 1 per cent, the number of visitors to LDCs jumped 48 per cent between 2000 and 2006 and has continuously risen since then. Tourism represents one of the few sectors in which LDCs managed to increase their share of world economic activity recently. However, like other sectors, LDCs face considerable obstacles in fully exploiting the economic potential of tourism. Particularly, the sector is characterized by a lack of investments in infrastructure and tourist facilities, limited linkages with local enterprises due to insufficient local supply capacity and high import content, and tourism's vulnerability to various external shocks and pressures on fragile ecosystems. In some countries, political instability and insecurity and the high cost of air transport (such as in Madagascar) and telecommunications have greatly hampered the potential contribution of the tourism sector to their growth and development. Despite these challenges, UNCTAD findings suggest considerable grounds for optimism for those countries whose governments are able to commit to the necessary institutional and policy reforms at the macroeconomic and industry levels. UNCTAD is undertaking further work in the context of a project on "FDI in Tourism: the Development Dimension" in Mali and Senegal to examine the role of FDI in the tourism sector of these countries.

32. As shown above, official development assistance (ODA) to least developed countries has increased to record levels since the adoption of the PoA in 2001. Yet a large share of this assistance is provided in form of debt relief or humanitarian assistance. Besides, the current level of ODA still falls short of the aid targets agreed in the PoA. The *Trade and Development Report 2008* shows that even if donors were to live up to their aid pledges, aid would not suffice to help poor countries achieve the Millennium Development Goals (MDGs) by 2015. To ensure progress towards the MDGs as well as the development goals agreed in the Third Programme of Action for LDCs, it is necessary that development aid be significantly increased, made more effective and must be additional to debt relief or emergency assistance. Finally, to reduce the risk of recurrent debt crisis, it is desirable that

future development assistance to the least developed countries be provided in the form of grants rather than loans.

33. As regards the contribution of UNCTAD, the activities reflected in the present report indicate that, as in the previous years, LDCs, individually and as a group, benefited significantly from the UNCTAD-wide activities in implementing the Programme of Action in 2008. The secretariat's research and policy analysis work contributed to policy dialogue and building consensus at the national, regional and global levels on trade and development issues of interest to LDCs. The technical cooperation and capacity-building activities have also greatly assisted in building LDCs' institutional, human resources and revenue collection capacities. For instance, through the ASYCUDA project, the Democratic Republic of the Congo[30] registered an impressive 70 per cent rise in revenue collection of $111 million in the first second semester of 2008 as compared to $66 million in the two previous semesters. Similarly, the Customs Administration of Haiti reported an increase of $5 million in customs revenue collected at Port-au-Prince in the month of December 2008, compared with the same month in 2007. In addition to financial benefits, the ASYCUDA programme assisted beneficiary countries in the modernization of their respective customs services and led to increased transparency, improved customs clearance processes as well as reduced corruption. It also assisted in improving the collection of reliable statistical trade data. In light of extensive UNCTAD activities and in order for LDCs to accelerate their economic growth and development, improve their export competitiveness as well as benefit more effectively from recent commodity price booms, the following areas will require urgent action and policy attention at the national and international levels: trade transaction costs reduction, human and institutional capacity development, and commodity diversification and value addition, including through enhancing the role of FDI in their economies and building their overall productive capacities.

34. Further efforts by donors, beneficiary countries and the secretariat are needed to ensure continuity and sustainability of capacity-building projects and programmes. Predictability of resources, ownership capacities of LDCs and ensuring continuity and sustainability of capacity-building activities are critical to enhance the substantive and developmental impact of the wide-ranging activities of the secretariat on LDCs. In this regard, the UNCTAD-LDC Trust Fund remains an important vehicle for initiating, designing and implementing technical cooperation and capacity-building activities in LDCs. However, the need to diversify the sources of funding for the trust fund still remains a challenge, as only a few donors have recently made contributions to it recently.

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[30] The ASYCUDA++ implementation in Katanga province in the Democratic Republic of the Congo started in August 2008 as a COMESA project funded by the European Commission and executed by UNCTAD.