UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

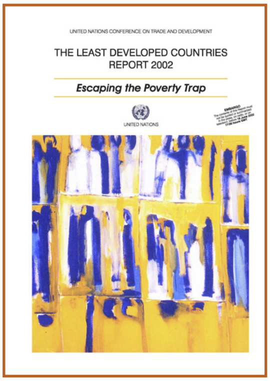
UNCTAD's Least Developed Countries Report Series

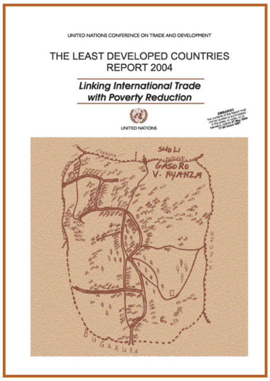
Division for Africa, Least Developed Countries and Special Programmes

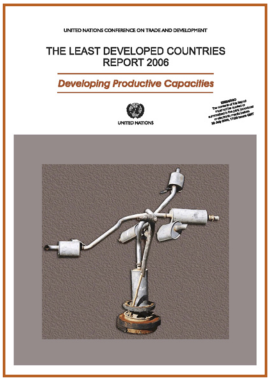
UNITED NATIONS

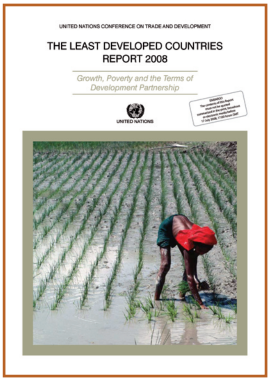
Division for Africa, LDCs and Special Programmes

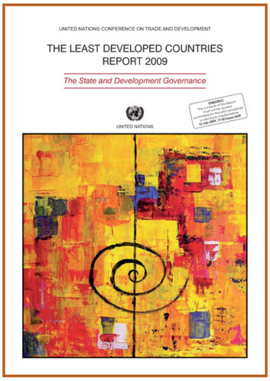
UNLDC IV
and
UNCTAD's Least Developed Countries Report series

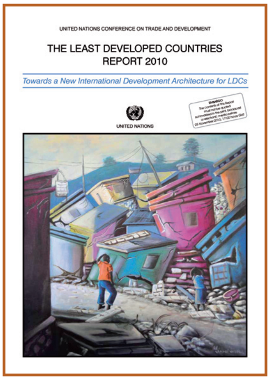












UNLDC IV
and
UNCTAD's *Least Developed Countries Report series*

UNCTAD has been publishing an analytical report on development in least developed countries since 1984. During the last ten years, seven Reports have been published and an eighth, *The Least Developed Countries Report 2010*, is currently under preparation for publication in November 2010.

These Reports are an important analytical resource for UNLDC IV. They provide detailed information on trends in economic development and poverty in LDCs during the decade, as well as over the last 30 years. They analyze key national and international policy issues during the period of the Brussels Programme of Action for LDCs. They identify emerging development challenges.

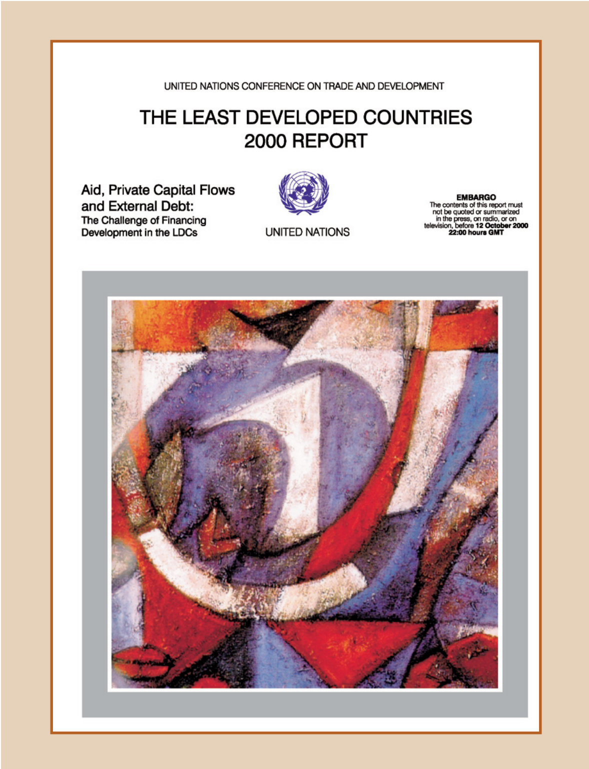
The Reports have been developed within the framework of a coherent research programme which has been concerned to assess the effectiveness of national and international policies to promote development and poverty reduction in LDCs, and also to propose pragmatic and constructive alternatives. Topics discussed include: development strategies and the PRSP; the links between trade, development and poverty reduction; the challenge of debt and development finance; governance and the role of the state; priorities for developing productive capacities; technological underdevelopment and the importance of knowledge and innovation; aid effectiveness and policy ownership; progress in poverty reduction and MDG achievement; and the effectiveness of international development architecture and special international support measures in favour of LDCs.

The subjects of the full sequence of Reports are as follows:

- LDC Report 2000: *Aid, Private Capital Flows and External Debt - The Challenge of Financing Development*
- LDC Report 2002: *Escaping the Poverty Trap*
- LDC Report 2004: *Linking International Trade with Poverty Reduction*
- LDC Report 2006: *Developing Productive Capacities*
- LDC Report 2007: *Knowledge, Technological Learning and Innovation*
- LDC Report 2008: *Growth, Poverty and the Terms of Development Partnership*
- LDC Report 2009: *The State and Development Governance*
- LDC Report 2010: *Towards a New International Development Architecture for LDCs*

Each Report can be downloaded on a chapter by chapter basis from www.unctad.org/ldcr. They also contain a short overview signed by the UNCTAD Secretary-General which can be downloaded separately. The Reports of 2000, 2002, 2004, 2006, 2008 and 2010 also contain a review of recent social and economic trends in LDCs.

The Least Developed Countries Report 2000:
Aid, Private Capital Flows and External Debt - The Challenge of Financing Development



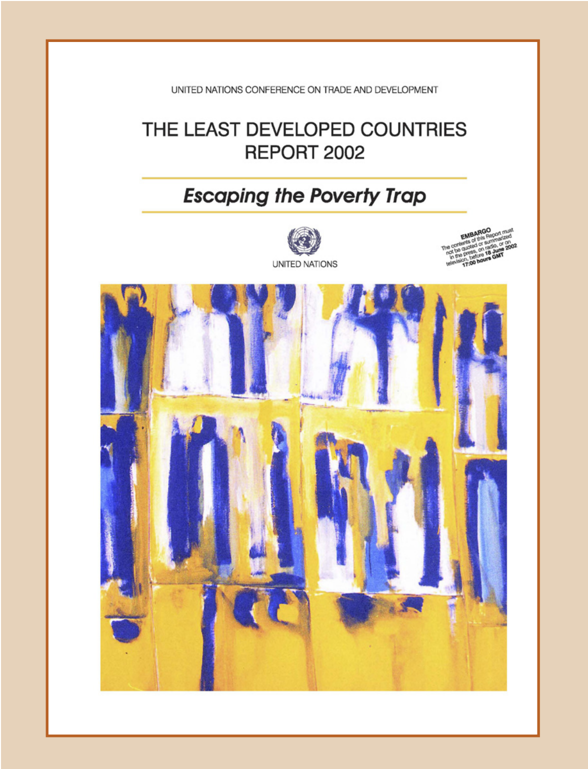
The LDC Report 2000 sets out the nature of the development finance problem in LDCs. It shows that low income and sluggish growth have meant that domestic savings are necessarily low. This is fundamental source of the vulnerability of LDC economies as the size of external shocks, in terms of income losses inflicted, are many times the size of the domestic resources they can muster to cope with the shocks. The extremely low levels of domestic resources available for financing development necessarily have meant that LDCs are highly reliant on external resources. But only a few LDCs have been able to attract significant private capital inflows and as a result they are highly aid dependent, and budgetary and accumulation processes are strongly affected by the control and delivery of aid resources.

The Report shows that in real per capita terms net ODA to LDCs dropped by 45 per cent between 1990 and 1998. Moreover, aid effectiveness has been undermined by aid unpredictability, massive coordination failures, inappropriate off-the-shelf blueprints which have been propagated through the sticks and carrots of policy conditionality, and the existence of an aid-debt service system which has meant that aid inflows have been directed in the 1990s to enable debt service payments. The poor integration of the aid delivery system into national economic and administrative structures and the lack of coordination of donor activities have, in conjunction with strict policy conditionality on the fiscal budget, eroded government capacities over time, thus undermining the possibility for national ownership.

The Report recognizes that serious changes were made to international development cooperation in 1999 with the introduction of the PRSP approach and the more concerted application of principles of partnership and policy coherence. But the Report argues that the diagnosis for change which shaped the new approach to international development cooperation was flawed in several crucial respects. Most notably, the diagnosis for policy change assumed that the relatively weak response to policy reforms in low-income countries is a result of poor implementation rather than inadequate policy design and under-funding. In reality, in spite of problems of implementation and interruption, there was a significant shift in the policy environment in many LDCs in the 1990s in the direction of economic liberalization. But these policies did not tackle the structural weaknesses of LDC economies. The new approach also has a one-eyed approach to aid effectiveness assuming that aid will work if the national policy environment is right, whilst ignoring the seriously adverse effects of donor practices. The new approach does not effectively dissolve the tension between ownership and conditionality. Moreover, proposals for debt relief through the HIPC Initiative are simply insufficient to ensure debt sustainability, particularly as they are rooted in unrealistic forecasts about economic and export growth. Finally the Report argues that the introduction of social dimensions into economic reforms does not really address the key issue of how to achieve more rapid and sustained economic growth in LDCs.

Against this background the Report calls for a new approach to international cooperation focused on re-orienting national policies towards developing productive capacities and structural transformation, ensuring adequate aid flows, implementing partnership based on genuine national ownership, undertaking adequate debt relief and increasing systemic policy coherence. It says that the UNLDC III offers a major opportunity for a new approach. This should promote a progressive transition in which dependence on aid is reduced as sustainable growth is increasingly founded on domestic resource mobilization, the attraction of developmental FDI and the tapping of international financial markets, and productive capacities and internationally competitive activities develop as a result.

The Least Developed Countries Report 2002: *Escaping the Poverty Trap*

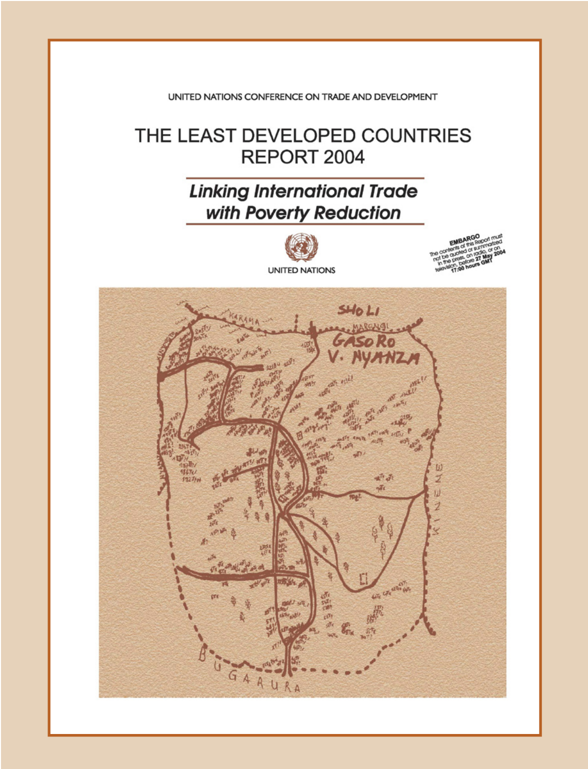


The LDC Report 2002 analyses the relationship between poverty and development in the LDCs in the context of increasing global interdependence. It is the first international comparative analysis of poverty in the LDCs and is based on a new set of poverty estimates constructed specifically for the Report. These show that in the late 1990s about 50 per cent of the LDC population lived on less than $1/day and about 80 per cent on less than $2/day. The incidence of extreme poverty was higher at that time in the LDCs than in the late 1960s. Moreover, there is a close association between the incidence of extreme poverty and dependence on exports of primary commodities.

The Report argues that the poverty is all-pervasive and persistent in LDCs because most of them are caught in an international poverty trap, whilst those which have escaped this trap are vulnerable to falling back into it. The international poverty trap exists because generalized poverty within LDCs has negative effects at the national level (such as low savings, weak enterprise and state capabilities, very high population growth) that cause poverty to persist and even to increase, and at the same time international trade and finance relationships are reinforcing the cycle of economic stagnation and poverty. In this regard, commodity-dependent LDCs experienced falling and volatile real commodity prices throughout most of the 1980s and 1990s, and this is closely associated with the build-up of sustainable external debt and the creation of an aid/debt service system which has compromised the development effectiveness of aid and reinforced and rationalized aid fatigue. The Report argues that the current form of globalization is tightening the poverty trap.

With improved national and international policies, LDCs can escape the poverty trap. Indeed a central message of the Report is that there is a major, but currently underestimated, opportunity for rapid reduction in extreme poverty in the LDCs through sustained economic growth. However, the new Poverty Reduction Strategy Papers (PRSPs), which are currently the focus of national and international efforts to reduce poverty in poor countries, are not grasping that opportunity. There has also been a trend in aid away from production sectors and economic infrastructure. The Report proposes an alternative approach to improve the design of poverty reduction strategies through a developmental approach which recognizes the importance of developing productive capacities and crating productive jobs and livelihoods. It also shows that effective poverty reduction in the LDCs needs a more supportive international environment. This should include increased and more effective aid and debt relief, a review and recasting of international commodity policy, and policies which recognize the interdependence between the socio-economic marginalization of the poorest countries and the increasing polarization of the global economy.

The Least Developed Countries Report 2004:
Linking International Trade with Poverty Reduction



The LDC Report 2004 assesses the relationship between international trade and poverty within the LDCs, and identifies national and international policies that can make trade a more effective mechanism for poverty reduction in these countries.

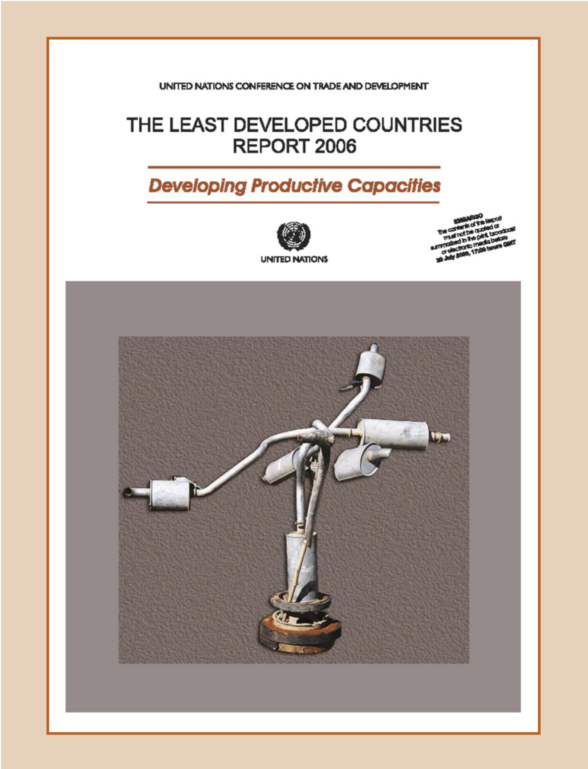
The Report argues that international trade can play a major positive role in reducing poverty in the LDCs. However, in practice this is not happening in many of them. In some this is due to a weak trade performance. But most of the LDCs achieved much higher rates of export growth in the 1990s than in the 1980s. The failure of trade expansion to lead to poverty reduction has been related to weaker linkages between trade and economic growth than in the more advanced developing countries. Moreover, there is a tendency for export expansion in very poor economies with mass poverty and few surplus financial resources to be associated with an exclusionary rather than inclusive form of economic growth. Civil conflicts in some of the LDCs have also been associated with immiserizing trade.

The Report shows that most LDCs undertook deep trade liberalization in the 1990s. They also received some degree of preferential market access from developed and developing countries. But trade liberalization plus enhanced market access does not necessarily equal poverty reduction. Many LDCs are in the paradoxical situation that they are the ones needing the multilateral trading system the most, but they find it hardest to derive benefits from the application of its central general systemic principles: liberalization and equal treatment for all its members.

If past trends persist, the LDCs are likely to become the major locus of extreme poverty in the world economy by 2015. A more effective link between international trade and poverty reduction could help to prevent this happening. Action is required now on three fronts: a two-way mainstreaming of both trade and development within national poverty reduction strategies; increased and effective international financial and technical assistance for developing domestic production and trade capacities; and an enabling international trade regime, which includes (i) phasing out by OECD countries of agricultural support measures that adversely affect LDCs, (ii) new international policies to reduce vulnerability to negative commodity price shocks and to address the special challenges facing mineral economies, (iii) more effective market access preferences for the LDCs complemented by new supply-side preferences, and (iv) enhanced South-South cooperation in the field of trade and investment.

The Report sets out a methodology for mainstreaming trade in development and poverty reduction strategies, from which LDCs can better identify their trade needs and interests. It also advocates a development-driven approach to trade rather than a trade-driven approach to development.

The Least Developed Countries Report 2006:
Developing Productive Capacities



The LDC Report 2006 focuses on the under-development of productive capacities in LDCs and policy priorities for rectifying this situation. Productive capacities are defined as the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop. For tradable goods and services, it is the capacity to produce in an internationally competitive manner that matters.

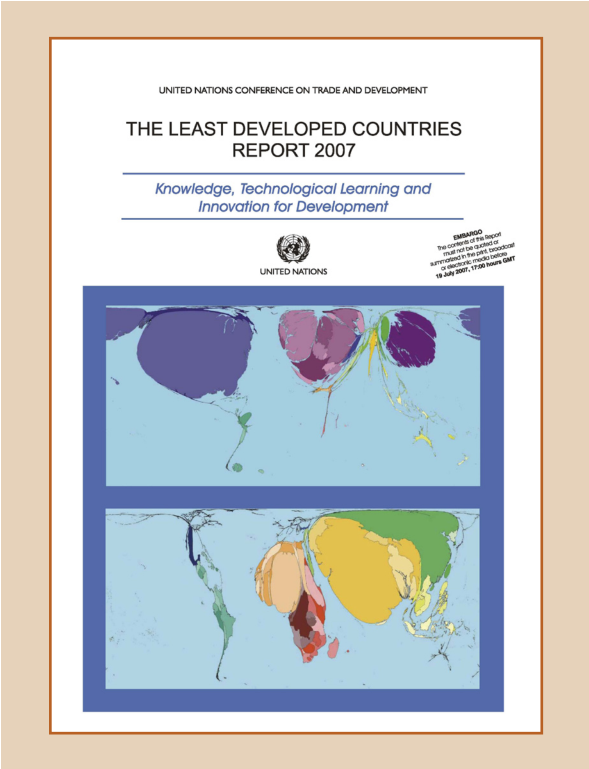
Productive capacities develop within a country through three closely interrelated processes: capital accumulation, technological progress and structural change. The Report shows that the development of productive capacities is occurring very slowly in the LDCs. Domestic capital formation is very low and far below that required for a fast catch-up growth scenario. There has been little structural change for the LDCs as a group since the early 1980s, though manufacturing value-added is increasing as a share of GDP in a few countries whilst it has declined in many. Moreover there is a lack of technological learning and innovation in LDCs.

The Report shows that in almost all the LDCs there is an imbalance between the rate of growth of the labour force, which is very rapid owing to population growth, and the rate of capital accumulation and technological progress, which is generally slow. As a result, most workers have to earn their living using their raw labour, with rudimentary tools and equipment, little education and training, and poor infrastructure. This is the basic cause of persistent mass poverty in the LDCs. Labour productivity is low and there is widespread underemployment. Value-added per worker was just 20 per cent of the level in other developing countries in 2000-2003 and 1 per cent of the level in developed countries. Moreover the productivity gap widened between the early 1980s and the early 2000s.

The development of productive capacities in a way in which productive employment opportunities expand — in non-agricultural activities as well as within agriculture — is the key to achieving substantial and sustained poverty reduction in the LDCs. The Report thus calls for a paradigm shift in national and international policies to promote development and poverty reduction. In short it calls for the development of productive capacities to be placed at the heart of national and international policies to promote economic growth and poverty reduction in the LDCs. This entails a radically different approach to poverty reduction and also to trade policy, as well as more developmental agricultural and industrial policies.

Although each country is different, the Report suggests some general strategic orientations which are directed towards lifting three basic constraints on the development of productive capacities. These are: (i) the infrastructure divide; (ii) weak institutions, notably domestic firms, domestic financial systems and domestic knowledge systems; and (iii) lack of demand. The Report emphasizes that bridging the electricity divide should be a major priority in many countries, as well as getting rid of the missing middle in the enterprise structure by promoting the development of domestic medium-sized firms through developing domestic financial systems and domestic knowledge systems. Successful cases of poverty reduction in low income countries also show that policies should seek to articulate domestic demand linkages arising from agricultural productivity growth, rising farm incomes and local industries and services, as well as pursue export upgrading to take advantage of growing global demand.

The Least Developed Countries Report 2007:
Knowledge, Technological Learning and Innovation for Development



The LDC Report 2007 is the first systematic study of technological learning and innovation in LDCs. It argues that science, technology and innovation (STI) policies are vital even in the poorest countries. Since the 1990s most LDCs have undertaken rapid and deep trade and investment liberalization. But the Report shows that the current patterns of technology flows to LDCs through international trade, FDI and licensing are not contributing to narrowing the global knowledge divide. Sustained economic growth and substantial poverty reduction cannot occur in the present context of liberalization without learning, and of global integration without innovation. Liberalization without technological learning will result, in the end, in increased marginalization.

The Report sets out what national Governments and their development partners might do to help to rectify this situation. It focuses on four key policy issues:

- What types of science, technology and innovation policies should LDCs adopt;

> How intellectual property rights regimes affect technological development processes in LDCs, and policy options for improving the latter's learning environment;

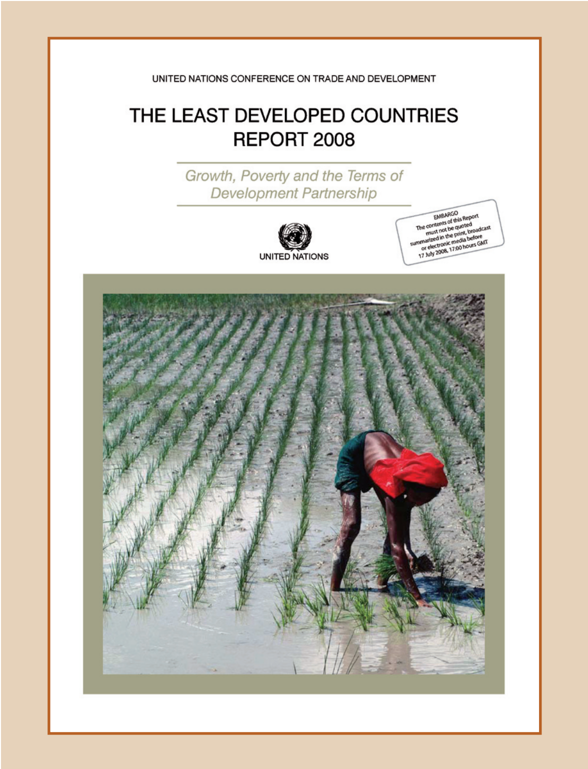
> How the loss of skilled human resources through emigration can be addressed;

> How knowledge aid (as part of official development assistance) can be used by LDCs and their development partners to support learning and innovation in the LDCs.

Successful developing countries have adopted policies to promote technological learning and innovation which are geared towards achieving technological catch-up with more advanced countries. The Report argues that LDCs should do likewise. But in promoting innovation they should adopt a systems approach and an evolutionary approach tailored to their level of development. Innovation occurs when domestic firms and farms adopt products, processes and managerial practices which are new to them or to the country. Strategic priorities should be to increase agricultural productivity in basic staples, promote the formation and growth of domestic business firms, increase the absorptive capacity of domestic knowledge systems , leverage more learning from international trade and FDI, foster diversification through linkages and upgrade export activities.

The Report also agues that international measures should more effectively support technological transfer, learning and innovation in LDCs. In this regard, there is a need to fine-tune the current intellectual property rights regime in line with development needs and specific initial conditions, to enhance TRIPs flexibilities rather than impose TRIPs-plus requirements and to implement Article 66.2 of the TRIPs agreement, which encourages developed countries' Governments to provide incentives for technology transfer to LDCs. The Report also argues that skilled emigration from LDCs is a major problem which must be addressed to transform brain drain into brain gain. Finally, the Report shows that donors provide very little aid to STI and what they do provide is disjointed. Knowledge aid that strengthens the knowledge resources and knowledge systems of LDCs is an essential component of aid which is not a hand-out, but rather a hand-up. The Report argues that the provision of such aid would be the basis for a radical break with past aid failures.

The Least Developed Countries Report 2008:
Growth, Poverty and the Terms of Development Partnership



The LDC Report 2008 examines recent trends in growth and poverty in LDCs using updated poverty estimates, and assesses progress towards country ownership of national development and poverty reduction strategies. The latter is seen as critical for balance in the terms of development partnership.

The strong growth performance of the LDCs as a group has been one of the most encouraging features of the global economy so far in this decade. Their economic growth since 2000 has been higher than in the 1990s, and a spurt of growth in 2005 and 2006 gave LDCs their strongest growth performance for thirty years. Against this background, the report asks:

- How sustainable is economic growth and how many LDCs are participating in the growth surge?
- To what extent is economic growth leading to improvements in human well-being? In particular, how much is rapid growth translating into accelerated poverty

reduction and improved progress towards the Millennium Development Goals?

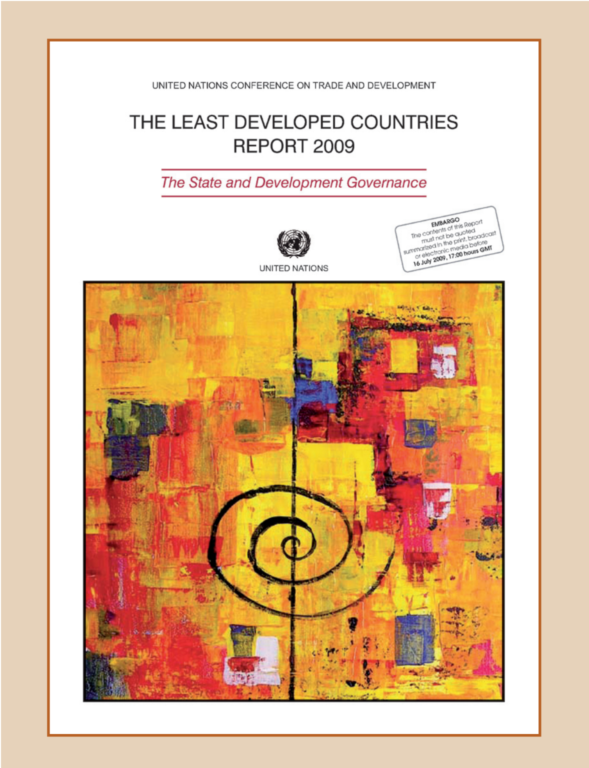
> To what extent do LDCs have effective leadership and ownership in the design and implementation of their national development strategies?

The Report argues that the high rates of growth are not robust, nor inclusive. The Report shows that the LDCs are very vulnerable to a slow-down in growth, as they are still characterized by low levels of domestic resource mobilization and investment, very weak development of their manufacturing industries, high levels of commodity dependence, weak export upgrading, worsening trade balances, and rising food and oil import bills. The Report also finds that rapid economic growth in the LDCs during the 2000s has been associated with a slow rate of poverty reduction and slow progress towards the Millennium Development Goals. The LDCs as a group are not on track to achieve the goal of reducing the incidence of poverty by half between 1990 and 2015, and there is no evidence of any significant change in the trend in this area since 2000, despite the adoption of the Millennium Declaration and more socially-oriented policy reforms.

The achievement of more sustainable and inclusive economic growth in the LDCs requires effective national development strategies as well as effective aid. Enhanced country ownership of national strategies and policies is essential for a strong development partnership. The report finds that significant steps are being taken to enhance country ownership, but that various processes continue to weaken country ownership in LDCs. At present this is being undermined not simply by misalignment of aid with national strategies, but also through: (i) weak technical capacities together with strong incentives to anticipate and internalize donor priorities in policy formulation; and (ii) the prioritization of donor agendas in policy implementation through the working of policy conditionality, administrative guidance via monitoring indicators and selectivity in donor financing choices. In effect, most second-generation PRSPs in the LDCs are so broadly defined and so weakly embedded in a strategic choice that there is an ownership frontier within the PRSP. Part of the policy agenda is strongly owned by national Governments; part by strongly donors by donors; and in between there is a shifting zone of consensus policies.

Weak country ownership is having adverse consequences on development effectiveness, including the inability to mainstream trade in national development strategies and an increasing mismatch between the content of national strategies, which are increasingly emphasizing production sectors, and donor priorities, which have increasingly emphasized social sectors. The report identifies some practical measures, including the adoption of aid management policies by the LDCs, which could help rectify this situation, ensuring better outcomes and more balance in the terms of development partnership.

The Least Developed Countries Report 2009:
The State and Development Governance



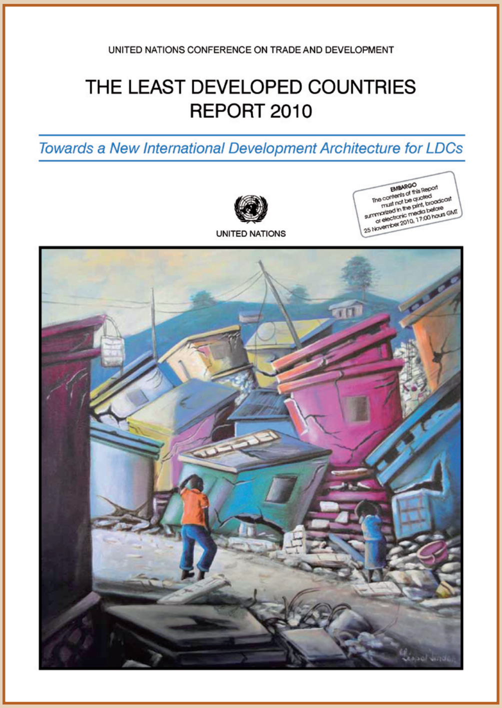
The LDC Report 2009 focuses on the role of the state in LDCs, particularly in the context of the need to develop productive capacities. It argues that neither the good governance institutional reform agenda currently being implemented by many LDCs, nor the old developmental State, which includes successful East Asian economies, are entirely appropriate models now. Rather, it is necessary to build a new developmental State. This is not a matter of going back to old-style development planning, but rather a question of finding new forms of development governance that are appropriate for the twenty-first century.

A rebalancing between the State and the market is necessary in order to mitigate the effects of the crisis, to create resilience to external shocks through greater diversification and structural change, and to promote a more inclusive and employment-intensive growth path. Based on the experiences of proactive mixed economy models, the Report explores the role and functions of the State in alleviating structural bottlenecks and constraints on the growth of productivity and on the development of productive capacities, such as investment insufficiency. Overcoming these constraints requires an integrated framework consisting of sectoral agricultural and industrial policies that are buttressed by pro-growth macroeconomic policies. In this context, development governance is oriented to fostering markets' creative function of stimulating economic change, based on a social contract that enables participation in decision-making and provides a louder public voice.

The Report stresses that no unique and optimal model of development exists that is applicable to all countries, therefore it calls for policy diversity and institutional learning. It recognizes the deep underlying complementarities between the public and private sectors. The need for official development assistance is underlined, but the Report insists on country ownership of policies. Since institutional learning takes time and resources, policy space is essential for long-term success.

The Report recognizes that LDC Governments have a vital role to play in the restructuring of their economies, the development of productive capacities, and the creation of conditions for catch-up growth, including learning and the accumulation of knowledge both in the firm and on the farm. The crisis confirms that this kind of policy orientation is the only sustainable option for LDCs. This will involve broadening and adapting public action to small, open developing economies. The Report sketches out a concrete, alternative economic strategy and a fresh agenda for LDC policymakers, which includes institutional capacity-building and the strengthening of the market-complementing developmental State.

The Least Developed Countries Report 2010:
Towards a New International Development Architecture for LDCs



This Report examines the impact of the global financial crisis in the LDCs in terms of a boom-bust cycle. It shows that despite their strong growth performance during the period 2002-2007, the LDCs are still characterized by major structural weaknesses which are rooted in the underdevelopment of productive capacities and high levels of dependence on external sources of growth. High rates of economic growth have also not translated effectively into broad-based improvements in human well-being. Using up-dated poverty estimates, the Report shows that the number of people living in extreme poverty in these countries continued to rise even during the boom years of 2002–2007, and progress towards achievement of the Millennium Development Goals has remained very slow. With the financial crisis, there was a strong but heterogeneous slowdown in the LDCs which could have major adverse social consequences in the future. Owing to the weak development of productive capacities, the LDCs remain highly prone to external shocks and growth collapses, and they continue to be marginalized in the global economy.

Against this background, the Report calls for the creation of a new international development architecture (NIDA) for the LDCs which enables new, more inclusive development paths in LDCs. This requires the State to play a more developmental role in creating favourable conditions for job creation, capital accumulation, technological progress and structural transformation as argued in the LDC Report 2009. The NIDA should be designed to facilitate the new development paths. The Report shows, using alternative policy scenarios, that accelerated growth and poverty reduction are achievable in the coming decade through national and international policy changes.

Various LDC-specific international support measures have already been adopted to support LDCs' development and eventual graduation from the category. But the major thrust of recent measures has been in the sphere of trade (particularly to improve market access). Moreover, they have not often been associated with the necessary financial and institutional means for effective implementation, and they have worked at cross-purposes with general economic regimes (such as in the areas of agricultural subsidies, intellectual property rights and debt relief). The Report thus argues that they have had largely symbolic, rather than practical developmental effects.

The NIDA for LDCs is defined as a new architecture of formal and informal institutions, rules and norms, including incentives, standards and processes, which would shape international economic relations in a way that is conducive to sustained and inclusive development. It would be constituted through: (a) reforms of the global economic regimes which directly affect development and poverty reduction in LDCs; and (b) the design of a new generation of special international support mechanisms (ISMs) for the LDCs aimed at addressing their specific structural constraints and vulnerabilities. Increasing South-South international flows of trade, FDI, official finance and knowledge also implies that South-South cooperation, both within regions and between LDCs and large, fast-growing developing countries, could also play an important role in a NIDA for LDCs.

The Report proposes five major pillars of the NIDA: finance, trade, commodities, technology, and climate change mitigation and adaptation. It identifies 8 principles for the design of NIDA and puts forward a forward-looking agenda for action in the NIDA for LDCs in all five areas. It also calls for reforms in global governance which give greater voice and representation to the LDCs, whose total population will surpass 1 billion during 2017.

Some Reviews of the Least Developed Countries Reports

> ***LDC Report 2002*** was described at its launch by Jeffrey Sachs, Director of the Earth Institute, Colombia University, as "the best study available on why poor countries are trapped in poverty and what we can do about it".

> ***LDC Report 2004*** was assessed in review article in *Development and Change* 36 (6), together with UNDP's report *Making Global Trade Work for People*, in the following terms: "These excellent and lucid Reports deserve the widest possible readership. They succeed in removing the deeply unsettling confusion surrounding globalization's impact on developing countries by a careful, consistent and 'cool' analysis of what actually has been happening and what still is happening" (p.1257).

> ***LDC Report 2006*** is described in a review article in the Journal of Development Studies 43 (4) as "a tour de force by any standards…packed with detailed and cogent argument concerning how the LDCs can grow out of poverty through a judicious mix of supply-side and demand-side policies" (p.767).

> The Office of the President of the Republic of Malawi said that the ***LDC Report 2007*** "would be utilized as a reference document in the development, implementation and follow-up of Malawi's Growth and Development Programmes."

> The Foreign Minister of the Republic of Ireland, described the ***LDC Report 2008*** as «a very interesting and useful Report»; and Le Secretaire d'Etat chargé de la coopération et de la Francophonie in France, said that «Les analyses, observations et recommandations qui composent cet ouvrage sont fort intéressantes et je ne manquerai pas d'en prendre connaissance avec attention».

> At the opening session of the Africa Regional Preparatory Meeting on the Review of the Implementation of the Brussels Programme of Action, the Minister of Finance and Economic Development of the Ethiopia emphaiszed that «Promoting structural transformation and economic diversification through productive capacities development is central for LDCs to break the poverty trap» and said «Let me end by recalling the key messages of UNCTAD's ***LDCs 2009 Report***: The State and Development Governance which are worthwhile to pay attention to … i.e. (a) There is even more reason now to refocus policy attention on developing productive capacities; (b) It is necessary to build a new developmental state; (c) It is necessary to ensure effective international support while making clear that this support for LDCs does not impose limits to the measures that Governments can make to promote development, structural transformation and poverty eradication».