TD/B/EX(49)/CRP.2

Distr.: Restricted
8 June 2010

English only

Trade and Development Board
Forty-ninth executive session
Geneva, 8–9 June 2010
Item 2 (b) of the provisional agenda

Empowering MDG Strategies through Inclusive Economic Development*

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* This is a draft paper prepared by the UNCTAD Secretariat with the help of Terry McKinley, and Pedro Martins, School of Oriental and African Studies, University of London. This conference room paper has not been edited.

1. Introduction

Adoption of the Millennium Development Goals (MDGs) in 2000 at the UN Millennium Summit revived and reinvigorated the allocation of Official Development Assistance (ODA) to developing countries – and to Least Developed Countries (LDCs) in particular. While ODA had been in secular decline since 1990, it began to rise significantly after the 2000 Summit.

ODA was now clearly tied to an ambitious scaling up of public investment in poverty reduction and human development. However, while many countries put themselves ‘on-track’ to reach some of the 2015 targets, the majority continued to remain ‘off-track’. There was still a shortfall of economic progress even though the adoption of MDG strategies in the 2000s coincided with a propitious upsurge of commodity-led growth in LDCs.

While some countries enjoyed the ephemeral benefits of higher prices for their commodity exports, just as many, if not more, suffered from the higher prices of fuel and food imports. In any case, the spike in commodity prices proved to be of limited duration as these prices began to decline by mid 2008, and to remain volatile thereafter.

Moreover, by the fall of 2008 the shock waves of the global financial crisis were breaking over the developed world, generating painful repercussions for developing countries. While developed countries suffered an internal financial shock to their economies, developing countries faced primarily external shocks, transmitted through the channels of reduced trade, remittances and foreign investment. Thus, the full impact of the crisis hit LDCs with a lag, in 2009. Most forcefully affected were the countries that had, paradoxically, enjoyed the most rapid growth as a result of the preceding commodity export boom.

1.1 A Post-Crisis MDG Development Strategy

Summing up this recent experience, particularly the implications of the global ‘Great Recession’, this paper seeks to sketch the general outlines of a post-crisis MDG-related development strategy for Least Developed Countries. While there is obviously great variety among LDCs, they do share some important common structural characteristics. Consequently, they are likely to share some common needs for the kinds of reforms of their development strategies that we are advocating.

Assuming that the current global economic recovery continues, LDCs will be able to regain some of the ground that they lost during the global recession and re-establish some of their prior momentum towards reaching the 2015 MDG targets. However, it is very likely that many of the targets will remain out of reach. This is certainly true for Goal #1, which encompasses critically important targets for income poverty, employment and hunger.

Thus, it is appropriate to already begin thinking beyond the current MDG framework in order to lay the conceptual and analytical basis for new MDG-based national development strategies post-2015. In many respects, the MDG framework constituted a set of goals and targets without a correspondingly ambitious and comprehensive set of strategic components.

Hence, national MDG-based strategies tended to revert to the generally narrow contours of previously formulated Poverty Reduction Strategy Papers, which were devised in order to comply with World Bank and IMF conditionalities. Macroeconomic policies

were imported, for instance, pretty much intact from IMF Article IV consultation documents and structural policies were inherited, in large measure, from World Bank agreements. This contradiction led fairly early to a fundamental disjuncture between the ambitious framework of the MDG targets and the business-as-usual nature of national strategies in Least Developed Countries.

It is frequently pointed out that MDGs #1-6 are primarily 'social' goals, with the associated criticism being that 'economic' goals are given little attention in the MDG framework. Strictly speaking, this is true. It is indeed important to point out that there has been little effort undertaken to compile systematic data on the access of people to economic infrastructure, such as electricity and roads, or, more fundamentally, their access to productive employment. Data for monitoring such dimensions are in a deplorable state.

Some of the MDGs could be construed to reflect 'economic' concerns, such as the reduction of *income* poverty (Goal #1) and improving the condition of a household's dwelling (Goal #7). And the attainment of decent work was added to Goal #1 after the original MDG targets were adopted. But such dimensions have not altered the basic nature of the basic framework. MDG-based strategies have remained, in essence, poverty-reduction strategies, which have continued placing preponderant emphasis on social concerns.

It is indeed true that ultimate development goals should focus on people's well-being, i.e., their basic level of human capabilities. Certainly, some of the key barometers of human well-being are their health status, their nutrition condition and their educational level and these capabilities are comprehensively represented in the MDG framework. Social concerns should be accorded, we believe, a prominent place.

Going forward, we believe that the fundamental problem is not so much the lack of economic goals in the MDG framework as the lack of a Strategy of Inclusive Economic Development that would back up the 'human-development' ambitions of the MDG framework. Developing such a Strategy remains unfinished business, which must be addressed in recasting the MDGs for the post-2015 period.

2. Background

2.1 Current Trends in LDCs

The economic performance of LDCs in the lead-up to the recent global economic crisis was impressive (Table 1). GDP growth rates accelerated from 4.6 percent in 2000 to 7.8 percent in 2007, with a similar trend in per capita terms. While the 2003-2007 commodity price boom played a pivotal role in this performance, all economic sectors – agriculture, industry and services – appeared to benefit from stronger growth. Inflation averaged 6.1 percent throughout the period. Moreover, total investment increased from 19 to 23 percent of GDP, while domestic savings increased from 11 to 14 percent of GDP.

With regard to international trade, exports of goods and services increased from 20 to 26 percent of GDP, while imports jumped from 29 to 35 percent of GDP. Although ODA flows grew in real terms, they fell in relative terms: from 12 percent of recipients' GNI in 2003 to 8 percent in 2007. Foreign direct investment (FDI) and workers' remittances averaged around 3.2 and 5.4 percent of GDP, respectively. However, total reserves covered only 4.8 months of imports in 2007, down from 6.2 months in 2002.

Table 1
Basic Indicators for LDCs

	2002	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
Growth and Activity Sectors							
GDP (% growth)	4.6	4.9	6.9	7.3	7.5	7.8	**7.2**
Agriculture, value added (% growth)	1.1	2.9	3.4	4.9	4.8	4.6	4.9
Industry, value added (% growth)	8.7	6.0	11.4	10.5	11.4	12.6	**7.6**
Manufacturing, value added (% growth)	5.9	6.5	7.9	6.2	9.3	10.7	**6.3**
Services, value added (% growth)	4.5	6.1	6.7	7.7	8.5	8.8	9.7
GDP per capita (% growth)	2.2	2.5	4.5	4.8	5.1	5.4	**4.8**
Inflation, GDP deflator (%)	5.1	4.5	6.8	6.7	6.8	7.0	9.5
Economically Active Pop. in Agric. (% Total)[1]	69.3	68.8	68.3	67.8	67.3	66.7	66.2
Investment and Savings							
Gross fixed capital formation (% GDP)	19.3	19.9	20.3	21.9	21.9	22.9	23.1
Gross domestic savings (% GDP)	11.1	11.2	11.9	12.5	13.4	14.0	**13.0**
International Trade and Finance							
Exports of goods and services (% GDP)	20.3	20.8	21.6	24.3	25.5	26.2	**24.5**
Imports of goods and services (% GDP)	29.1	30.4	30.7	34.5	35.0	36.2	**35.6**
Terms of trade index (2000=100)[2]	94.7	97.9	106.5	122.7	135.8	**134.5**	146.5
Official development assistance (% GNI)[3]	10.4	12.3	11.1	9.5	8.7	**8.4**	**8.3**
Remittances received (% GDP)	5.4	5.4	5.3	5.2	5.5	5.7	**5.1**
Foreign direct investment (% GDP)	3.4	4.2	2.9	2.2	3.4	3.3	3.6
Total debt service (% of GNI)	3.0	2.5	2.5	2.5	2.7	2.5	**1.6**
Total reserves (in months of imports)	6.2	6.2	5.8	4.9	5.2	4.8	**4.1**

Source: WDI (2010), except: [1] FAOStat, [2] UNCTAD Handbook of Statistics, [3] OECD-DAC (all donors).

Despite these achievements, the effects of the 2008-2010 global economic crisis threaten to reduce much of the progress made and hamper the development prospects of LDCs. The last column of Table 1 illustrates some of the initial domestic effects of the global crisis. Real GDP growth decelerated to 7.2 percent in 2008 – 4.8 percent in per capita terms. Industry (including manufacturing) was the main sector suffering from the collapse in external demand. International trade was reduced, with exports and imports falling to 25 and 36 percent of GDP, respectively. Contrary to the trend of other factors, FDI inflows increased to 3.6 percent of GDP – despite the crash in commodity prices. This was possibly due to a strong performance in the first half of 2008. However, workers' remittances decreased to 5.1 percent of GDP. Total reserves fell to 4.1 months of imports, due to larger trade deficits and a slowdown in net capital inflows.

Table 2 provides recently released data for 2009. These are weighted averages for **African LDCs only**. The data highlight the main economic effects of the global crisis during 2009. Real GDP growth decelerated from 10.7 percent in 2007 to 3.4 percent in 2009 – namely, it was cut to a third. Inflation increased by over 14 percent despite the fall in food prices, but this trend is driven mainly by Congo DR and Ethiopia. Average inflation actually declined in 2009 if we exclude these countries from the grouping. While total investment increased in 2009, domestic savings dramatically fell from 22 to 15 percent of GDP in just one year. This fall signals a major concern with regard to the basis for sustaining domestic resource mobilisation in the future.

Table 2
Projections for African LDCs (Weighted Averages)

	2005	*2006*	*2007*	*2008*	***2009***	*2010*	*2011*
Growth, Investment and Savings							
GDP growth (%)	9.8	9.2	10.7	8.7	**3.4**	5.4	6.4
Inflation (CPI, %)	11.7	8.8	8.8	12.2	**14.4**	9.8	7.5
Investment (% GDP)	19.8	19.9	21.7	21.6	**22.9**	22.6	22.8
Domestic Savings (% GDP)	19.2	24.1	23.7	22.3	**14.9**	17.9	19.4
Fiscal Accounts							
Fiscal balance (excl. Grants, % GDP)	-3.7	-0.4	-0.6	-0.8	**-8.5**	-4.9	-4.5
Government Revenue (excl. Grants, % GDP)	20.9	24.6	25.8	28.0	**21.9**	23.5	23.6
Government Expenditure (% GDP)	24.6	25.0	26.4	28.7	**30.3**	28.4	28.1
Government Debt (% GDP)	68.7	45.6	36.9	35.9	**37.7**	..	..
Balance of Payments							
Current Account Balance (% GDP)	-2.5	-0.6	-2.1	-5.3	**-8.3**	-7.0	-7.1
International Reserves (months of imports)	3.9	5.0	5.0	4.2	**4.4**	4.5	4.6

Source: Authors' calculations from the IMF's Regional Economic Outlooks (2010).

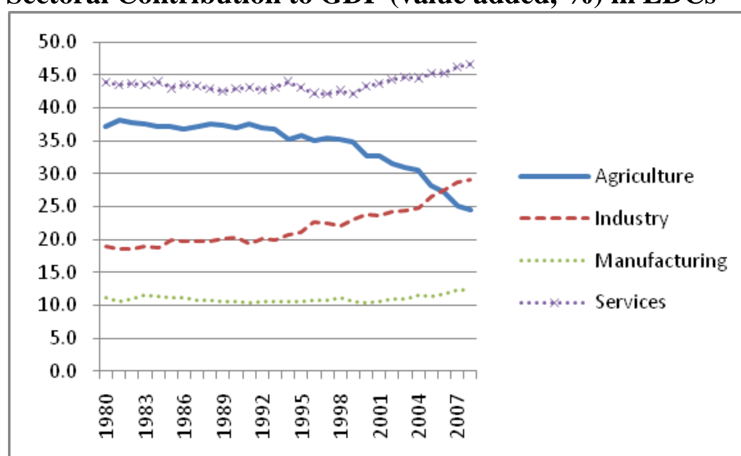
The fiscal balances (excluding grants) deteriorated sharply in 2009, mainly due to collapses in revenue – from 28 to 22 percent of GDP – and increases in expenditure – from 29 to 30 percent of GDP. The former was caused mainly by a slowdown in domestic economic activity and lower trade taxes, while the latter was induced by countercyclical fiscal policies that some countries were able to implement. As a consequence of these fiscal conditions, government debt increased to 38 percent of GDP, and is likely to continue growing on the basis of the fiscal deficit outlook.

The current account balance also suffered a significant deterioration in the last few years, with a deficit of about 8 percent of GDP being recorded in 2009, up from a deficit of about 5 percent in 2008, and 2 percent in 2007. However, international reserves seem to have held steady in 2009 relative to 2008 although they were reduced from 2006-2007 levels.

The outlook for 2010 and 2011 appears bright, according to the IMF, for most macroeconomic indicators, but it also suggests a relatively slow recovery. In 2011, most indicators will still be lagging behind their pre-crisis levels. For example, growth is projected to be 6.4 percent in that year while it was a hefty 10.7 percent in 2007.

Figure 1 illustrates the structural change taking place in LDCs since the late 1990s. In terms of the sectoral contributions to GDP, agriculture saw its share decline from 33 percent of GDP in 2000 to 24 percent in 2008. At the same time, the share of services increased from 43 to 47 percent of GDP. The share of industry in GDP also increased, from 24 to 29 percent, partly reflecting a slightly rising manufacturing sector.

Figure 1
Sectoral Contribution to GDP (value added, %) in LDCs



Obs.: Manufacturing is included in Industry.
Source: WDI (2010)

Despite these trends, LDCs remain vulnerable to economic shocks and face inherent structural constraints. Table 3 presents group averages for the economic vulnerability index (EVI) and its sub-components.[1] The EVI attempts to measure the level of risk to an economy posed by exogenous shocks – namely, trade and natural shocks. Since the economic impact of these shocks will often depend on their magnitude and the structural characteristics of the country (its resilience), the EVI groups its indicators into two main categories: an exposure index and a shock index. Composite indices are obtained through weighted averages (see Annex).

The data suggest that LDCs, and SIDS in particular, are significantly more vulnerable than the 'average' developing country. LDCs have higher export concentration and a higher risk of experiencing shocks (natural and trade-related) than most developing countries. In fact, the lack of export diversification – both in terms of export products and markets – exacerbates these countries' vulnerability to external price shocks and natural disasters. Moreover, these countries are also more vulnerable and exposed to the global economy due to their small size and remoteness (especially SIDS). This often translates into clear competitive disadvantages (for an empirical assessment, see Winters and Martins (2004)).

Table 3
Economic Vulnerability Index (EVI) – Averages

	Developing	*LDCs*	*LLDCs*	*SIDS*
EVI	42.5	50.6	48.2	62.9
Exposure Index	43.4	49.5	47.5	73.2
Smallness (Population, million)	41.7	16.8	17.9	0.4
Location Index (Remoteness)	50.8	56.0	67.6	63.6
Structural Index	35.3	51.3	52.2	47.9
Export Concentration	0.44	0.54	0.49	0.61
Agriculture, Forestry & Fisheries (% GDP)	18.4	30.8	35.1	21.4

[1] In this table, the LLDC and SIDS categories include only LDCs.

	Developing	*LDCs*	*LLDCs*	*SIDS*
Shock Index	41.7	51.7	48.8	52.7
Natural Shock Index	40.3	45.8	47.9	47.3
Homeless due to natural disasters (%)	1.6	2.3	2.0	5.1
Agricultural Production Instability	6.6	6.6	7.5	6.2
Trade Shock Index (Export Instability)	16.8	21.4	19.0	21.6

Notes: Higher values of the EVI components indicate the presence of increased vulnerability. For further details see www.un.org/esa/policy/devplan/profile/criteria.html#evi.
Source: Authors' calculations from UNDESA (2007)

Hence, while the full extent of socio-economic consequences of the recent crisis is not yet known, there are obvious threats to further progress of LDCs and achievements relative to the Brussels Programme of Action.[2] These include vulnerability to external shocks (e.g., terms of trade) and exposure, the insufficient volume and quality of foreign aid inflows, and decreasing foreign investment and worker remittances. Over the longer term, the lack of domestic resource mobilisation – in the form of both domestic savings and public revenue – is a greater area of concern.

2.2 MDG Progress

It is often argued that LDCs have not made significant progress towards the achievement of the MDGs. Poverty and hunger levels remain very high, and on current trends most LDCs are not likely to attain, either individually or collectively, the MDGs by 2015. The following sections briefly review progress on MDG #1 and MDG #8. Details on MDGs #2-#7 are included in the Appendix.

MDG #1: Eradicate Extreme Poverty and Hunger

With regard to the MDG #1, there are three main targets:[3] (a) halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day; (b) achieve full and productive employment and decent work for all, including for women and young people; (c) halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Table 4 suggests that developing countries as a whole are on target to halve the proportion of people living in extreme poverty. But this achievement is due chiefly to the performance of populous countries such as China and India. Although the LDCs as a group are not likely to attain this target, they have managed to reduce poverty from 63 to 53 percent over a 15-year period. Moreover, more than two thirds of this reduction occurred in the 2000s. Similar trends can be observed for the poverty gap ratio, which decreased overall from 27.5 percent of the poverty line in 1990 to 19.9 percent in 2005. Landlocked Developed Countries (LLDC) and Small Island Developing States (SIDS) have experienced similar proportional declines.

[2] Following the Millennium Declaration's promises to address the special needs of the LDCs, the 'Programme of Action of the LDCs for the Decade 2001-2010' (also known as the Brussels Programme) set specific goals and targets and identified policy actions in support of those objectives. It contains 30 international development goals (including those in the Millennium Declaration) and a set of action-oriented commitments. www.unohrlls.org/UserFiles/File/Publications/bpoa.pdf

[3] http://unstats.un.org/unsd/mdg/Host.aspx?Content=Indicators/OfficialList.htm

Table 4
Poverty Trends

Indicator	1.1: People living on less than $1.25 per day (2005 PPP, %)			1.2: Poverty gap ratio at $1.25 a day (2005 PPP, %)		
	1990	*1999*	*2005*	*1990*	*1999*	*2005*
Developing	45.5	32.9	26.6	15.6	11.6	8.0
LDCs	63.3	60.4	53.4	27.5	24.7	19.9
LLDCs	49.1	50.7	42.8	21.9	20.2	15.5
SIDS	32.4	27.7	27.5	14.4	12.3	11.9

Obs.: The poverty line was updated in 2008 ($1.25) to take into account new PPP estimates.
Source: UN (2009b)

Table 5 presents data on income inequality. It suggests that the poorest quintile of the population accounts for less than 7 percent of national consumption in 2000-07, while the richest 20 percent of the population still account for almost half of total consumption. Despite a modest improvement in the 2000s compared to the 1990s, expenditure inequality is still a significant problem in the LDCs.

Eighty percent of the population still manages to account for only about half of all consumption. Until there is some degree of redistribution from the richest to the great majority, and to the poor in particular, there is still likely to be limited progress in achieving broad-based improvements in economic and human development.

Table 5
Consumption Shares by Income Group in LDCs

LDCs	*1990-99*	*2000-07*
Highest 20 percent (richest)	50.7	47.8
Fourth 20 percent	20.7	20.8
Third 20 percent	13.8	14.5
Second 20 percent	9.3	10.3
Lowest 20 percent (poorest)	5.5	6.5
Lowest 60 percent	28.6	31.3

Source: Authors' calculations from WDI (2010).

With regard to the second MDG #1 target, namely, the target for employment, the performance of LDCs has been less satisfactory than for poverty reduction. The employment-to-population ratio has, in fact, declined since 1991 for LDCs as whole. However, for Landlocked Developing Countries (LLDCs) and Small Island Developing States (SIDS), there has been a slight increase in this ratio.

More indicative of an improvement in the quality of employment would be registered in the MDG indicator for 'vulnerable employment', which is the sum of (low-paid) own-account workers and (unpaid) family workers. Progress in reducing vulnerable employment has been particularly slow in LDCs. In fact, this form of employment has increased in LLDCs and SIDS.

Such slow progress (if not reversals) is a matter of concern since a sustainable reduction in poverty can only be achieved through an expansion in decent employment opportunities (primarily in wage and salaried employment) for vulnerable and marginalised groups of the population. Such gains would enable these groupings of poor workers to actively participate in the economy and access the benefits of economic growth.

Table 6
Population in Employment and Vulnerable Employment

Indicator	*1.5: Employment-to-Population ratio (%)*			*1.7: Own-account and contributing family workers (% total employment)*		
	1991	*2000*	*2008*	*1991*	*2000*	*2008*
Developing	64.6	63.3	62.5	69.0	63.7	59.2
LDCs	70.7	69.2	69.1	87.3	84.8	81.2
LLDCs	65.9	65.8	67.8	69.6	74.7	71.0
SIDS	53.5	56.1	57.3	36.9	36.8	39.3

Source: UN (2009b).

Finally, developing countries are not on-track with regard to the third major target of MDG #1, namely, halving the proportion of the population suffering from hunger. The data on undernourishment reported in Table 7 suggest that progress has been very slow. Over a third of the population in LDCs is reported as being undernourished in 2008. Moreover, recent data for 2008 suggest a trend reversal of undernourishment, with the percentage of the undernourished increasing in LLDCs and developing countries as a whole.

Table 7
Percentage of Population Undernourished

Indicator	*1.9: Undernourished in total population (%)*		
	1990-92	*2004-06*	*2008*
Developing	20	16	17
LDCs	39	34	34
LLDCs	34	27	28
SIDS	23	21	21

Source: UN (2009b).

In summary, while Least Developed Countries have made some progress on reducing poverty, the gains have been relatively modest. Progress on improving employment has been marginally worse, with small reductions recorded, for example, in vulnerable employment. With regard to reducing hunger, LDCs have experienced very slow progress, if not reversals in some instances. Such slow progress across-the-board on MDG #1 suggests that we need to seriously assess the character of both economic growth and employment generation. While economic growth did accelerate significantly in the 2000s, leading to some acceleration of progress on poverty, there appeared to be little or no impact on employment or hunger.

We would argue that such shortcomings indicate that MDG Strategies need to place a heavier emphasis on more rapid and inclusive economic development as a foundation for achieving any comprehensive advances in human development. The lack of progress on the MDG #1 targets also suggests that any global partnership for development, and Official Development Assistance in particular, needs to be recast and redirected to support such an emphasis. We turn our attention now to MDG #8, the basis for an MDG-related Global Partnership for Development.

MDG #8: Develop a Global Partnership for Development

MDG #8 is meant to reflect the efforts of the international community in supporting developing countries to achieve their development goals. In fact, MDG #8 is usually seen as a fundamental precondition for the achievement of the first seven goals. It incorporates six main targets: (a) develop further an open, rule-based, predictable, non-discriminatory trading and financial system; (b) address the special needs of the LDCs; (c) address the

special needs of LLDCs and SIDS; (d) deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term; (e) provide, in cooperation with pharmaceutical companies, access to affordable essential drugs in developing countries; and (f) make available, in cooperation with the private sector, the benefits of new technologies, especially information and communications. We will now report on progress towards these objectives.

Official Development Assistance

Table 8 illustrates that the 1990s were a period when ODA flows to developing countries fell in real terms. For example, net ODA for LDCs fell from USD$ 13.2 billion in 1990 to US$ 10.5 billion in 2000. Since then, however, ODA has increased, reaching, for example, about US$ 21.5 billion for LDCs in 2008 and US$ 74.1 billion for all developing countries.

Despite this recent revival, however, when we examine the disbursement of net ODA relative to the GNI of donor countries (OECD-DAC), we find that this ratio in 2008 (totalling 0.29 of both bilateral and multilateral assistance) was significantly below the 1990 level of 0.33 (see also Figure 2). This is despite the rising trend experienced since 2000, when the net ODA-to-GNI ratio was 0.21.

Table 8
ODA Disbursements

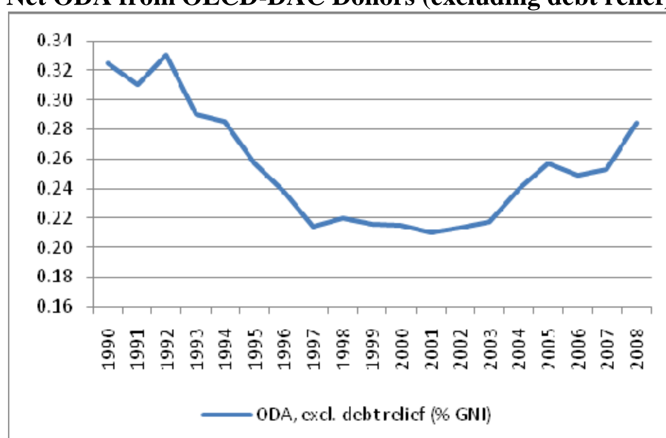
Indicator	*Net ODA from DAC countries, excl. debt relief (constant 2007 USD million)*					*8.1: Net ODA (% of OECD-DAC donors' GNI)*†				
	1990	*1995*	*2000*	*2005*	*2008*	*1990*	*1995*	*2000*	*2005*	*2008*
Developing‡	52,435	45,509	46,454	64,228	74,120	0.23	0.17	0.14	0.18	0.20
LDCs	13,171	10,619	10,530	16,078	21,466	0.06	0.04	0.03	0.04	0.06
LLDCs	5,554	5,939	6,290	9,733	13,238	0.02	0.02	0.02	0.03	0.03
SIDS	2,253	2,274	1,952	1,984	2,225	0.01	0.01	0.01	0.01	0.01
Multilateral	23,273	22,166	25,429	27,581	33,190	0.10	0.08	0.07	0.08	0.09

† Excludes debt relief. ‡ Data for country groupings refers to bilateral flows.
Source: Authors' calculations from IDS-DAC online.

Recent projections suggest that DAC members will disburse aid of about 0.33 percent of GNI in 2010 (including debt relief).[4] However, this value will fall significantly short of the 2005 Gleneagles promises. Moreover, it is obvious that the long-standing 0.7 percent target is still far from being achieved.

[4] www.oecd.org/dataoecd/20/19/44607047.pdf.

Figure 2
Net ODA from OECD-DAC Donors (excluding debt relief)



Note: Debt relief grants were particularly significant in 2005 and 2006 (e.g., Iraq and Nigeria).
Source: Authors' calculations from IDS-DAC online.

It is also important to highlight ODA as a percentage of the recipients' GNI. When this is done, the overall trend is downward, with some modest increases in 2005.[5] For LDCs and LLDCs, there were upward trends from 2000 to 2005 but these were reversed between 2005 and 2008. Overall, between 1990 and 2008, ODA as a percentage of recipient countries' GNI has fallen. For developing countries as a whole, this ratio had fallen from 1 per cent in 1990 to 0.6 percent in 2008. For LDCs, the corresponding fall was from 7.7 percent to 5.0 percent.

Table 9
ODA as a Percentage of Recipients' GNI

Indicator	*8.4 and 8.5: ODA from OECD-DAC donors to developing countries (% Recipients' GNI)*				
	1990	*1995*	*2000*	*2005*	*2008*
Developing	1.0	0.7	0.7	0.9	0.6
LDC	7.7	7.1	5.0	5.9	5.0
LLDC	3.8	4.6	4.1	4.3	3.5
SIDS	2.1	1.4	2.1	2.0	1.9

Source: Authors' calculations from IDS-DAC online.

It is also important to underline how ODA has been allocated across sectors. For example, the percentage of bilateral (sector-allocable) ODA from DAC donors earmarked to basic social infrastructure and services increased from 1995 to 2008 (Table 10). Meanwhile, the share allocated to production sectors and economic infrastructure and services dropped significantly. This reallocation was consistent with evolving donor priorities.

[5] The increase in 2005 is partly explained by large debt relief grants.

Table 10
Sectoral Allocation of Bilateral ODA to Developing Countries

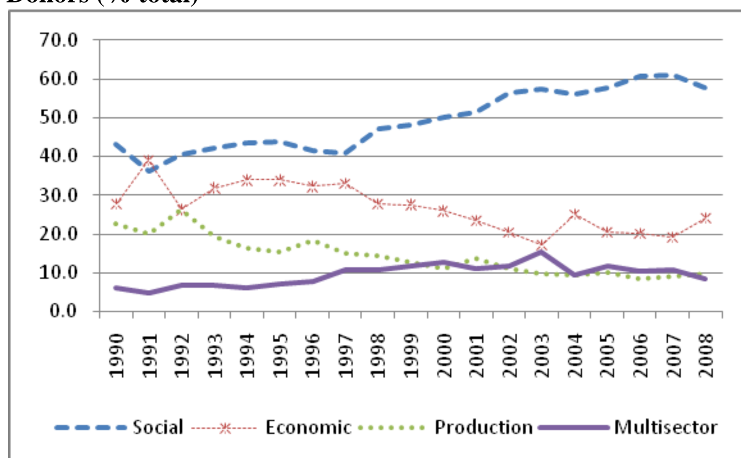
	Bilateral ODA from OECD-DAC donors (by sector, % total)				
	1990	*1995*	*2000*	*2005*	*2008*
Social Infrastructure and Services	43.3	43.8	50.2	57.8	57.9
of which: Basic social services†	..	12.3	15.8	16.2	14.2
Economic Infrastructure and Services	27.7	33.9	26.0	20.5	24.1
Production Sectors	22.8	15.2	11.0	10.1	9.6
Multisector / Cross-Cutting	6.2	7.0	12.8	11.7	8.4

† Calculated as the sum of 'basic education', 'basic health', and 'water-supply & sanitation'.
Source: Authors' calculations from IDS-DAC online.

The trend that is illustrated in Figure 3 further corroborates the reallocation from production and economic services to social services. While social services rose roughly from about 40 percent of all ODA to about 60 percent between 1990 and 2008, the shares allocated to both economic services and production sectors fell significantly. In other words, the last two decades have been associated with a progressive lowering of the share of ODA that has been devoted to economic infrastructure and production sectors.

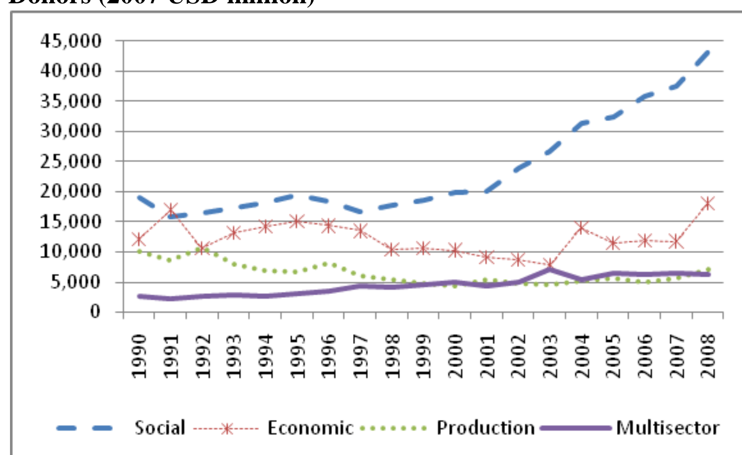
More importantly, the real value of ODA earmarked for economic infrastructure has remained relatively constant since 1990 (between $10 and $15 billion in 2007 USD dollars), while the amount targeted to production sectors has been declining (Figure 4). At the same time, support for the social sectors experienced a boom from around $16 billion in 1991 to $43 billion in 2007. These statistics lend credence to one of the major contentions in this paper that more resources should be made available to LDCs to develop productive capacities (e.g., in agriculture and industry) and improve economic infrastructure in order to enable them to accelerate their rates of economic development.

Figure 3
Bilateral (Sector-Allocable) ODA from OECD-DAC Donors (% total)



Source: Calculated from IDS-DAC online.

Figure 4
Bilateral (Sector-Allocable) ODA from OECD-DAC Donors (2007 USD million)



Source: Calculated from IDS-DAC online.

Market Access

As part of the MDG framework, developed countries have committed to improve market access to LDCs products. Overall, Table 11 demonstrates that a large share of LDCs' exports to developed countries have benefited from 'duty free' access. However, when we exclude arms and oil, this share has actually remained stagnant since 1996, the year of the inaugural WTO ministerial conference. What is of particular concern is that these trends suggest that LDCs' trade preferences have been eroded. Because richer developing countries (e.g., emerging market economies) are benefiting from increased 'duty free' access to developed countries' markets, LDCs products have become relatively less competitive.

Table 11
Duty Free Access

Indicator	*8.6: Total developed country imports admitted free of duty (%)*				
	1996	*1998*	*2000*	*2003*	*2007*
(a) Excluding arms					
Developing	53	54	63	71	83
LDCs	68	81	75	81	89
(b) Excluding arms and oil					
Developing	54	54	65	71	79
LDCs	78	78	70	78	80

Source: UN (2009b).

Moreover, there has been slow progress (if not a reversal) in some trade areas. For example, while the US improved access to LDCs' clothing products from 2001 to 2004 (raising the share admitted duty free from 0 to 25 percent), this share was reduced to 17 percent in 2007. The clothing exports to the US of developing countries as a whole have a higher share than the clothing exports of LDCs. Despite improvements in duty-free access

for textiles – from 10 percent in 2003 to 24 percent in 2007 – these shares remain relatively low.[6]

With regard to access to the EU, agricultural products have suffered a reduction from 98 percent in 2001 to 91 percent in 2007. Moreover, clothing imports from LDCs declined slightly from 100 percent in 2001 to 97 percent by 2007.

Table 12 shows average tariff rates imposed by developed countries on agricultural products, textiles and clothing from both developing countries and LDCs. The data reveal declining trends in (average) import tariffs, although they still remain relatively high for clothing. Moreover, LDCs' agricultural products still face MFN tariffs above 8 percent in the US and preferential tariffs, which at 6 percent, are higher than the developing country average. Preferential rates for LDCs' clothing products entering the US market average above 11 percent and the rates for textiles about 6 percent.

Table 12
Average Tariffs

Indicator	*8.7: Average tariffs imposed by developed countries (%)*				
	1996	*1998*	*2000*	*2003*	*2007*
(a) Agricultural goods					
Developing	10.4	9.2	9.4	8.8	8.4
LDCs	3.9	3.7	2.8	3.1	2.1
(b) Textiles					
Developing	7.3	6.5	5.8	5.3	5.0
LDCs	4.6	4.1	3.5	3.2	3.1
(c) Clothing					
Developing	11.4	10.8	9.6	8.3	8.2
LDCs	8.1	7.8	7.0	6.4	6.4

Source: UN (2009b).

With regard to proxies for 'Aid for Trade' (indicator 8.9), the percentage of bilateral sector allocable ODA devoted to economic infrastructure and building productive capacity has fallen considerably in the last decade. This has been, to a certain extent, a by-product of the increased focus on basic social services – see indicator 8.2. The implications of these trends will be discussed in the next section.

Debt Sustainability

Through the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI), several developing countries have qualified for relief on eligible international debt. These initiatives have enabled countries to significantly reduce their external debt service payments (Table 13). Nonetheless, debt service payments are now comparatively higher in LDCs than for developing countries as a whole. Moreover, debt service is becoming an increasing burden in Small Island Developing States (see Table 13).

[6] The data source is www.mdg-trade.org.

Table 13
Debt Sustainability

Indicator	*8.12: Debt service (% of exports of goods and services and net income from abroad)*			
	1990	*1995*	*2000*	*2007*
Developing	19.7	14.4	12.6	4.1
LDCs	16.8	13.4	11.6	6.8
LLDCs	14.9	7.3	8.6	2.0
SIDS	13.7	9.5	8.7	11.2

Note: Several countries benefited from debt relief grants in 2005 and 2006.
Source: UN (2009b).

New Technologies

Table 14 illustrates the adoption of new information and communication technologies in developing countries. The trends are remarkable for mobile phones (cellular). The expansion of access has created opportunities to improve the integration of marginalised groups of the population, such as rural households and women, into the economic mainstream. However, Least Developed Countries still lag well behind developing countries as a whole on access to ICT. For example, their access to fixed telephone lines and the internet remains negligible.

Table 14
Information and Communication Technologies (Target 8.F)

Indicator	*8.14: Fixed telephone lines per 100 population*			*8.15: Cellular subscriptions per 100 population*			*8.16: Internet users per 100 population*		
	1990	*2000*	*2007*	*1995*	*2000*	*2007*	*1995*	*2000*	*2007*
Developing	2.3	8.0	13.3	0.4	5.5	38.6	0.1	2.1	12.7
LDCs	0.3	0.5	0.9	<0.05	0.3	14.5	<0.05	0.1	1.5
LLDCs	2.4	2.7	3.6	<0.05	1.0	18.2	<0.05	0.3	3.5
SIDS	8.0	13.2	12.1	1.5	10.5	44.4	0.2	5.0	19.1

Source: UN (2009b).

3. Beyond the MDGs

The review of the progress by LDCs on MDG #1 and the corresponding progress of donor countries on MDG #8 suggest that the global community will fall well short of its commitments and ambitions. Thus, it is already timely in 2010 to initiate a critical review of the national strategies that have been adopted to achieve the MDGs. We have already suggested in the introductory section that such strategies have not been ambitious enough. In this paper, we therefore attempt to lay out the general outlines of how MDG strategies could be improved, starting now and extending through 2015 and beyond.

One of the major constraints on formulating development-oriented MDG strategies has been the nature of the macroeconomic consensus that has dominated national policymaking. This consensus has obliged policymakers to focus their attention on maintaining macroeconomic stability.

3.1 Fashioning a New Macroeconomic Framework

We argue, in contrast, that we urgently need to begin fashioning a macroeconomic framework that is more conducive to Inclusive Economic Development. Such an alternative

framework would imply that fiscal policy has to play a central role in driving the development process, primarily through the modality of scaled-up public investment. Contrary to current convention, monetary policy should be relegated to a secondary role, tasked primarily with ensuring moderately low real rates of interest and an ample supply of credit to stimulate private investment.

The MDG framework adopted in 2000 did indeed help renew the international debate on macroeconomic policies. By calling for substantial scaling-up of external resources to meet the 2015 targets, it underlined the need for more expansionary, public-investment led fiscal policies. That is, the MDGs highlighted the need for a quantum leap in resources in low-income and least developed countries in order to finance large-scale new investments in economic and social infrastructure in order to accelerate progress on poverty reduction and basic human development. What such a framework needed – and, unfortunately, was sorely lacking – was a more development-oriented macroeconomic policy stance.

Understandably, the MDG development-oriented agenda soon began to collide with the stability-focused macroeconomic policies that dominated policymaking in the period before the global financial crisis. Critics of an MDG-inspired scaling up of ODA soon raised the threat, for example, of a so-called ‘Dutch Disease’. Their contention was that a dramatic scaling up of external resources would be detrimental because it would generate higher inflation and greater appreciation of the recipient country’s exchange rate.

Though such a contention proved to be unduly alarmist, nevertheless the fundamental macroeconomic orientation inspiring such criticisms remained hegemonic, debilitating the implementation of effective national MDG strategies.

In contradistinction to the implications of the MDG development agenda, macroeconomic policymaking continued to give priority to monetary policies, over fiscal polices, and maintain a focus on combating the threat of high inflation (i.e., any level above low single digits). National policymakers were not encouraged to exercise any real *discretion* in using fiscal policies – certainly not fiscal policies that were focused on the MDG priority of public investment and thus entailed running fiscal deficits.

The governing target for fiscal policies continued to be the faithful maintenance of low fiscal deficits. Hence, fiscal policies were rarely freed from the shackles of short-sighted budget-tightening. Since most LDCs have been confronted historically with recurring fiscal deficits – because domestic revenue generation cannot match the pressing needs for essential public expenditures – such a narrow macroeconomic orientation will prove to be congenitally restrictive, if not deflationary.

The experience of the global Great Recession of 2007-2009 has helped, to some degree, to alter the international terms of the debate on macroeconomic policies. Confronted with the collapse of private expenditures, policymakers in many major developed countries had no apparent qualms about quickly resorting to large Keynesian-inspired counter-cyclical stimulus packages. This policy stance involved both more expansionary fiscal policies and more liquidity-focused monetary policies.

Hence, the current intellectual environment appears to be potentially more conducive to championing the longer-term deployment of expansionary macroeconomic policies, in order to accelerate economic development. But the recent conversion to Keynesianism apparently runs only skin-deep. It is confined to the use of counter-cyclical policies essentially only during periods of extreme economic stress. During ‘normal times’, discretionary fiscal policy is still regarded as anathema. And even during recessions, recent evidence on stabilisation programmes confirms that policymakers in developing countries are still being instructed to use fiscal policies only in the form of ‘automatic stabilisers’ (functioning mainly through declines in revenue).

Reforming macroeconomic policies to be more development-oriented is particularly important for Least Developed Countries. They will continue to need, well past 2015, an MDG-related development framework that incorporates significant external financing of fiscal deficits. Prior to the global crisis, many Least Developed Countries were already running sizeable fiscal deficits. In the wake of Great Recession, these deficits have widened, especially because of declines in public revenue. Hence, there is an additional compelling reason to continue with an MDG-related scaling-up of ODA in order to speed economic recovery from the global crisis.

Utilising ODA to finance widened fiscal deficits should not represent a controversial position. After all, that has always been one of the basic rationales for ODA. What is more contentious, and more fundamental for our discussion, is the kind of development expenditures that ODA should be financing. We return to this issue towards the end of this paper.

3.2 Relying on Domestic Resource Mobilisation

Success in generating public revenue in Least Developed Countries is determined, to a significant extent, by the level of income per capita and economic growth. As economic growth increases, revenue should rise as a ratio to GDP, as a larger share of the population pays taxes or current taxpayers receive more taxable income.

Revenue did rise as a ratio to GDP in the 2000s as economic growth accelerated in LDCs. But this rise was less pronounced than has generally been assumed. And LDC revenues have slumped as a result of the impact of the global financial crisis and recession. However, it would be a mistake to assume that greater revenue would follow automatically from higher future rates of economic growth.

Particularly in countries, such as LDCs, where revenue levels are especially low, it is critically important to strive to raise them, either through better tax policies or more effective tax administration. However, the international development community, and the MDG campaign in particular, has tended to overlook the importance of this topic even though domestic revenue mobilisation provides the only viable long-term financing basis for development expenditures.

Instead, the focus has been on the imperative of scaling up ODA in order to promote growth and development in LDCs, and low-income countries in general. We would argue, however, that one of the overriding priorities of ODA should be to strengthen the revenue-mobilising capacities of Least Developed Countries. Having the ability to mobilise domestic revenue could also provide the significant advantage that national development strategies would be much more likely to be aligned with national priorities, instead of donor priorities.

As long as development expenditures are dictated by the priorities of the donor community, they are more likely to reflect donor preconceptions about what is ‘good for development’. This helps explain some of the recent bias of ODA towards financing social development (to the detriment of economic development) and supporting poverty reduction strategies instead of broad-based (and economically viable) development strategies.

Revenue generation in LDCs has obviously suffered from the global recession, in line with the fall in incomes. However, it is difficult to gather up-to-date data on revenue trends, such as for the critical period of 2008-2009. Nevertheless, what can we say about the record of revenue mobilisation in Least Developed Countries prior to the Great Recession?

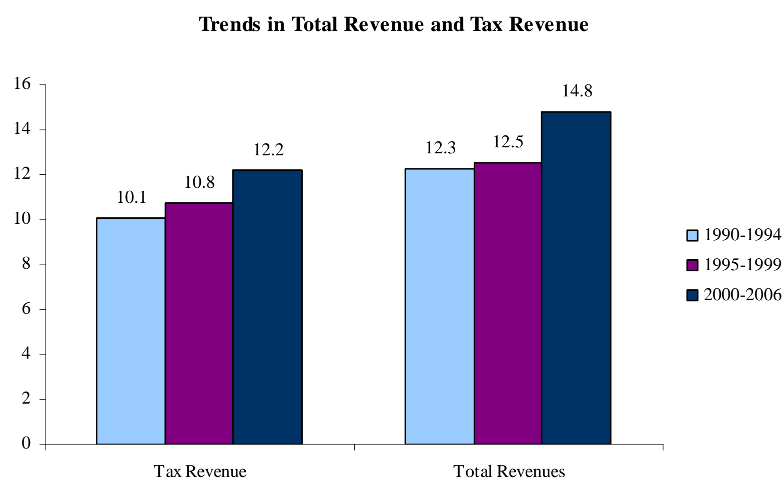
In order to answer this question, we review revenue trends for a sample of 22 Least Developed Countries in sub-Saharan Africa for the period 1990-2006. Our data derive from a time-consuming process of reviewing the Statistical Appendices of IMF Article IV Agreements (and the appendices prepared by the IMF for the periodic consultations with each country).

In order to identify broad and sustained trends, we have aggregated our data into three periods: 1990-1994, 1995-1999 and 2000-2006. We stopped at 2006 because of our inability to locate data for later years that would allow us to disaggregated data into its major components. The selection of such an end-point is not likely to significantly bias our results since even though there appears to have been an upward trend in total revenue in the mid to late 2000s, this trend is likely to have been cut short by the crisis. Moreover, our own estimates appear to be line with those of an IMF study of Africa that reported on basically the same period, 2005-6 (Gupta and Tareq, 2008).

Revenue Trends in African LDCs

Our data, which are illustrated in Figure 5, show that between the periods of 1990-94 and 1995-99 total average revenue rose in these 22 African LDCs from 12.3 percent to only 12.5 percent of GDP. But by 2000-2006, it had increased to 14.8 percent of GDP. So, though total revenue increased overall by 20 percent, almost all of this increase occurred in the 2000s.

Figure 5
Trends in Total Revenue and Tax Revenue

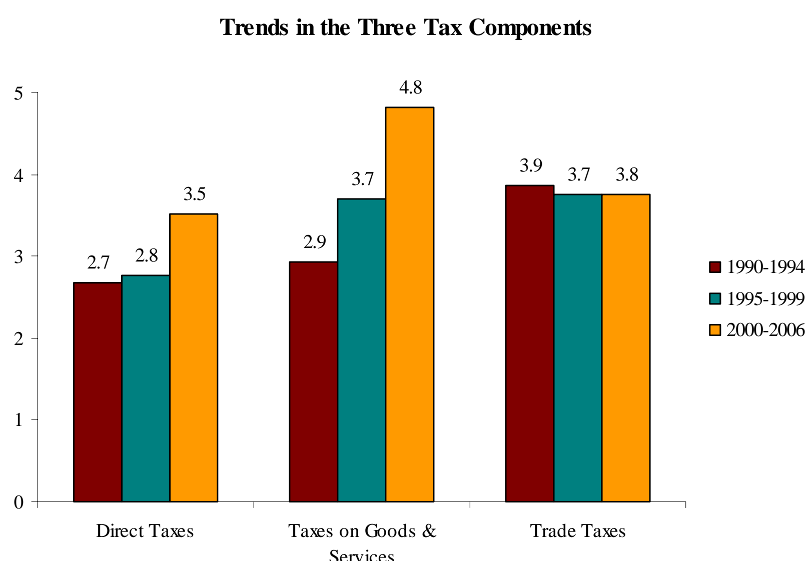


Next we focus on tax revenue. Our data suggest that average tax revenue edged up in these countries from 10.1 percent during 1990-1994 to only 10.8 percent during 1995-1999. But tax revenue appeared to experience a bigger increase to 12.2 percent during 2000-2006. So, overall there was almost a 21 percent increase. Taking the average for just 2004-2006, we found that the level of tax revenue was basically the same, i.e., 12.2 percent, so there was no evidence of significant progress for Least Developed Countries in the later years of our sample.

What explains the slow increases in both total public revenue and tax revenue in particular? In order to help answer this question, we disaggregated total tax revenue into its three major subcomponents – ignoring trends in a small fourth miscellaneous subcomponent, called ‘other taxes’.

As illustrated in Figure 6, we found that indirect domestic taxes (namely, taxes on goods and services) rose the most significantly of the three main subcomponents. It increased from 2.9 percent of GDP during 1990-1994 to 3.7 percent during 1995-1999 and then to 4.8 percent during 2000-2006. The overall increase was about 65 percent.

Figure 6
Trends in the Three Tax Components



Direct taxes (such as on personal income and corporate profits) rose more moderately than indirect domestic taxes. They edged up from 2.7 percent of GDP during 1990-1994 to only 2.8 percent in 1995-1999 and then moved up more significantly to 3.5 percent during 2000-2006. Overall, the increase was about 30 percent.

Trade taxes basically stagnated over the whole period. During 1990-1995, they were 3.9 percent of GDP, higher than either direct taxes or indirect domestic taxes. But by the late 1990s, they slipped down to 3.7 percent, and then rose back up to 3.8 percent during 2000-2006.

In order to better understand these tax trends, we place them within the general context of trends in growth and trade. Between the early 1990s and late 1990s, there was not a significant increase in trade, as measured by imports and exports. But imports jumped significantly between the late 1990s and mid 2000s. Hence, this implies that if trade taxes (specifically import tariffs) remained basically the same, then tariff rates and/or coverage had been significantly reduced.

Growth also increased between the early 1990s and the late 1990s, and more so between the late 1990s and the 2000s. So, one would have expected indirect domestic taxes to increase as they did, based to a large extent on the corresponding increases in expenditures. But the sluggish increases in direct taxes do not match the faster increases in incomes, particularly during the transition from the late 1990s to the 2000s.

Conventional Advice on Taxation

Much of the conventional advice on taxes has shifted in the last two decades. Instead of being regarded as a necessity for state-building, taxes have been assumed to be an inherent disincentive to private-sector initiative and a net loss to household welfare. The emphasis has been on the loss of private income but not on the ensuing benefits of revenue-financed public expenditures and investment.

Moreover, there appears to be a presumption, even among otherwise progressive economists, that when growth accelerates, public revenue will automatically increase. Unfortunately, the ODA-centric focus of the MDG campaign has helped fuel such complacency.

What has been the effect of conventional tax advice? Trade taxes have tended to stagnate or fall as countries have been urged to become increasingly open to trade and financial flows and have, accordingly, lowered their tariff rates. Also, in order to attract more FDI, countries have been counselled to lower their statutory rates on corporate taxes, in the expectation that their tax base for corporate profits would broaden. Though the available evidence is sketchy, there appears to be no significant resultant increase in the corporate tax base. This helps explain why there have been only sluggish increases in direct taxes.

Since trade taxes and corporate taxes have represented two of the most reliable sources of revenue for governments in Least Developed Countries, their reduction has exerted tremendous pressure on governments to find alternative sources of revenue.

Conventional tax advice has highlighted the need to institute value-added taxes (VATs) as the chief means to recoup the losses from trade liberalisation and the inability to broaden the base for direct taxes. But in the context of Least Developed Countries, the VAT is not likely to be as efficient as in developed countries, in part because of the need for extensive book-keeping and the prevalence of a large informal sector. As the VAT has been introduced across many developing countries, it has often not significantly boosted revenue from the levels achieved by previous indirect taxes, such as sales taxes. Nor has it compensated, in many cases, for the losses incurred from reducing or eliminating tariffs.

National ownership of the development agenda in Least Developed Countries is not likely to emerge until the governments of these countries are able to command more domestic resources. And in order to generate more domestic revenue, they will have to take a more critical view of the conventional tax advice that they have been offered. Any post-2015 MDG-related campaign should focus much greater attention on such issues, and shift the emphasis much more to building national capacities for domestic resource mobilisation instead of supplanting such resources (and the efforts to assertively mobilise them) by a heavy reliance on ODA.

3.3 Moving from Poverty Reduction to Inclusive Development

For roughly the last fifteen years, the international development community has been fixated on poverty reduction. The Millennium Development Goal campaign has been, in effect, an extension of such a focus. It has succeeded in expanding the emphasis beyond income poverty in order to include other measures of human deprivation, such as ill health, under-nutrition and illiteracy. Nevertheless, the deprivation focus has remained dominant.

Correspondingly, national poverty reduction strategies have taken precedence over general development strategies. And social development has taken precedence over economic development. Earlier in this report we documented the relative rise in the share of ODA allocated to social infrastructure and services and the corresponding fall in the share allocated to production sectors and economic infrastructure and services. In effect, LDCs and other developing countries have been urged to attain higher social development without having laid a solid economic basis for such progress. As a result, although Least Developed Countries, as a group, have made progress on some dimensions of basic human development, they are highly unlikely to reach many of the targets for MDGs #2-#7, and they continue to lag well behind developing countries as a whole.

Let us review the extent of social progress registered by the MDGs since 1990. See the appendix tables for the relevant data. Thanks to copious donor assistance, Least Developed Countries have made significant progress on increasing net primary-school enrolment ratios (MDG #2). In 2007, for example, with an enrolment ratio of 76 percent, they were close to reaching the average level achieved by all developing countries in 1991. Yet the literacy rate of youth aged 15-24 years was only about 57 percent in 2007, having increased slowly from about 46 percent in 1985-94. Hence, while enrolment ratios have been boosted, levels of educational achievement (as measured by recent school graduates) have not been commensurate.

LDCs have made significant progress on the under-five mortality rate judging by their original average high level of 181 deaths per 1,000 live births in 1990 (MDG #4). By 2007, this rate had dropped to 132 deaths per 1,000 live births. Yet the LDC average remained almost twice as high as that for developing countries as a whole, namely, 74 deaths. Moreover, the mortality rate among LDCs in 2007 was still about 30 percent higher than the average for all developing countries back in 1990. Furthermore, the under-five mortality is still very high among a substantial proportion of the population in many Least Developed Countries, as we will shortly discuss.

The trend observed for the under-five mortality rate is similar for the maternal mortality rate (MDG #5). In 1990, this rate stood at the very high average level of 900 maternal deaths per 100,000 live births among LDCs. By 2005, this rate was still recorded as being 870 – almost twice as high as the average for all developing countries. One reason – among other major ones – is the very low level of the contraceptive prevalence rate. In LDCs in 2005, for instance, this rate was still only about 30 percent – half the average for developing countries as a whole.

Like developing countries as a whole, LDCs have made only modest progress on expanding the access of their populations to an improved drinking water source or an improved sanitation facility (MDG #7). Between 1990 and 2006, LDCs managed to expand the percentage of the population with access to clean drinking water by only 12 percentage points, i.e., from 53 percent to 62 percent. In terms of percentage points, their record on increasing access to adequate sanitation was only 11 percentage points. But this modest improvement signified that in 2006 about two thirds of the population still lacked access to such essential infrastructure.

It is important to underscore the general point that in percentage terms, both income poverty and human poverty are still the condition of a substantial majority of the population in Least Developed Countries. Hence, the common assumption that poverty or human deprivation affects only a minority of the population is often misleading. This perspective leads to narrowly focused Poverty Reduction Strategies and social policies that are restrictively targeted. This is one major reason that any new generation of MDG-related strategies should be formulated to move beyond a narrowly defined poverty focus to adopt a more encompassing and inclusive development approach.

Examining more closely inequality measures for many Least Developed Countries can help clarify the need for a more inclusive development approach. Compared to the degree of inequality in some middle-income countries, such as Brazil and South Africa, LDCs appear to have relatively low levels of inequality. And statistics seem to suggest that they have made progress in reducing inequality. For example, Table 5 earlier in this report illustrated that the poorest 60 percent of the population in LDCs as a whole increased their share of total consumption from 28.6 percent to 31.3 percent between the periods 1990-99 and 2000-06. However, if we apply an ‘inclusiveness’ criterion to these statistics, then it is apparent that a substantial majority of the population in LDCs still account for less than one third of all expenditures in the 2000s. Since average real consumption per person is very

low in many of these countries, the absolute level of real consumption per person among the poorest 60 percent is abysmally low.

An 'inclusiveness' lens could also be applied to many MDG social indicators. For example, we can observe that high under-five mortality rates are widespread across the population in many of the Least Developed Countries when we examine disaggregated data from Demographic and Health Surveys. Data from these surveys have been disaggregated into quintiles according to a composite wealth index. Table 15 shows some of the results for a selection of Least Developed Countries for which we have relevant recent data.

Table 15

Average Under-Five Mortality Rate among the Poorest 60% (Selected LDCs)

Country	*Average Under-Five Mortality Rate*	*Year*
Benin	185	2001
Burkina Faso	130	2003-4
Cambodia	123	2005
Chad	198	2004
Congo DR	172	2007
Eritrea	123	2002
Ethiopia	139	2005
Guinea	211	2005
Haiti	116	2005-6
Madagascar	130	2003-4

Source: Various Demographic and Health Surveys (ranking by composite wealth index).

The table highlights average under-five mortality rates for the poorest 60 percent of the population (ranked by aggregate household wealth). For the ten countries that we have selected, the rate is well above 100 per 1,000 live births for the majority of the population. For example, in Congo DR, this average mortality rate is 172, in Benin 185, in Chad 198 and in Guinea 211. Hence, high mortality rates are not a problem confined to a minority of the population. They afflict a substantial majority. And the interventions adopted to deal with such a problem must be designed accordingly. A focused Poverty Reduction Strategy will simply not be adequate to this challenge.

A similar logic could be applied to poverty measures if we take a broader perspective on the extent of poverty in Least Developed Countries. One way of doing so is to employ the US$ 2 per person per day international poverty line, which applies, in a sense, a global standard in gauging the proportion of the population that is poor. By this standard, the great majority of the population in many LDCs would be judged to be poor. Table 16 illustrates such results

Table 16

Poverty Headcount (US$2 per person per day, PPP) in Selected LDCs

Country	*Headcount Ratio*	*Year*
Bangladesh	81%	2005
Cambodia	58%	2007
Congo, DR	80%	2006
Congo, Rep.	74%	2005
Ethiopia	78%	2005
Mali	77%	2006
Niger	86%	2005
Senegal	60%	2005
Togo	69%	2006
Uganda	76%	2005

Source: World Bank online database.

The PPP-based estimates of the poverty incidence in LDCs that are presented in this table range from 58 percent (in Cambodia) to 86 percent (in Niger). The point is not to endorse such measures as a preferred approach to gauging poverty (in contrast to national poverty estimates) but to dramatize the contention that poverty conditions could be plausibly interpreted as characterising a significant proportion of the population in many LDCs.

If such poverty estimates are reasonable approximations, based on modest assumptions according to global standards, and the disaggregated data in Table 15 could also be regarded as representative, then human deprivation is more widespread than has commonly been assumed in the recent generation of national Poverty Reduction Strategies,

Such a perspective suggests that Poverty Reduction Strategies, narrowly defined, are not appropriate for Least Developed Countries (and might also be similarly ill-suited for low-income countries). A preferred option would be national Development Strategies that are based on achieving broad-based and accelerated economic diversification and development, as a necessary foundation for rapid advances in human development.

There are deep-seated structural reasons for the widespread extent and depth of income poverty and human deprivation in Least Developed Countries. In this sense, inequality also has structural roots. The great majority of the labour force is confined to low-productivity activities, often informal and precarious, in either agriculture or urban services. Very few workers are employed in higher-productivity industrial sectors or decently paid modern service sectors. Invariably, formal-sector wage workers are a small minority of the national labour-force. The share of workers who are located in vulnerable employment, i.e., as unpaid household workers or own-account workers, is frequently a substantial share of the workforce. Such pervasive underemployment leads to conditions under which the great majority of the population earn pitifully low incomes and have few avenues of escape from mass poverty.

4. Concluding Remarks

In this report, we have provided a brief summary of progress on the Millennium Development Goals, with a focus on MDG #1 (tracking poverty, hunger and employment) and MDG #8 (tracking the Global Partnership for Development, based principally on a substantial scaling up of ODA). Our general conclusion is that progress on the MDGs in Least Developed Countries will not be rapid enough to reach the global targets, certainly not after the setbacks suffered by these countries as a result of the global financial crisis and recession.

But our underlying assessment is that attaining the MDGs would have been unlikely even without such global setbacks. The fundamental reason is not that the MDG targets were too ambitious but that the corresponding MDG-directed national strategies were not framed ambitiously enough.

LDCs were never allowed, or enabled, to graduate from national Poverty Reduction Strategies, focused principally on social development, in order to adopt national investment-focused Development Strategies that could accelerate and sustain economic growth and development. Public investment in basic economic infrastructure and production sectors has been sorely lacking as a result. Donors have not prioritised such investment, certainly not in agriculture, where a substantial proportion of the poor have been confined. And national governments have not been able to command the public resources to make such critical investments according to their own priorities and needs.

In attempting to sketch out some of the broad contours of an alternative strategic direction for Least Developed Countries, we have concentrated on a few major topics.

These have incorporated a renewed emphasis on 1) economic development vis-à-vis social development, 2) a growth- and development-oriented macroeconomic framework, freed from an unhealthy fixation with short-term price and output stability, 3) domestic resource mobilisation, and raising public revenue in particular, as the soundest long-term basis on which to finance development expenditures and 4) the need to supplant the prevailing focus on poverty with a more inclusive approach that incorporates the needs of a majority of the working population.

These four components could be essential elements, we believe, of reinvigorated MDG Strategies that would rely much more heavily on Inclusive Economic Development as the driving force to help countries reach globally agreed—as well as nationally agreed and prioritised—human development goals.

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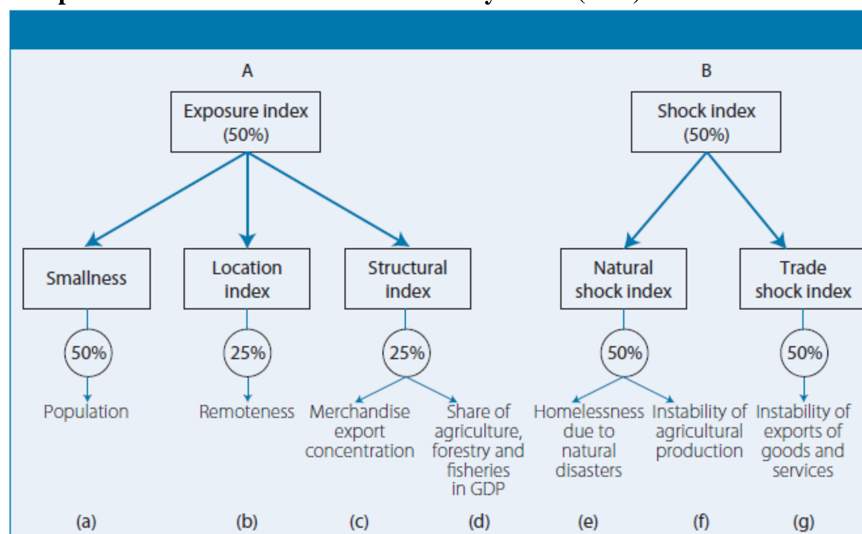
6. Appendix

Economic Vulnerability Index

Figure 7
Composition of the Economic Vulnerability Index (EVI)



Source: See www.un.org/esa/policy/devplan/profile/criteria.html#evi.

Selected indicators for MDGs #2-#7

The net enrolment ratio (in primary education) has increased significantly in LDCs, especially in the 2000s. However, this ratio has recently decreased in SIDS. However, the literacy rate of young adults has not increased commensurately.

Table 17
Primary Education (MDG #2)

Indicator	*2.1: Net enrolment ratio in primary education*			*2.2: Pupils reaching last grade of primary (%)*		*2.3 Literacy rate of 15-24 year-olds*		
	1991	*2000*	*2007*	*1999*	*2007*	*1985-94*	*1995-04*	*2005-07*
Developing	79.6	83.0	88.1	78.9	85.8	68.0	76.8	79.4
LDCs	53.0	58.7	76.0	44.0	59.1	46.1	53.4	56.6
LLDCs	53.7	63.1	77.4	53.1	64.4	55.7	60.3	62.9
SIDS	67.3	81.5	76.0	73.9	74.5	80.2	82.0	84.0

Source: UN (2009b).

While the ratio of girls to boys in primary education has improved significantly, this ratio is still considerably low in tertiary education. For example, for every 100 boys in university, there are only 58 girls. In SIDS, however, there are actually more girls than boys in tertiary education. The proportion of parliamentary seats occupied by women in LDCs is now greater than in 2000, although it still lags behind the average for developed countries (23 percent).

Table 18
Gender Equality (MDG #3)

Indicator	3.1: Ratio of girls to boys in primary education			3.1: Ratio of girls to boys in tertiary education			3.3: Parliamentary seats occupied by women (%)			
	1991	2000	2007	1991	2000	2007	1990	2000	2005	2009
Developing	0.87	0.91	0.95	..	0.77	0.96	10.4	10.8	13.9	17.2
LDCs	0.79	0.86	0.92	..	0.53	0.58	7.2	7.3	12.9	18.8
LLDCs	0.82	0.83	0.90	0.86	0.75	0.80	14.0	7.7	13.4	21.0
SIDS	0.96	0.95	0.95	..	1.21	1.55	15.2	13.1	17.8	20.9

Source: UN (2009b).

Child mortality rates have been reduced to 132 per 1,000 live births in LDCs, from 181 in 1990. However, this level is well above that in developing countries as a whole. It is noteworthy that immunisation against measles has increased significantly in LDCs, almost approaching the extent of coverage in developing countries as a whole in 2007.

Table 19:
Child Mortality (MDG #4)

Indicator	4.1: Under-five mortality rate (per 1,000 live births)			4.3: Children (12-23 months) immunised against measles (%)		
	1990	2000	2007	1990	2000	2007
Developing [1]	103	88	74	71	70	80
LDCs [2]	181	152	132	55	61	75
LLDCs	..	..	..	..	..	..
SIDS	..	..	..	..	..	..

Source: [1] UN (2009b), [2] World dataBank, Health Nutrition and Population Statistics (2010).

Maternal deaths have failed to be significantly reduced since 1990. The proportion of women (aged 15-49 and who are married or in union) using contraception has doubled in LDCs but the resultant level in 2005, i.e., 30 percent, is still very low. Moreover, the adolescent birth rate (15-19 years old) has only decreased slightly.

Table 20
Maternal Mortality (MDG #5)

Indicator	5.1: Maternal deaths (per 100,000 live births)		5.3: Contraceptive prevalence rate (%)		5.4: Adolescent birth rate (per 1,000 women)	
	1990	2005	1990	2005	1990	2006
Developing	480	450	50.2	62.3	66.5	53.0
LDCs	900	870	16.1	30.2	129.3	120.5
LLDCs	..	..	22.6	33.9	104.5	105.2
SIDS	..	..	46.8	55.2	80.4	65.7

Source: UN (2009b).

The data on HIV pandemics shows encouraging signs, with adult prevalence rates reversing directions from 2002 to 2007. There has also been greater access to antiretroviral drugs for those with advanced HIV infection though the levels of coverage are still modest for LDCs as well as for developing countries as a whole.

Table 21
HIV/AIDS, Malaria and other diseases (MDG #6)

Indicator	*6.1: Adult (15-49 years) prevalence of HIV (%)*			*6.5: Population with access to antiretroviral drugs (%)*	
	1990	*2002*	*2007*	*2006*	*2007*
Developing	0.3	1.0	0.9	22	31
LDCs [1]	2.0	2.4	2.2	20	31
LLDCs	..	..	..	23	32
SIDS	..	..	..	30	44

Source: UN (2009b), except: 1 World dataBank, Health Nutrition and Population Statistics (2010).

In terms of CO_2 emissions, LDCs are responsible for significantly lower levels of emissions, both in per capita and income terms.

Table 22
Environmental Sustainability I (MDG #7)

Indicator	*7.2: CO_2 emissions (metric tons per capita)*				*7.2: CO_2 emissions (kilograms per $1 GDP, PPP)*			
	1990	*2000*	*2005*	*2006*	*1990*	*2000*	*2005*	*2006*
Developing	1.7	2.0	2.5	2.6	0.64	0.58	0.60	0.59
LDCs	0.1	0.2	0.2	0.2	0.15	0.19	0.19	0.18
LLDCs	0.2	1.2	1.2	1.3	0.20	0.87	0.74	0.67
SIDS	3.1	3.1	3.2	3.3	0.57	0.44	0.42	0.40

Source: UN (2009b).

The share of the population with access to an improved water source and improved sanitation facility has increased in LDCs, although this improvement has been modest, especially for access to sanitation. In addition, most of the progress has been made in rural areas, while the rates in urban areas have almost stagnated.

Table 23
Environmental Sustainability II (MDG #7)

Indicator	*7.8: Population using an improved drinking water source (%)*						*7.9: Population using an improved sanitation facility (%)*					
	1990			*2006*			*1990*			*2006*		
	Total	*Urban*	*Rural*	*Total*	*Urban*	*Rural*	*Total*	*Urban*	*Rural*	*Total*	*Urban*	*Rural*
Developing [1]	71	93	59	84	94	76	41	66	28	53	71	39
LDCs [2]	53	81	45	62	81	55	22	45	15	33	49	27
LLDCs	..	..	..	..	..	..	..	..	..	..	..	..
SIDS	..	..	..	..	..	..	..	..	..	..	..	..

Source: [1] UN (2009b), [2] World dataBank, Health Nutrition and Population Statistics (2010).