UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

THE LEAST DEVELOPED COUNTRIES 1999 REPORT

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Explanatory Notes

The term "dollars" ($) refers to United States dollars unless otherwise stated. The term "billion" signifies 1,000 million.

Annual rates of growth and changes refer to compound rates. Exports are valued f.o.b. (free on board) and imports c.i.f. (cost, insurance, freight) unless otherwise specified.

Use of a dash (–) between dates representing years, e.g. 1981–1990, signifies the full period involved, including the initial and final years. An oblique stroke (/) between two years, e.g. 1991/92, signifies a fiscal or crop year.

The term "least developed country" (LDC) refers, throughout this report, to a country included in the United Nations list of least developed countries.

In the tables:

Two dots (..) indicate that the data are not available, or are not separately reported.

One dot (.) indicates that the data are not applicable.

A hyphen (-) indicates that the amount is nil or negligible.

Details and percentages do not necessarily add up to totals, because of rounding.

Abbreviations

ACIS	Advance Cargo Information System (UNCTAD)
ADB	Asian Development Bank
AfDB	African Development Bank
APQLI	Augmented Physical Quality of Life Index
ASEAN	Association of South-East Asian Nations
ASYCUDA	Automated System for Customs Data (UNCTAD)
CDC	Commonwealth Development Corporation
CEEAC	Central African Economic Community (Communauté économique des Etats de l'Afrique centrale)
CFA	Communauté financière africaine
CIS	Commonwealth of Independent States
COMESA	Common Market for Eastern and Southern Africa
DAC	Development Assistance Committee
DCs	developing countries
DME	developed market economy
ECA	export credit agency
ECGD	Export Credits Guarantee Department
ECOWAS	Economic Community of West African States
EPZ	export processing zone
ESAF	Enhanced Structural Adjustment Facility
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDI	Gross domestic investment
GDP	gross domestic product
GDS	gross domestic savings
GNP	gross national product
GSP	Generalized System of Preferences
GSTP	Global System of Trade Preferences among Developing Countries
HIPC	heavily indebted poor country
HS	Harmonized Commodity Description and Coding System
ICC	International Chamber of Commerce
IDA	International Development Association
IFC	International Finance Corporation
ILO	International Labour Organization

IMF	International Monetary Fund
IMO	International Maritime Organization
ITC	International Trade Centre (UNCTAD/WTO)
ITU	International Telecommunication Union
LDC	least developed country
MFA	Multi-Fibre Arrangement
MFN	most-favoured-nation
MIGA	Multilateral Investment Guarantee Agency
NGO	non-governmental organization
NIE	newly industrializing economy
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OPIC	Overseas Private Investment Corporation
R&D	research and development
SADC	Southern African Development Community
SAF	Structural Adjustment Facility
SAP	Structural Adjustment Programme
SCM	subsidies and countervailing measures
SDR	special drawing right
SME	small and medium-sized enterprise
SNPA	Substantial New Programme of Action for the 1980s for the LDCs
SOE	State-owned enterprise
SPS	sanitary and phytosanitary
TBT	technical barriers to trade
TNC	transnational corporation
TRIMs	trade-related investment measures
TRIPS	trade-related aspects of intellectual property rights
UDEAC	Customs Union of Central African States
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Overview

Introduction

As the decade draws to a close, it has become clear that the least developed countries (LDCs) have generally failed to derive appropriate benefits from the ongoing processes of liberalization and globalization. These processes have added new dimensions to the familiar supply-side constraints in LDCs as the latter attempt to adjust to the new, more competitive international environment. Whilst the 1980s were dubbed the "lost decade" for developing countries in general and LDCs in particular, the 1990s have become, for LDCs, the decade of increasing marginalization, inequality, poverty and social exclusion. The violence and social tensions which afflict several LDCs are caused, in part at least, by increasing deprivation and inequality.

This grim reality raises three important questions that need to be addressed as a matter of priority by the international community and the LDCs themselves, and underlies the decision of the General Assembly to convene the Third United Nations Conference on the Least Developed Countries in 2001. First, why have past efforts, by both national and international actors, to address the development problems of LDCs failed to deliver the desired results? Second, what are the critical factors that continue to depress living standards and constrain the participation of LDCs in world trade at a level that is commensurate with their potential? Finally, how can such constraints be overcome in order to enhance the productive capacities and competitiveness of LDCs, and thereby restore hope not only for sheer survival but also for the sustained improvement of living standards among the millions in these countries in the new century?

An examination of these issues in this Report reveals that underlying the LDCs' poor performance in world trade is their weak productive capacity and competitiveness, resulting from a host of structural and other supply-side constraints. The economic structures of these countries are dualistic and poorly integrated, and development interventions quite often bypass the majority of the people who still derive a livelihood from low-productivity traditional sectors. Firms are not specialized and markets for services are poorly developed, which in turn limits specialization and associated productivity gains. It is a vicious circle. Developing and sustaining competitiveness and productive capacities, like all other aspects of development, is a long, difficult and often frustrating process, but one which must be confronted by the Governments of LDCs and their development partners with unwavering resolve in a renewed spirit of solidarity and shared responsibility.

As an input to the preparatory process for the Third United Nations Conference on LDCs, to be hosted by the European Union in Brussels in 2001, this Report explores how to address this issue of supply-side constraints that has dogged LDCs for so long. The Conference affords the international community a unique opportunity to review, assess and adopt policies and measures that could effectively resolve the LDC development problematique, including issues addressed in this Report.

The least developed countries in an increasingly competitive global economic system

In today's global competitive environment, LDCs are at a disadvantage because the competitive edge is determined, more than anything else, by access to knowledge in both production and marketing. Thus natural resource endowments, cheap labour or other such aspects of static comparative advantage have now become subordinated to the knowledge-based dynamic comparative advantage. Knowledge is the foundation for production innovation, which in turn largely determines the competitiveness of products. Competitive strength essentially lies in productivity, which will be reflected in the quality of the products relative to their cost, and in the efficiency with which products are delivered to the market. A critical condition for the international competitiveness of countries is competitiveness in the domestic market. The latter ensures that factors of production are efficiently allocated in consonance with domestic prices, which should be more or less aligned with prices at the international level. This facilitates the transition of domestic firms to international competitiveness. LDC Governments must therefore pursue policies that encourage the evolution of a competitive business environment at home as a precondition for their competitiveness in the global markets.

For LDCs, the major elements of the structural weaknesses that underlie their poor productive capacities and competitiveness are supply-side constraints, including:

- The lack of linkages within and between productive, service and infrastructural sectors, which limits the potential for specialization and gains in productivity;
- Insufficiently developed human resources, which lead to a paucity of managerial, entrepreneurial and technical skills;
- Shortcomings in production units related to weak technological capability and adaptive research;
- Deficiencies in the physical infrastructure (e.g. transport, power and storage facilities) and such other support services as telecommunications, financial services and other technical support service institutions, particularly for marketing input and outputs; and
- The inability of LDC economies to generate adequate resources for investing in alleviating the above constraints in order to enhance productive capacity. The expected levels of financial and technical support from the international community that were meant to complement domestic resources have, in turn, not materialized.

Public policy in LDCs has a pivotal role in addressing the above problems. Macroeconomic policies, in particular their stability and predictability, are essential in this respect, but sectoral and micro, or firm-level, policies are also necessary to facilitate the development and sustain the competitiveness of productive capacity in specific sectors, industries and firms.

In addition, Governments have to provide an enabling environment to foster private sector development. The elements of such an environment include: a reliable physical infrastructure; an efficient and solvent financial system; a transparent legal and regulatory system with effective mechanisms for the enforcement of contracts; an effective competition policy that is conducive to the utilization of investment and trade opportunities; and simplified tax regimes to reduce the levels and multiplicity of taxes in order to encourage compliance. The private sector and civil society need to be involved in policy formulation and implementation if they are to understand the thrust of policy reforms, have confidence in them and understand the benefits they stand to derive from them. The involvement of all stakeholders would also provide policy reforms with a strong political base, without which reforms could falter.

Competitiveness and productivity at the firm level also need to be enhanced, in particular through changes in management styles, organizational norms and marketing systems. Reforms in this area should pay special attention to non-price aspects of competition such as continuous quality improvement, packaging, timely delivery and after-sales service.

To nurture and sustain dynamic comparative advantage there is a need for an interactive process that involves the formulation and implementation of government policy linked to action by private enterprise and other institutions. At one level, such policy and action must focus on technological development, the provision of relevant education and the inculcation of appropriate skills, which must be adaptable to new technologies. Governments and enterprises must join forces to source efficient and productive technologies and develop endogenous technological capabilities through research and development. At another level, there is a need to facilitate access by producers and exporters to market information that would feed into decisions pertaining to production and marketing strategies. Efficient means of communication are critical to the dissemination of such information.

The ultimate solution to the problem of low productive capacity and competitiveness in LDCs lies in the structural transformation of LDC economies. Enduring transformation requires the creation of integrated national economies characterized by increased specialization and growing interdependence among sectors. It is such a transformation that will create linkages between industry and agriculture, and thus engender efficient and diversified production and exports and increase the manufacturing value added of LDC export trade. LDCs and their development partners need to focus attention and resources on those areas that will enhance the internal linkages and therefore the integration of LDC economic sectors.

Part One of the Report assesses the main trends in the socio-economic development of LDCs, and examines the relevance of the Programme of Action for the Least Developed Countries for the 1990s in the light of the main developments in the globalizing world economy. Part Two considers how to improve the productive capacities and competitiveness of LDCs, taking into account the nature of their export trade and the challenges they face, as well as the domestic policy options and international support measures appropriate to that end.

LDCs in the 1990s: improving productive capacity to meet the challenges of the twenty-first century

Developments in the least developed countries in 1998

Growth in LDCs, which had accelerated in the mid-1990s was maintained in 1998. However, the rate of growth in LDCs' gross domestic product (GDP) fell. The real average GDP growth rate for LDCs is estimated at 3.8 per cent in 1998, down by one percentage point from the average growth rate recorded by the group in 1997. This is the third successive decline in the average GDP growth rate for LDCs since the peak of just over 6.0 per cent recorded in 1995. This drop is partly a reflection of the general deceleration in world output from 3.3 per cent in 1997 to 2.0 per cent in 1998. Growth in developing countries also suffered a setback in 1998, declining to 1.8 per cent from 5.4 per cent in 1997.

The decline in LDC growth is largely underscored by the fall in world output due to the Asian financial crisis, and the subsequent financial contagion and accompanying economic crisis. During 1998, oil prices fell by a third and non-oil commodity prices fell by about 16 per cent, while metals and minerals lost a third of their peak price recorded in August 1995. The prices of non-oil commodities of interest to LDCs, with the exception of tea, continued their downward trend. The slump in world trade was even more pronounced than the fall in world output: in 1998 recorded growth in world trade collapsed to just a third (3.3 per cent) of the rate of growth in 1997 (9.9 per cent), which is the lowest growth rate since 1985.

While GDP growth in both African and Asian LDCs declined for the third successive year, output growth in Asian LDCs, at 4.0 per cent, held up better than the estimate of 3.6 per cent for African LDCs, despite the collapse of intra-Asian regional FDI flows in the wake of the Asian financial crisis. Pacific LDCs had the worst growth performance in 1998, with a steep decline in output estimated at 4.6 per cent. This was perhaps due to the poor growth performance of Solomon Islands and Vanuatu, which recorded negative growth rates estimated at 10 per cent and 2 per cent respectively. Overall, the average growth rate for the 45 LDCs for which data are available is estimated at 3.4 per cent over the period 1990 to 1998.

Although the impact of the Asian crisis on the LDC group was indirect and somewhat limited, the evolution and final resolution of the crisis are likely to influence the short-term growth prospects for this group of countries. This will be particularly the case in such areas as resource flows, especially private capital flows to Asian LDCs, and prices of non-fuel commodity exports of interest to LDCs, as well as Asia's fledgling trade and investment links, especially with African LDCs.

Apart from the above and weather factors, the prospects for LDCs' recovery in the short term will also depend on factors such as movements in international prices, official development assistance (ODA) flows, debt service obligations and access to international markets for their major exports.

With ODA accounting for up to 70 per cent of the development budgets and 40 per cent of the recurrent budgets in a number of LDCs, short-term macroeconomic and fiscal stability as well as growth prospects will also be dependent on the volume of ODA flows, which fell to their lowest level yet (in real terms) in 1998. However, in view of increasing aid fatigue and concerns in developed countries about the effectiveness of aid, even if the overall volume of aid increases in the future, the proportion allocated to LDCs is most likely to be determined by the kind and extent of policy reforms implemented, or being implemented, by these countries. There is therefore a strong case for making a critical review of the effectiveness of policy reforms on which ODA has become, or is likely to become, conditional. Improved aid effectiveness and growing aid flows could also open up access to international capital markets for LDCs.

The effective reduction of the LDCs' debt burden would also have profound implications for their growth prospects. It would help promote investor confidence as well as release resources for much-needed investment, particularly in infrastructure, human resources development and economic diversification programmes.

A number of commodity exports of interest to LDCs continue to face restrictions in the markets of some of their major trading partners. Some of their exports are subject to tariff escalation and tariff peaks, as well as a number of non-tariff barriers. Although the members of the World Trade Organization (WTO) have acknowledged the particular interests and concerns of LDCs, including the latter's limited capacity to participate in the multilateral trading system and derive meaningful benefits from it, much remains to be done in terms of turning market access into a potent force for enhancing development prospects for LDCs.

Development finance, external debt and investment

The paucity of resources to finance the enhancement of productive capacities is among the most critical constraints on the development of LDCs. Internal mobilization of adequate development resources, through domestic savings and the production of adequate exportable surpluses, remains a distant prospect, in spite of the widely implemented economic reforms that aim to create an environment conducive to the revival of production of tradeables. While ODA, the traditional source of development finance for LDCs, has been on the decline since the beginning of the decade, access by these countries to private investment finance remains limited. The situation is further aggravated by the burden of international debt, the servicing of which is a major drain on meagre LDC resources.

In real terms, ODA flows to LDCs have fallen by 23 per cent since the beginning of the decade. Against a backdrop of a series of austerity budgets in developed countries, there has been a steady decline in the aid budgets of most donor countries, especially since 1992. The average share of aid to LDCs in the gross national product (GNP) of the Development Assistance Committee (DAC) countries of the Organisation for Economic Co-operation and Development (OECD) fell from 0.09 per cent in 1990 to 0.05 per cent in 1997. Only a third of the DAC countries met the Programme of Action threshold of 0.15 per cent of GNP as ODA to LDCs in 1997.

Given competing demands on aid resources, especially from the many humanitarian crises in different parts of the world, the future outlook for traditional ODA programmes is uncertain. The declining trend can only be reversed if there is a renewed commitment on the part of the international community to accord special priority to the development needs of the world's poorest countries. That a core of donor countries have been steadfast not only in meeting but also in surpassing the ODA targets contained in the Programme of Action suggests that such a commitment is possible. Furthermore, the United Kingdom and Germany, for example, have recently announced new aid policies that include a commitment to increase their aid budgets. Also, the Heavily Indebted Poor Counties (HIPC) initiative, which was addressed in last year's Report, has been comprehensively reviewed during 1999, and the emerging consensus, endorsed by, among others, the G-8 at its Cologne Summit in June, is that the debt relief process should be speeded up, the benefits improved and the number of beneficiary countries increased.

LDCs as a group recorded a decrease in the level of outstanding external debt, from $133 billion in 1995 to $127 billion in 1997, and a decrease in the average debt service-to-export ratio from 22 per cent in 1995 to 13 percent in 1997 as a result of rescheduling. However, even with reduced debt service ratios, many LDCs have failed to meet their debt obligations fully and have accumulated arrears, the payment of which has had to be re-rescheduled. The currently depressed commodity prices can only weaken further their debt-servicing capacity. Recent proposals to reform debt relief, especially shortening the time frame for the implementation of the HIPC initiative, applying less restrictive eligibility criteria, setting a ceiling for the share of fiscal revenue allocated to external debt service and cancelling ODA debts, could not, therefore, have come a moment too soon. It is encouraging to note the endorsement of the Enhancement Framework Proposal by the Ministers at the joint session of the Interim and Development Committees of the International Monetary Fund (IMF) and the World Bank in Washington in September 1999, which promises to expedite the resolution of the debt problem.

With the exception of a few small and island LDCs that depend heavily on tourism for foreign exchange earnings, most LDCs have invariably recorded deficits on their current accounts throughout the 1990s. The level of the deficits on the balances on goods is considerably higher than that on the balances on services for most LDCs, which reflects partly a poor productive base for merchandise exports and partly adverse terms of trade for commodities, which comprise the bulk of LDC exports. In 1997 the average deficit on the trade balance constituted 16 per cent of the combined GDP of LDCs for which figures are available. Given the fact that foreign exchange earnings for the majority of LDCs come from merchandise exports, the possibility that these countries will be able to mobilize savings from external trade is extremely remote. In fact, LDCs are forced to seek credits, mainly from multilateral institutions, to finance current account deficits. If such credits are not used to enhance productive capacity, LDCs could find themselves in a vicious circle whereby outflows in debt service payments would intensify current account deficits, creating more need for external credits.

During the second half of the 1990s the general trends in gross domestic savings as well as gross domestic investment in LDCs recovered from the extremely low levels of the 1990s, thanks mainly to economic policy reforms. The rising trend in domestic investment was, however, interrupted by the Asian financial crisis in 1997. The East Asian LDCs suffered most from the crisis because it hit foreign direct investment (FDI) from within the Asian region on which they so heavily depend. Although an increasing number of LDCs have recorded positive savings rates during this period, these rates are still too low, and LDCs in general continue to depend on external inflows for the greater part of their domestic investments. Investment levels in LDC economies, however, still fall far short of what is required to finance replacement needs of the capital stock, let alone create new productive capacity.

Although FDI flows to LDCs have been rising in the second half of the 1990s, their levels do not match existing needs. The flows are also unevenly distributed across countries and sectors, and are often unpredictable. A more even sectoral distribution of FDI seems to be emerging, but a disproportionately large share of FDI to LDCs is still channelled into extractive activities in the oil, mining and forestry sectors, with limited backward- and forward-linkage effects on LDC economies. Developments regarding FDI to Asian LDCs indicate the increasing significance of private capital inflows to LDCs from other developing countries in the context of intraregional FDI. African LDCs and their neighbours need to take the cue from their Asian counterparts so that the promotion of intraregional FDI becomes part of their agenda for regional integration.

Against this background, the urgent need for further measures to increase ODA, relieve debt and promote FDI to LDCs cannot be overemphasized. The effectiveness of aid as a catalyst for development lies in improving its efficiency by targeting it to support the most critical constraints in the economy, and reducing the transaction costs associated with its delivery to the target populations. The challenge facing LDCs is how to overcome the fatigue and even cynicism that have come to be associated with ODA, by demonstrating its effectiveness in enhancing the productive capacities of their economies. As for donors, the challenge is to make a significant and substantial increase in the aggregate level of external support in line with the commitments undertaken in the Programme of Action.

A preliminary assessment of progress in the implementation of the Programme of Action for the Least Developed Countries for the 1990s

The Programme of Action for the Least Developed Countries for the 1990s was adopted at the Second United Nations Conference on LDCs in Paris, in 1990. Its prime objective is to halt any further deterioration in the socio-economic situation of LDCs and to reactivate and accelerate growth and development in these countries and, in the process, to set them on the path of sustained growth and development. The policies and measures in support of these objectives have revolved around the following major areas: the establishment of a macroeconomic policy framework conducive to sustained economic growth and long-term development; the development and mobilization of human resources; the development, expansion and modernization of the productive base; reversing the trend towards environmental degradation; the promotion of an integrated policy of rural development aimed at increasing food production, enhancing rural incomes and non-agricultural sector activities; and providing adequate external support.

At the national level, the arrangements for the implementation of the Programme of Action were based on existing mechanisms for policy dialogue, programme coordination and resource mobilization, such as the United Nations Development Programme (UNDP) round tables and World Bank consultative groups. At the regional level, the United Nations regional economic commissions were entrusted with the role of monitoring progress in economic cooperation between LDCs and other developing countries, particularly countries in the same region. Cluster meetings were to be organized regularly in order to improve and strengthen existing regional and subregional cooperation arrangements. At the global level, UNCTAD, in cooperation with other relevant organizations of the United Nations system, was designated as the focal point for the review, appraisal and follow-up of the implementation of the Programme of Action.

Since the adoption of the Programme of Action in 1990, there have been major developments at the global level – such as the acceleration of the twin processes of globalization and liberalization, and the conclusion of the WTO agreements — with significant implications for its implementation. These developments have had an influence on the role of the State in development, the kind of development or economic policies States are able to legitimately pursue or implement, and the nature of the relationship between various actors — States, donors, the private sector and civil society — in the field of development. Furthermore, political and civil strife in several LDCs, with spillover effects in neighbouring countries (such as the influx of refugees), have weakened the capacities of some LDCs to formulate, let alone implement, development strategies or policies. Also, two unanticipated developments have interacted to reduce the volume of financial resources available to LDCs to support their domestic policy reforms. These are the drastic 22.6 per cent decline (in real terms) in LDCs' share of ODA, and the increase in the number of countries categorized as LDCs, from 42 in 1990 to 48 today (only Botswana has graduated from the list), with a concomitant 36 per cent increase in the total population of these countries between 1990 and 1997. The number of claimants on diminishing aid resources has therefore increased.

Despite the efforts of several LDCs to implement macroeconomic policy reforms over the past decade or so, the implementation of the Programme of Action has not only suffered a major setback from the continuous decline in ODA flows, but also from unacceptably high levels of LDCs' indebtedness, as mentioned above. A comprehensive assessment of the implementation of the Programme of Action at country level is in progress as part of the preparations for the Third United Nations Conference on LDCs, which were officially launched in July 1999. However, an assessment of progress in the implementation of the Programme of Action undertaken in the mid-term review in 1995 noted with great concern that despite vigorous efforts by LDCs to implement economic reforms as envisaged by the Programme, LDCs as a group had not been able to meet many of its objectives, and their overall socio-economic situation had continued to deteriorate because of both domestic and external factors. One conclusion that could be drawn from the above assessment and the subsequent reviews by the Trade and Development Board of UNCTAD and the annual LDC ministerial meetings is that the Programme of Action has not been effective in transforming the economies of LDCs. The United Nations General Assembly, in its resolution 52/187 of 18 December 1997 on the implementation of the Programme of Action, noted, with concern the continued marginalization of LDCs in world trade, the reduced flow of development resources to these countries and their serious debt problems, and decided to convene the Third United Nations Conference on LDCs.

One of the key issues to be addressed through the ongoing assessment of the implementation of the Programme of Action is whether the poor performance of LDCs is a result of inadequacies in its implementation, including monitoring and follow-up, or deficiencies in the elements of the Programme itself. Even without a comprehensive assessment of progress in the implementation of the Programme, something could be said about the mechanism for its implementation. This Report shows that, for a variety of reasons, round-table meetings and consultative groups at the country level (which are a proxy indicator of success in policy dialogue between Governments and donors, and in coordination and resource mobilization) did not cover all LDCs, were not organized on a systematic basis, did not always succeed in mobilizing adequate financing, and did not adequately address LDCs' debt which is negotiated separately under the Paris Club. In fact, these meetings were not linked to the Programme of Action for which they were supposed to be the "backbone". Thus, while there might be some correlation between the Programme of Action and changes observed in economic and social developments in LDCs, it is difficult to prove direct causation.

While the Economic Commission for Africa (ECA) and the Economic and Social Commission for Asia and the Pacific (ESCAP) have undertaken regular reviews at regional level, the weakest link in the implementation mechanism has been the lack of organization of regional cluster meetings and sectoral reviews by agencies. At the global level, monitoring has been more effective. The regular reviews of the implementation of the Programme of Action undertaken by the General Assembly, UNCTAD Conferences and the Trade and Development Board, have been instrumental in increasing the “visibility” of LDCs and in focusing the attention of the international community on their plight. For example, growing awareness of the plight of LDCs has led to their being granted special and differential treatment measures in some of the WTO agreements and, as pointed out above, the campaign for increasing the resource flows and providing LDCs with broader debt relief has intensified. Within the United Nations system and in other international organizations, special units or offices have been established to be responsible for LDC issues. Several activities have been implemented by these organizations and agencies in LDCs. The convening by WTO in 1997 of the High-Level Meeting on Integrated Initiatives for Least Developed Countries’ Trade Development is further testimony to the increasing attention being paid by the international community to the special difficulties facing LDCs.

In retrospect, the Programme of Action was rather optimistic about resource availability and global economic developments. Arguably, the most pressing development concern of LDCs on the eve of the twenty-first century could be encapsulated in one short question: what can be done about supply-side constraints so as to enable LDCs to produce more competitively for domestic as well as international markets? This is not in any way to underestimate other constraints on trade relating to market access, especially tariff peaks and tariff escalation for products of special interest to LDCs. However, the “technocratic approach” to addressing the development challenges facing LDCs, which conceives of their development problems within a narrow focus of trade policy, needs to be changed. Developing the necessary capacity to be competitive in global trade demands a holistic approach in which all the relevant actors (the State, donors, the private sector and civil society) have more or less equal stakes. It is also important that the development partners of LDCs fulfil their commitments by meeting the aid target of 0.15 per cent of GNP set in the Substantial New Programme of Action for the 1980s for the Least Developed Countries adopted at the First United Nations Conference on LDCs, held in Paris in 1981.

Any future action plan for LDCs would need to be flexible enough to accommodate unexpected developments in the global economy and to meet the challenges of LDCs in the next century. Most importantly, there is a need to clearly spell out goals and objectives, as well as to make specific resource commitments and identify the necessary performance criteria by which to assess whether the goals have been attained at specific time periods.

Overcoming marginalization by enhancing productive capacities and competitiveness in LDCs

Trends and options in export production in the least developed countries

Although LDCs constituted about 10 per cent of the world’s population in 1997, their share in world imports was only 0.6 per cent and in world exports a minuscule 0.4 per cent. These shares represent declines of more than 40 per cent since 1980 and are a testimony to the increasing marginalization of LDCs.

An analysis of data on the value of exports by LDCs in the period 1995-1997 shows two distinct characteristics in the pattern of their export trade. First, merchandise trade continues to dominate LDC exports; only a quarter of LDCs derive a greater part of their foreign exchange from exporting services. Second, LDC exports tend to be concentrated, with either one product, or a narrow range of products, accounting for a substantial share of the export earnings.

Three-quarters of LDCs derived their export earnings predominantly from merchandise exports in 1995-1997, and in more than half of these the value of merchandise exports was more than three times the value of services exports. The majority had a highly concentrated merchandise export structure, with one dominant, usually agricultural or mineral, export product accounting for more than half of the total value of exports of goods. Only one country had a merchandise export structure that was dominated by manufactured product in the form of garments. The bulk of LDC merchandise, therefore, is exported with little or no value added.

Among the 12 LDCs where exports of services dominate, the value of exported services in 1995-1997 was more than double the value of exported goods in at least 10 countries. Three-quarters of these LDCs had a highly concentrated service export structure, with one dominant international service accounting for more than half the value of the total exports of services in 1995-1997. Most of these LDCs are small, mostly island, States that have benefited from specializing in producing tradeable services, especially tourism and/or international transport, without which they might have enjoyed little or no growth, considering their limited basis for merchandise trade.

Slightly more than half of the LDCs which derived their export earnings mainly from services in 1995-1997 had an export structure that had been dominated by merchandise 10 years earlier. Production data indicate that such changes in the relative proportions of goods and services in the export content of these LDCs are a function of a rapid growth in international service activities relative to merchandise export activities. While tourist arrivals in LDCs grew by about three-and-a-half times between 1980 and 1997, the volumes of the major LDC commodity exports grew by only a third during the same period. For LDCs as a group, export concentration remained more or less unchanged between 1985 and 1997, a testimony to the general failure of efforts at export diversification in these countries.

In a few LDCs, a sizeable part of foreign exchange inflows comes not as export earnings but in the form of such "external rental income" as remittances from nationals living abroad, income from trust funds, royalties from fishing rights and large foreign expenditure due to the presence of military bases. Although "rental" activities are accepted and encouraged as a legitimate option for countries that are severely handicapped in their supply capacities (in particular, very small and remote LDCs), it is important for such countries to seek to establish more secure alternative sources of foreign exchange based on productive activities.

The most critical factor behind the LDCs' failure to improve their exports is poor productivity. This is evident in agriculture, which is a major foreign exchange earner for most LDCs and employs the majority of the working population. Generally speaking, the 1990s have been characterized by stagnation in productivity for agricultural commodities. Figures on yield for the major LDC agricultural commodities up to 1997 indicate that productivity in respect of sugar cane, coffee and tobacco was stagnant from 1990 to 1997. Productivity in respect of cotton and cocoa began to stagnate from the late 1980s and did not record appreciable improvement during the 1990s. Productivity in tea was stagnant throughout the first half of the 1990s and only began to pick up in 1996.

Apart from fluctuations related to price incentives, the stagnant or falling rural productivity is related mostly to failure to improve rural technologies through requisite investments in technical support services, including the marketing of inputs and outputs, and the provision of credit, research, environmental management and extension services to farmers. In those LDCs for which data are available, falling productivity in export crops has been shown to be a major cause of their increasing unprofitability to farmers, who have responded by shifting resources into the production of better-paying food crops, for which domestic markets are rising as a result of rapid urbanization. While it makes economic sense for individual farmers to shift resources away from less profitable export crops into more profitable staples, in LDCs that are not net food-importers, this might be counter-productive if sufficient export income is not generated elsewhere to sustain basic imports to keep the economy working. It cannot be over-emphasized that sustainable transformation of LDC agriculture has to be based on improvements in overall factor productivity.

Information on productivity trends in the oil and mineral sectors, which play a significant role in the export economies of 25 LDCs, is not available. However, output trends, for all their limitations, are a good proxy for productivity trends. With the exception of gold, whose annual output increased by about 15 times between 1986 and 1997, output of other major LDC minerals, especially diamonds, iron and copper, was marked by declining trends during the same period. The worst decline was recorded in copper, the output of which in 1997 was only around 40 per cent of that in 1986. This decline in the production of minerals during the 1990s reflects inadequate investment in the LDC mining sector, probably due to investment policies in the producing countries, issues pertaining to security and political stability, and the downward trend in mineral prices.

Unlike the mineral sector, the oil sector seems to have enjoyed substantial investments. However, most of the investment has been in the production of crude oil. The downstream refining subsector is fraught with serious production bottlenecks. The general trend in the production of crude and related products in LDCs for the period 1986-1997 indicates a progressive increase throughout the period. In 1997, the volume of crude output was nearly four times the 1986 output. It is important to point out, however, that about 95 per cent of the output during this period was produced by Angola and Yemen.

In trying to diversify their exports, LDCs should seek to invest in improving productivity in both traditional and new export activities, and in developing exports for both global and niche markets. In targeting global markets, LDCs need to exploit and even seek to enhance their comparative advantages. Although niche trade relations are particularly helpful in respect of small and vulnerable countries whose survival may lie only in marketing relatively unique assets, other LDCs stand to benefit from such relations as well. Apart from the immediate opportunities they offer, niche markets can also serve as entry points that could enable LDC producers and exporters to learn production skills and develop marketing expertise and other capabilities that they could deploy to develop new exports for more mainstream, or global, markets.

Policies to improve productive capacities and competitiveness in the least developed countries

Issues of productive capacity relate to the structural weaknesses in LDCs such as weak management capacity, weak institutional development, low levels of technology and lack of technological capacity, as well as inefficient transportation, communication and customs procedures which undermine trade efficiency. In addition to pricing issues, these factors also play a large part in the non-competitiveness of much of LDCs' domestic and export trade. While structural adjustment programmes being implemented by several LDCs since the early 1980s have addressed the price factors more or less successfully, these programmes have had limited impact in addressing the structural weaknesses in LDCs.

The magnitude of the development problématique confronting LDCs has to be analysed within a context in which certain specific policy instruments, such as the infant industry protection and fiscal incentives employed by the newly industrializing economies of South-East Asia, fall foul of WTO disciplines, or can only be deployed under specified and restricted circumstances. In this Report, the policy issues for enhancing productive capacities and promoting competitiveness in LDCs are analysed from the cross-sectoral and sectoral analytical perspectives. The broad developmental strategy for LDCs is identified as one that reorients the incentive structure in favour of the tradeables sector in order to produce more efficiently for domestic and external markets in response to ever-increasing competition in global markets.

Following from this, it is argued that macroeconomic policies have to be defined within a long-term framework with a view to attaining macroeconomic stability, enhancing the external orientation of the economy and boosting export diversification. A complementary set of macro-level policies is necessary to create an enabling environment for human resources development, the development of technological capability, and the strengthening of the institutional framework and physical infrastructure to support the enhancement of productive capacities and competitiveness. Policies to promote trade efficiency have to be designed and implemented in collaboration with three main players, namely, the Government, service providers and traders. In view of the paucity of medium-sized enterprises, a coherent programme, to support the growth of enterprises, from micro to small and from small to medium-sized, is required to develop the critical mass of domestic enterprises in the middle range.

Also, LDCs need to implement sectoral policies if the static and dynamic comparative advantages of the various sectors are to be translated into a diversified export base and increases in the production and export of value-added goods and services.

Agriculture and fisheries

The policies recommended for agriculture are underscored by two main arguments. First, despite the slow growth in world import demand and the secular decline in real prices associated with primary commodity production, LDCs could increase their foreign exchange earnings from these products through productivity improvements and greater competitiveness in agriculture. Second, LDCs have to intensify export diversification programmes with a view to enhancing and stabilizing their earnings from trade. They could exploit the strong world demand in niche products such as fish and fish products, some fresh and processed fruits, vegetables and nuts, spices and other horticultural products.

To attain these objectives, LDCs have to pursue a multi-pronged agricultural development strategy to diversify their production within the context of existing opportunities and long-term comparative costs. This strategy would include the use of appropriate irrigation technologies to complement rainfed agriculture, intensified research into soil and water resources, institutional and market reforms for the supply of agricultural inputs and outputs and addressing infrastructural bottlenecks to support efficient agricultural production. To improve their competitiveness in agriculture, LDCs will need to find innovative ways of extending credit to farmers, especially smallholders, improve rural facilities and address gender bias relating to access to land, financial resources, agricultural inputs and extension services.

In the case of forestry and fisheries, LDCs need to institute mechanisms for monitoring resource levels in order to guard against over-exploitation and associated ecological stress. It would be appropriate to initiate studies that would inform policy-making on appropriate environmental protection measures.

Many agricultural activities, particularly in horticulture and fisheries would benefit from technical support from development partners in order to meet sanitary and phytosanitary requirements of export markets, provided the developed countries apply such measures in a transparent and consistent manner.

Mining

Mining policy in LDCs has to be pursued at two different but interrelated levels: one relating to large-scale, capital-intensive mining operations, mostly State or foreign-owned; and one relating to small-scale and artisanal mining activities, which have persisted in several LDCs that have mining potential.

With regard to the first set of policies, Governments have to provide clear policy guidelines, supported by the necessary legislation and services to stimulate private sector interest in mining. Among other things, this would include developing the State's capacity to implement regulatory and promotional functions, undertaking geological mapping and maintaining an updated database on mineral resources, and providing an adequate physical infrastructure to facilitate the development of the mining sector. Linked to the overall policy of developing technological capability, the Government could facilitate access to simple modern and environmentally sensitive technologies, provide mineral laboratories and promote the establishment and development of professional and industrial mining associations.

The second set of policies, directed at the artisanal and small-scale mining subsector should aim to enhance its productive capacity and competitiveness, as well as protect the livelihoods of the large sections of the populations dependent on activities in this sector. This would require a more transparent licensing procedure for artisanal miners and mineral dealers, accompanied by the strict enforcement of a new code of conduct in mining and mineral processing designed to eliminate fraudulent practices and to limit environmental degradation.

Donor assistance would be invaluable in helping LDC Governments to design and implement technical assistance programmes aimed, *inter alia*, at introducing new technologies, skills, and modern methods of management to the mining sector. Support is also needed to help Governments to adequately compensate and resettle communities whose traditional livelihoods would be dislocated by mining activities.

Manufacturing

The policies recommended to develop the manufacturing sector in LDCs are premised on the proposition that structural change in LDC economies requires a strategy of simultaneous development of agriculture and industry, and the integration of the informal sector, which in LDCs is substantial in relation to the formal sector and provides livelihoods for a significant proportion of their populations.

Manufacturing activities, in general, would benefit from policy measures that create a more competitive macroeconomic environment. Any protection that is offered to infant industries must be in line with article XVIII (B) and (C) of the General Agreement on Tariffs and Trade (GATT) 1994, and should only be for dynamic sectors that are expanding in line with the dynamic comparative advantage. The usefulness of such protection would be enhanced significantly if it were to be accompanied by an obligation to export a rising share of the output of each firm enjoying such protection.

Policies that support the development of LDCs' small and medium-sized enterprises (SMEs) into competitive formal sector enterprises would strengthen the manufacturing sectors in these countries. The central lessons distilled from case studies indicate that support for SMEs should be based on specific organizational principles, and that public intervention should be:

- Focused and strategic, based on the sectoral needs of clusters;
- Channelled through private sector local representatives and self-help (stakeholder) bodies such as industry associations;

- Flexible, demand-oriented and customer-driven, rather than top-down and supply-driven; and
- Decentralized to community and regional levels.

Moreover, services such as finance, training and innovation support should be integrated rather than provided separately.

The objective of intervention should be to enhance horizontal and vertical ties among enterprises, promote collective efficiency, speed up learning, respond to the market and reduce transaction costs. Productivity results from a network effect; a combination of greater access to specialized information, greater supplier-producer interaction, access to high-quality public goods and innovation induced by rivalry within clusters. There is a growing consensus on the need for enterprise support, which calls for meso-level institutions to support SMEs. As such supporting institutions are weak in LDCs, most of these countries will need to start with the basics, by setting up institutions to provide training in business and management skills, and technical information support, as well as setting up industrial standards and quality agencies. In addition, institutions should be set up to promote an innovation culture among firms, to develop basic research skills and to provide export information services and credit support (investment credit, working capital and export credit).

Tourism

The greatest challenge facing the tourist sector in LDCs is to promote tourism on a sustainable basis, that is, to ensure that tourism has limited negative impacts on the host communities and the environment, and develops linkages to other sectors of the economy, while providing satisfaction to tourists and contributing positively to government income.

LDC Governments interested in developing this sector would need to develop action plans and create or adapt institutions to oversee the development of human resources and the tourist infrastructure, and the implementation of promotional strategies and legislation, and the involvement of the private sector. These plans should be based on an integrated approach to tourism, economic development and environmental protection, and should ensure the participation and inclusion of previously excluded groups.

Programmes to address the paucity of skilled labour in the tourist sector in LDCs have to be linked to the human resource development strategies for the whole economy, but must above all aim at ensuring high-quality services, which are crucial to the competitiveness of tourism in LDCs. Governments, in association with the private sector, have to upgrade the tourist infrastructure, including hotels, tourist attractions and access roads. The sector could also benefit from new promotional strategies aimed at repackaging tourist products to increase value for tourists, as well as to develop the appropriate mix between mass, low-value tourism and low-volume, high-value tourism.

Other unexploited opportunities

Music, arts, crafts and information technology-based services are some of the unexploited opportunities open to LDCs. The realization of the foreign exchange-earning potential of the music sector in LDCs would require education and training, and proper legislation and an implementation mechanism, especially to enforce copyrights. Furthermore, the financing necessary to design and market innovative products would have to be found, as well as investment in new technology to produce final products able to meet the stiff competition in export markets.

The exploitation of information technologies for the export of services, starting from labour-intensive data-entry services, would need to be closely coordinated with policies to develop domestic technological capability in LDCs. This is because the development of a competitive information-services export sector has to be complemented by rapid growth in domestic information technology applications and the development of the necessary local expertise and facilities, based on a modern telecommunications infrastructure, if LDCs' service exports are to be globally competitive.

All the above sectoral strategies need to be accompanied by comprehensive and integrated initiatives aimed at developing the physical and social infrastructure. However, given the level of resources required for such investment on the one hand, and the magnitude of the resource constraints facing LDCs on the other, the international community needs to demonstrate the political will necessary to mobilize support that would complement the efforts of LDCs to develop their productive capacities.

International support measures to enhance productive capacities and competitiveness in LDCs

There is no doubt that LDCs cannot by themselves address the structural weaknesses that undermine their productive capacities and competitiveness. This understanding has informed several initiatives in the past by the international donor community on their behalf. These include the aid target of 0.15 per cent set in 1981 (mentioned above) and, most recently, the Integrated Framework for Trade-related Technical Assistance to support LDCs, adopted at the 1997 WTO High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development. As already mentioned, several factors, including the decline in ODA flows since the beginning of the 1990s and the seemingly intractable debt overhang of many LDCs, have frustrated these initiatives. At the same time, LDCs have been frustrated in their efforts to export the few products in which they enjoy some comparative advantage, despite the existence of several preferential market-access schemes for their exports.

A three-pronged approach to international support measures for LDCs is recommended. First, realistic and effective schemes to enhance market access for LDC products, particularly those in which they already have established capacities, need to be worked out. Second, there is a need to reduce the drain of LDCs' resources, especially in the form of debt service payments, capital flight and excessive expenditure on military hardware. And third, measures are needed to assist LDCs in enhancing the productive capacity of their economies. In this context, international support measures for LDCs should be delivered in two different but related packages: a "priority needs" package and a "long-term financial and technical assistance" package.

The "priority needs" package for immediate to short-term needs would consist of measures to substantially enhance market access for LDC exports, address the debt problem, increase resource inflows, upgrade skills, support trade services and deal with natural disasters. Two main measures are proposed in the Report as part of the market access scheme for LDCs. First, developed countries should provide technical assistance to LDCs to train their officials and exporters in the proper use of GSP schemes. This is particularly relevant considering that, according to a recent UNCTAD study, between 1994-1997, the LDC utilization rate for these schemes was generally low, below 50 per cent in the EU, the main export market for LDCs. Simplification of these schemes would also greatly encourage their use by LDC exporters. Second, the developed countries should undertake to provide enhanced market access for export products that LDCs currently produce, notably by completely eliminating tariffs on LDC exports. This is particularly relevant as those products in which LDCs enjoy comparative advantage (especially labour-intensive products), or which offer possible trade diversification for LDCs — such as leather, footwear and vegetable oil — are subject to tariff escalation and tariff peaks. At a minimum, tariff peaks and tariff escalation have to be addressed as a matter of urgency during the forthcoming Third WTO Ministerial Conference in Seattle.

While the recent improvements to the HIPC initiative are welcomed, the debt overhang of LDCs should still be included in the priority package to ensure that immediate debt relief is provided to all debt-distressed LDCs. The continuous decline in ODA flows to LDCs has to be halted and additional resources should be directed towards upgrading skills, supporting social services as part of human resources development, and promoting trade efficiency.

Those LDCs prone to natural disasters need international assistance in disaster management. Expertise in disaster-preparedness and post-disaster or rehabilitation activities (supported by finance) and training, incorporating the risk of hazards in the design of broader economic strategy in order to mitigate the economic impacts of disasters, would limit shocks and losses related to natural disasters suffered by LDCs.

Long-term financial and technical assistance would be needed to fund major investments in physical and social infrastructure, which are crucial to "crowd in" private investments in LDCs. Funding is needed to link up production centres to domestic and export markets by road, to improve port, handling and customs facilities, to improve telecommunications facilities and thus to enhance trade efficiency, and to assure reliable power and water supplies for industry. Specific projects in both developed and developing countries to promote investment in LDCs might involve, inter alia, investment protection agreements, taxation allowances for companies operating in LDCs and the development of venture capital funds for projects in LDCs.

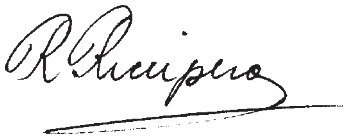
Donor support would be invaluable in supporting enterprise development and enhancing the competitiveness of LDC economies by facilitating access to new technology, especially for SMEs, improving technological capabilities and providing training to improve local management skills.

Technical assistance to improve the functioning of regional trading arrangements of which LDCs are members would help LDCs to become more competitive. By providing larger markets, these regional trading arrangements would make LDCs more attractive to potential investors, encourage the pooling of resources for research on trade and trade-related issues peculiar to the region, and, most importantly, introduce LDC exporters to the exacting standards of global markets.

It is also crucial that LDCs should be assisted in developing their trade negotiating capacities to enable them to participate effectively in future trade negotiations, as well as to understand and follow closely developments in WTO and defend their trading interests individually and collectively.

These international support measures need to be designed and implemented in a manner that complements the domestic programmes and policies employed by each LDC to address supply-side weaknesses. In this way, not only would costly duplication of projects be avoided, but the efficacy of their domestic programmes would also be greatly enhanced.

The preparatory processes for three major upcoming international events — the Third WTO Ministerial Conference, the Tenth United Nations Conference on Trade and Development (UNCTAD X) and, especially, the Third United Nations Conference on the Least Developed Countries — give LDCs and their development partners a rare opportunity to evolve a new strategy of development cooperation to benefit LDCs. This new strategy should be underscored by a desire to search for innovative approaches to mobilizing additional ODA and private capital flows in order to complement LDCs' own efforts to enhance their productive capacities and competitiveness in a rapidly evolving global context. Only then can the advent of globalization become, to paraphrase Shakespeare, the high tide that if taken at the flood could lead on to great fortune.



Rubens Ricupero
Secretary-General of UNCTAD

Part One

The Least Developed Countries in the 1990s

Recent economic developments and outlook

Chapter 1

Introduction

At the global level the growth rate of real GDP declined from 4.2 per cent in 1997 to 2.5 per cent in 1998 (IMF, 1999), with adverse consequences for the economies of the least developed countries (LDCs). This decline is largely underscored by the Asian financial crisis, and the subsequent financial contagion and accompanying economic crisis, not only in Asia but also in Latin America. During 1998 prices of non-oil commodities of interest to LDCs, with the exception of tea, continued their downward trend, and oil prices fell by a third. The slump in the volume of world trade (goods and services) was even more pronounced than the fall in world output. In 1998 recorded growth in world trade collapsed to about a third (3.6 per cent) of the rate of growth in 1997 (9.9 per cent), which is the lowest growth rate since 1985.

Global growth appears to have bottomed out at 2.5 per cent in 1998, but it is difficult to predict the world economic outlook in the next couple of years with certainty (IMF, 1999: 1). This is despite the nascent economic recovery in Asia, the prompt policy measures implemented in Brazil to limit the negative impact of the crisis that hit its financial markets, and the fiscal stimulus and financial sector restructuring policies announced in 1998 by Japan to kick-start its economy.

It is difficult to predict the world economic outlook for the next couple of years with certainty despite the nascent recovery in Asia, the prompt policy measures implemented in Brazil to limit the negative impact of the Asian crisis on its financial markets, and the fiscal stimulus and financial sector restructuring policies announced in 1998 by Japan to kick-start its economy.

A highly differentiated growth picture is forecasted for 1999. Some East Asian crisis-hit countries are likely to experience positive growth rates, while growth rates in China and South Asia may decline slightly from the high growth rate of 1998. On the other hand, there is likely to be a fall in output in oil-exporting countries, and on average, in Latin America, Europe and Central Asia (World Bank, 1999).

Future developments in the global economy are, however, subject to the macroeconomic policy stance in the developed market economies (DMEs), especially in the United States, as well as in China. It is too early to predict the impact of the recent increase in interest rates announced by the Federal Reserve Board to snuff out inflation. A change in policy stance by China in favour of devaluation to boost its exports would almost certainly spark off another round of currency depreciations in Asia, with grave consequences for the rest of the world.

A. Developed market economies

Developed market economies (DMEs) are important for LDCs not only in terms of world economic stability as such, but as markets for LDC products and as sources of development finance from both private and official sources. Real GDP growth in DMEs decreased marginally to 2.4 per cent in 1998, and is forecasted to remain more or less the same, at 2.0 per cent, in 1999 (IMF, 1999). Inflation has remained subdued in most DMEs because of the sharp fall in oil prices and declines in the prices of non-oil commodities. In the Euro-zone inflation declined from 1.6 per cent in 1997 to 1.2 per cent in 1998, and in DMEs as a whole, from 2.0 per cent to 1.3 per cent over the same period. In 1999, inflation might decline further to 1.0 per cent and 1.4 per cent respectively for the Euro-zone and DMEs (IMF, 1999).

In Europe, strong domestic demand helped to counteract the weak export demand from the Asian region during much of 1998, with the major European countries enjoying relatively robust economic growth, although there was a slowdown later in the year. The resumption of growth in 1999 and beyond, especially in the larger European Union (EU) economies, would have a positive impact on economic growth in LDCs, as Europe is the largest single market for LDC exports. The current policy of fiscal tightening in the European Monetary Union (EMU) in an effort to bring the fiscal deficits down to 1.5 per cent in 2000 and 1 per cent in 2002 (UNCTAD, 1999a) could have an adverse impact on official development assistance (ODA) flows to LDCs unless ODA is accorded higher priority in the countries concerned.

While the resumption of growth in 1999 in the EU would have a positive impact on economic growth in LDCs, the current policies of fiscal consolidation in EMU to pare down fiscal deficits could have an adverse impact on ODA flows to LDCs unless ODA is accorded a higher priority by DAC countries.

The United States economy defied all predictions, to record strong performance in 1998. Real GDP growth rate during the year is estimated at 4 per cent. The continuing growth in domestic demand was able to counteract the effects of reduced export demand attributed to the Asian crisis and the high dollar. Low interest rates and high increases in real incomes have boosted growth in the construction and service sectors. The strong US dollar, however, meant that capital was increasingly drawn to the United States, with a likelihood that it might have contributed, on the whole, to reduced capital flows to developing countries (and LDCs); it also meant higher debt servicing costs for the same groups of countries.

The Japanese Government announced fiscal and monetary policy packages coupled with other policy measures to restructure the country's long-ailing financial sector. The first was a 16 trillion-yen stimulus package announced in April 1998. Another fiscal package followed in around November 1998, comprising corporate and income tax cuts, and public works amounting to 24 trillion yen — the equivalent of 5 per cent of GDP. The Japanese economy, however, failed to respond to the stimuli, mostly because of the sharp decline in export demand from Asia, weak domestic demand, and a general lack of business confidence. The result was a continuation of the economic downturn throughout 1998, with GDP falling by almost 3.0 per cent during the year. However, the fiscal stimulus packages began to bear fruit in 1999. Real GDP increased by 2.0 per cent in the first quarter of the year, after five consecutive quarters of decline, which suggests that the economy might finally be emerging from the doldrums. Nevertheless, the current economic situation is underscored by weaknesses and uncertainty, in particular considering the fragile household confidence in the midst of falling incomes and fears of job losses, and huge debt burdens and excess capacity of many businesses (IMF, 1999: 15). As to the effect of the economic upturn in Japan, a major source of investments for the Asian newly industrializing economies (NIEs), it would indirectly benefit South-East Asian LDCs which depend heavily on investments from the latter.

Also in the Asia-Pacific region, the economies of the Pacific Island LDCs are closely linked to those of Australia and, to a lesser extent, New Zealand, especially in terms of alignment of currencies, aid and export markets, notably tourism. The Australian economy defied the Asian financial crisis to record an impressive GDP growth rate of 4.5 per cent in 1998, compared with 2.8 per cent in 1997 and 3.7 per cent in 1996. Low interest rates and a weakening exchange rate enabled Australia to maintain an export momentum and to penetrate new overseas markets. New Zealand's growth rate, on the other hand, experienced a marked decline of 0.2 per cent in 1998, compared with 3.2 per cent in 1997. This is due to a multiplicity of factors, including the Asian economic crisis, drought, weaker domestic demand (due to a fall in consumer confidence) and much lower international commodity prices.

B. Economies in transition

Economic performance was mixed in the economies in transition. The Asian crisis had a limited impact on Eastern Europe. Continued policy reforms and greater integration helped the Central European economies, which recorded a small GDP growth in 1998. On the other hand, the Commonwealth of Independent States (CIS) countries experienced declines in output. They were adversely affected by the fall in oil and other commodity prices, which eroded export earnings and widened the fiscal and current account deficits. The situation was aggravated by the Russian financial crisis in the autumn of 1998. The impact of these developments on such LDCs as Ethiopia and Angola, which have had traditional economic links with CIS countries, and, indeed, the evolution of these links since the demise of the Soviet Union, have yet to be evaluated.

The decline in overall economic growth in Africa in 1998 was marginal, but sub-Saharan Africa, which is home to 33 LDCs, suffered a decline in aggregate growth from 3.4 per cent in 1997 to 2.1 per cent in 1998.

C. Developing regions

The problems and prospects of LDC economies will be seen in their proper perspective if viewed in the context of economic developments in developing countries, of which LDCs are a part. In the developing countries, real GDP growth fell from 5.4 per cent in 1997 to 1.8 per cent in 1998, reflecting a slowdown in real GDP growth in Asian developing countries, from 5.8 per cent in 1997 to 1.6 per cent in 1998. Although the decline in overall economic growth in Africa was marginal, sub-Saharan Africa, which is home to 33 LDCs, suffered a decline in aggregate growth from 3.4 per cent in 1997 to 2.1 per cent in 1998.

Weak and unstable commodity prices, noted by previous LDC Reports*, continue to thwart economic growth in developing countries.*

The macroeconomic policy framework in developing countries has improved remarkably within the last decade or so. Despite this, the Asian financial meltdown and economic downturn hit several developing countries hard during 1997 and 1998. The crisis has been manifested in financial contagion for the more advanced developing countries, and indirectly through depressed commodity prices for other developing countries. Thus, weak and unstable commodity prices, noted by previous *LDC Reports*, continue to thwart economic growth in developing countries. This scenario has been exacerbated by continued decline in aid flows, political and civil unrest in several developing countries, and sharp falls in long-term financial flows.

During 1998, there was no recovery in ODA flows to developing countries, including LDCs (see part one, chapter 2), and the prospects for a significant recovery in ODA are dim for the foreseeable future. The decline in aid flows has had serious consequences for much-needed programmes to address poverty in developing countries and to enhance their integration into the global trading system.

Commodity prices continued their steady fall throughout 1998: In dollar terms, there was on average a 16 per cent fall in developing countries' non-oil commodity prices (World Bank, 1999), and oil prices slumped by about a third (table 2). While the prices of a few commodities, including oil, nickel, zinc, plywood and some categories of lumber, appeared to have firmed up in the first quarter of 1999, it is doubtful that the slump in commodity prices is over (see below).

Other developments in the global economy may also depress developing countries' economic prospects. Net long-term financial flows (mostly from the international capital markets) have declined by almost a fifth, from $338 billion in 1997 to $275 billion in 1998. Forecasts for 1999 point to even lower capital flows than in 1998. Aggregate current account deficits of developing countries dropped by about $30 billion in 1998 to $58 billion, which reflects a massive surplus of over $80 billion in the same year in the crisis-hit Asian countries (World Bank, 1999).

Falling terms of trade and lower growth in export volumes, combined with reductions in external financial flows, reduced aggregate demand by 3-4 per cent in developing countries in 1998, which translated into the sharp fall in average GDP growth rate. In contrast, inflation picked up by one percentage point to 10.4 per cent in 1998.

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Growth prospects for developing countries in 1999 do not look promising: the World Bank forecasts suggest that growth will average 1.5 per cent — the lowest average growth rate since the 1982 global recession (World Bank, 1999). This can be explained by three main factors. First, external finance is likely to remain restricted, and at higher interest rates, which will force developing countries into pursuing more restrictive policies, with negative consequences for their ability to import. Second, chronic fiscal deficits and weak corporate and financial sectors in several Asian and African countries are likely to undermine prospects for economic recovery in developing countries in the short term. Finally, contagion effects of the Asian financial and economic turmoil had in late 1998 become manifest in some Latin American countries, which suggests that while the crisis may have abated, it could yet frustrate economic recovery in developing countries.

Africa[1]

The setback to economic growth on the continent, which was underlain mainly by the Asian crisis, persisted for the second consecutive year. Africa's GDP growth rate in 1998 fell marginally to an estimated 3.2 per cent, from 3.3 per cent in 1997 and 4.6 per cent in 1996. The value of African merchandise exports fell by 9.1 per cent in 1998, mainly due to the collapse of commodity prices. Export volumes declined by 0.7 per cent, compared with a 4 per cent rise in 1997. Weak demand for Africa's major mining products adversely affected production and investment in mining. On the domestic front fiscal balances deteriorated in 1998, with budget deficits averaging an estimated 2.7 per cent of GDP, compared with 1.8 per cent in 1997. Industrial growth dropped to 2.6 per cent in 1998, compared with 3.4 per cent in 1997. However, the rate of inflation for the continent fell from just over 11 per cent in 1997 to 8.6 per cent in 1998, largely a function of the ongoing reforms (African Development Bank (AfDB), 1999:1-30).

African agriculture recovered somewhat from the effects of El Ninõ to make a moderate contribution to economic growth. Agricultural value-added increased by 3.9 per cent in 1998, compared with 0.9 per cent in 1997. Food production grew by 2.5 per cent, compared with a contraction of 3.4 per cent in the previous year. There were, however, localized food shortages in 13 countries, all except one being LDCs, due to either drought or civil conflict or both.[2] Production of agricultural exports was generally good, but as already stated, export prices were depressed. Value-added in services increased by 3.5 per cent in 1998, with tourism making an important contribution to growth in 10 countries, two of which (Mozambique and the United Republic of Tanzania) are LDCs.

Hopes of improving productive capacity in Africa continued to be thwarted by inadequate external and internal resources. Shortfalls in external finance, including reduced ODA flows and foreign direct investment (FDI), contributed to the slowdown in economic performance, especially in LDCs. Africa's net financial inflows fell from $4.5 billion in 1997 to $3 billion in 1998, partly because the Asian crisis rendered availability of private sector credit difficult to come by, and partly because bilateral donors were preoccupied with regulating and stabilizing their own financial markets and salvaging emerging markets in the face of the global financial turmoil. The debt overhang remained a major drain on resources, with a quarter of the continent's export earnings going into debt servicing, and the declining terms of trade added to the resource constraint.

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As a result of the fall in both demand and price for oil, the revenues from oil exports for the 10 oil-exporting countries in Africa declined by 25–30 per cent. Countries dependent on the export of non-oil commodities (e.g., gold, copper, diamonds, coffee and tobacco) also suffered terms-of-trade losses, as low world demand and stronger competition from Asian developing countries (the result of currency depreciations) resulted in a sluggish growth in export volumes and lower commodity prices for oil-importing LDCs. These developments counteracted, to a considerable extent, the gains from the lower oil prices. Zambia and Botswana, largely dependent on copper and diamonds respectively, have been hard hit in the latter group. Only tea experienced a price gain in 1997–1998.

Asia

The crisis-hit countries in this group (Indonesia, Republic of Korea, Malaysia, Philippines and Thailand) suffered a sharp economic contraction amounting to about 7.3 per cent in 1998. China, by contrast, experienced a robust economic growth rate of almost 8 per cent in 1998. The worst is probably over for the Republic of Korea and Thailand, as both have sustained recent increases in industrial production and increased capacity utilization, and have undertaken financial and corporate restructuring.

While economic contraction has slowed in Indonesia, inflation has remained high, at 78 per cent. The slump in oil prices has reduced export earnings and government revenues, while agricultural production took a severe knock from El Ninõ. The corporate sector is still stuck in crisis and weaknesses in the financial sector persist, mainly because of too many non-performing loans. Thus recovery would take much longer than in either the Republic of Korea or Thailand.

Malaysia's economy appears to be on the mend, but this could be undermined by the country's excess capacity. With a view to turning the economy around, the Government has implemented a number of policy measures, such as recapitalization of finance companies, private sector credit expansion, pegging of the exchange rate, and easing of restrictions on capital outflows. A robust investor response to these policies is likely to depend on political developments in that country.

The Philippines, which was initially spared the impact of the Asian crisis, now appears to be afflicted by its delayed effects. Exports were unscathed in 1998, but investment spending fell and consumption slowed, the latter partly because of reduced workers' remittances from the region.

Exports, investment, consumption and GDP in the two economies of Hong Kong, China, and Singapore were dented, but the flexibility of the labour market in both economies limited the damage from the crisis. Economic recovery in the two depends to a large extent on continued growth in China and sustained economic recovery in Japan, as well as on a pick-up in world trade.

South Asia, which grew at 5.7 per cent, recorded the fastest growth rates of all regions in the world, as it escaped almost unscathed from the Asian financial crisis. The largest economy in the region, India, was cushioned from the effects of the crisis by its large domestic economy and by its restrictions on current accounts, which in effect reduced its exposure to the turbulence suffered by the international financial markets. Pakistan recorded a 5.4 per cent GDP growth rate, and inflation was brought down to below 8 per cent in 1997–1998. Both India and Pakistan allowed their currencies to depreciate, which helped to maintain the competitiveness of their exports but may have adversely affected the competitiveness of some LDC exports.

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Western hemisphere

Developing countries in the western hemisphere also suffered from the adverse external environment: GDP growth slumped to 2.1 per cent in 1998, which is less than half the 5.1 per cent growth recorded in the previous year. There was a slowdown in export growth, which, together with a drastic decline in capital inflows and sharp falls in the prices of the region's main commodity exports (coffee, sugar, metals, minerals and oil), resulted in sharp falls in export earnings. The effects of the fall in commodity prices, especially oil, were most severe in Venezuela, Argentina, Brazil, Chile and Mexico, and forced these countries to take restrictive monetary and fiscal measures to stave off capital outflows and pressure on their exchange rates.

Furthermore, the agricultural exports of the Andean countries were devastated by El Ninõ, and those of Central America and the Caribbean by Hurricanes Georges and Mitch. Export revenues collapsed in the Dominican Republic, Haiti, Honduras and Nicaragua, which bore the brunt of the hurricanes. Throughout the region industrial production fell sharply, and business confidence collapsed (World Bank, 1999), but inflation fell by a little over 3 percentage points to 10 per cent in 1998 (IMF, 1999).

D. Least developed countries

Although economic growth in LDCs, which had accelerated in the mid-1990s, was maintained in 1998, the rate of growth dropped during the year. The real average GDP growth rate for LDCs is estimated at 3.8 per cent in 1998, down by almost one percentage point from the average growth rate recorded by the group in 1997 (table 1).[3] This is the third successive decline in the average GDP growth rate for LDCs since the peak of just over 6.0 per cent recorded in 1995. This drop is in large measure closely related to the general deceleration in the rate of growth of world output, which, as stated earlier, is underlain by the Asian financial crisis — a crisis which translated into a global economic crisis.

Growth in output in Asian LDCs during 1998, estimated at 4.0 per cent, held up better than the estimate of 3.6 per cent for African LDCs, despite the fact that South-East Asian LDCs were hit severely by the Asian crisis. Pacific LDCs had the worst growth performance in 1998, with a steep decline in output estimated at 4.6 per cent, mainly due to poor economic performance in the Solomon Islands and Vanuatu (table 1).[4]

LDCs in general continued to feel, to a greater or lesser degree, the effects of the Asian financial and economic crisis. The crisis affected LDCs mainly through the fall in commodity prices, general deceleration in the rate of growth of the volume of world trade and reduced investments and other financial flows. However, the crisis had a differential impact on LDCs, with South-East Asian LDCs suffering the greatest damage (e.g. compared to African LDCs) because of their strong financial and trade links with the neighbouring countries that were at the epicentre of the crisis.

Interregional comparison of performance at the sectoral level indicates that, whereas agriculture in African LDCs benefited from an improvement in weather conditions, Asian agriculture, especially rice production, suffered heavy losses due to bad weather.

Several LDCs have continued to pursue economic reforms with some positive results, although the downward trend in ODA has diminished the impact of these reforms and therefore delayed prospects of a substantial recovery in LDC economies.

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Table 1: LDCs' real GDP growth rates, 1990–1998

	1990–1995[a]	1996	1997	1998[b]
Least developed countries	2.5	5.0	4.5	3.8
of which:				
African LDCs[c]	0.7	4.3	4.0	3.6
Asian LDCs[d]	4.9	5.8	5.1	4.0
Pacific island LDCs	3.1	3.4	0.6	-4.6
Haiti	-6.5	2.8	1.1	3.0
Memo items:				
World	1.9	3.3	3.3	2.0
Industrialized countries	1.7	2.9	2.9	2.2
Transition economies	-8.2	-1.5	1.4	-1.3
Developing countries	4.9	5.8	5.4	1.8

Source: UNCTAD secretariat calculations, based on data in 1990 dollars.
a Annual average.
b Estimates.
c Data not available for Eritrea and Somalia.
d Data not available for Afghanistan.

Positive developments in the international economy, especially in respect of commodity prices and financial flows, would certainly help LDCs. However, continuing political and civil unrest in several African and Asian LDCs is likely to prolong, if not frustrate, economic recovery in those countries, as productive activities are disrupted by war, scarce domestic resources diverted to buy arms, and donor funds re-channelled into meeting humanitarian rather than short-term and long-term development needs. The following review of LDC economies at the regional level provides a fuller picture of similarities and differences between LDCs.

African LDCs

The 33 African LDCs, with 45 per cent of Africa's population, contribute only 17 per cent to the continent's GDP. In trying to restructure their economies, most of them have been implementing economic reforms with mixed results. On the whole, multifarious and complex problems have generally frustrated efforts directed at achieving tangible economic growth. Apart from the well-known supply-side constraints, the effects of the Asian crisis, declines in external resource flows and internal conflicts in a number of African LDCs have been particularly instrumental in slowing down the recovery process, which was set in motion in 1995-1996. Improved weather conditions in 1998 and ongoing policy reforms in a number of African LDCs have had a positive impact, but the above adverse factors proved to be a serious setback. Both FDI and ODA from bilateral sources dropped in 1998, and preliminary estimates suggest a net transfer of financial resources to African LDCs of $0.7 billion in 1998, compared with $1.2 billion in 1997.

Positive developments in the international economy, especially in respect of commodity prices and financial flows, would help LDCs.

Falling prices affected the entire range of African LDCs' exports in 1998. Oil prices fell sharply — by a third — between 1997 and 1998, with dire consequences for the export earnings of such oil-producing African LDCs as Angola and Equatorial Guinea. In 1998, prices of beverages, agricultural raw materials, and minerals, ores and metals declined by 17 per cent, 10 per cent and 15 per cent respectively over the 1997 prices (table 2). The terms of trade for all African LDCs fell by an estimated 13 per cent.

On the domestic front, macroeconomic stability in African LDCs was generally sustained following a series of measures instituted by a number of Governments to reduce pressure on aggregate demand. As a result, the average rate of inflation declined from 20.2 per cent in 1997 to 17.6 per cent in 1998. The recovery in agriculture, which reduced food prices, also contributed to the fall in the inflation rate. Given the fact that no less than a quarter of government revenue in many LDCs is derived from taxes on external trade, fiscal deficits generally rose during 1998, mainly due to shortfalls in government revenues associated with the decline in external trade. The worst fiscal deficits occurred in the oil-exporting LDCs that experienced a sharp decline in oil revenue. Needless to say, the record of economic performance is mixed, partly because of varying capacities for economic resilience among African LDCs.

The double-digit growth rate in Equatorial Guinea, largely attributed to investments in the oil sector, was sustained in 1998, although at a lower rate than in 1997. Economic growth in Sudan, Benin, Togo, Burundi and the United Republic of Tanzania exceeded the previous year's performance. In the United Republic of Tanzania, earnings from tourism in 1998 increased by 9 per cent over the previous year, signifying progress towards diversification of sources of foreign exchange. Uganda, which has consistently implemented economic reforms, has made tangible gains in its drive to reduce dependence on primary exports by diversifying production, with non-traditional exports, services and manufactures contributing a progressively larger proportion (currently estimated at 40 per cent) to export earnings.

Peace and political stability continue to elude several African LDCs, with adverse economic consequences. Fighting intensified in Sierra Leone, where rebels briefly seized the capital in December 1998; the peace process in Angola collapsed; and Guinea Bissau's acute internal upheavals, which began in mid-1998, ended only recently in a settlement that remains fragile. Lesotho experienced a brief but devastating uprising in late 1998; the political impasse in the Comoros continues; and the border conflict between Ethiopia and Eritrea flared up again, with adverse economic consequences. The civil wars in the Sudan and the Democratic Republic of the Congo (DRC) have not ended. The war in the latter country has drawn in several other African countries, thereby raising the possibility of undermining the stability and economic prosperity of neighbouring countries. Average growth in countries experiencing civil unrest in sub-Saharan Africa is estimated to have dropped from 3.8 per cent in 1997 to 0.9 per cent in 1998 (World Bank, 1999).

Sustained recovery in the agricultural sector is important for increasing exports and boosting household incomes and domestic demand, but a pick-up in commodity prices would be required to boost export earnings and improve the trade balance.

Eritrea and Ethiopia, both of which had enjoyed impressive growth in the previous five years, suffered serious economic setbacks in 1998. Eritrea's GDP growth rate declined from 7.9 per cent in 1997 to 3 per cent in 1998, and that of Ethiopia dropped from 5.6 per cent to just 0.5 per cent over the same period. Debt relief for Ethiopia under the Heavily Indebted Poor Counties (HIPC) initiative has been put on hold, pending cessation of hostilities with Eritrea (see next chapter). Comoros is currently experiencing negative growth, partly because of decreasing productivity in agriculture (see chapter 1, part 2) and partly because tourists, a major source of foreign exchange, have been scared away by political conflict. And Lesotho's GDP growth rate has declined from a relatively high annual average of 8.5 per cent between 1994 and 1996 to only 1.5 per cent in 1998.

Nevertheless, a handful of African LDCs have somewhat successfully launched themselves onto the road to recovery with the cessation of civil strife. This group includes Mozambique, Rwanda and Liberia. Mozambique's GDP growth rate in 1998 is estimated at 9.1 per cent, and its fiscal deficit remains below 5 per cent of GDP. Remarkable growth was recorded for the Mozambique tourism sector in 1998. There are positive indicators in respect of Rwanda, although they have yet to be carefully evaluated. Twenty State enterprises were privatized in 1997-1998 following the enactment of a privatization law in 1996. Inflation dropped from 12.3 per cent in 1993 to 7.4 per cent in 1996. In Liberia, the economy appears to be on the mend after a seven-year civil war, although reliable statistics are difficult to come by.

Prospects for recovery in 1999 will depend on a number of variables, which are difficult to predict with any degree of certainty. The return of normal weather patterns is crucial for reversing the loss of agricultural output, as much of the continent's agriculture is rain-fed. Continuation of recovery in the agricultural sector is important for increasing exports and boosting household incomes and domestic demand, but a pick-up in commodity prices would be required to boost export earnings and improve the trade balance.

The rate of recovery would be different for different countries, and would almost certainly be protracted for those afflicted by civil strife. For this group of countries, there is a need to restore functioning Governments that would be able to rehabilitate infrastructure and implement an economic recovery programme that could (re-) establish credibility with both foreign and domestic investors. Deepening of policy reforms in other African LDCs, coupled with a pick-up in world demand and stable economic growth in Europe, could substantially shorten the recovery period for these countries.

In the medium to long term, recovery would depend on a variety of factors. The medium-term factors include a recovery of world trade and commodity prices, and successful economic diversification in developing countries. Long-term recovery would be fostered by the following: success of regional integration efforts (for example, within the framework of such existing subregional groupings as the Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), Economic Community of Central African States (CEEAC) or the Union économique et monétaire ouest-africaine (UEMOA), arguably the building blocks for the planned African Economic Community); continuation of structural reforms; implementation of the World Trade Organization (WTO) agreements, especially if further liberalization is achieved in agricultural trade, coupled with enhanced market access in DMEs for developing country exports; and a satisfactory resolution of the debt crises.

Asian LDCs[5]

The economic performance of the Asian LDCs was mixed in 1998, mainly due to the differential impact of the Asian financial crisis on South and South-East Asian LDCs. South-Asian LDCs, with inconvertible local currencies, relatively low foreign private capital inflows and limited commercial debt, proved less vulnerable to the effects of the crisis. With the exception of Nepal, these countries recorded an average GDP growth rate of more than 5 per cent in 1998. On the other hand, intraregional FDI, on which South-East Asian LDCs so heavily depend, slowed as investors from Malaysia, Singapore and Thailand delayed or cancelled projects, with adverse consequences for the growth of the subregion's LDCs. In LDCs (e.g. Lao People's Democratic Republic, Myanmar and Cambodia) where domestic currencies were indirectly aligned to the currency of the neighbouring country (Thailand), inflation on average doubled as their currencies depreciated, money supply grew and commodity shortages occurred. In Cambodia, which had experienced significant currency substitution, exports suddenly became uncompetitive as devaluation of the neighbouring countries' currencies reduced Cambodia's cost advantages. Adverse weather in many Asian LDCs was largely responsible for a marked decline in agricultural output, especially of rice, notably in Bangladesh, Bhutan, Myanmar, Lao People's Democratic Republic, Cambodia and Nepal.

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The case of Lao Peoples' Democratic Republic, where FDI is virtually the only source of private capital investment, exemplifies the subregional impact of the crisis. Between 1996 and 1997 the value of foreign investments dropped by 91 per cent, from $1,292.6 million to $113.8 million, and in 1998 it fell even further, to $43 million. The timber and hydropower sectors were the worst affected. These developments were coupled with a drought-induced decline in the growth of agriculture, which accounts for more than half of economic activity in the country. As a result, the GDP growth rate for 1998 is estimated at 4 per cent, compared with 6.5 per cent in 1997. The Lao currency depreciated drastically and the inflation rate escalated, at 142 per cent in 1998 (UNDP, 1999).

GDP growth in Bangladesh is estimated at 5.7 per cent in 1998, compared with 5.9 per cent in 1997. Agriculture declined but industrial growth was strong relative to the previous year. The growth of exports, at 16.8 per cent in 1998, was one of the highest in Asia, and is attributed almost entirely to garments and knitwear. The high domestic savings rate of 1997 (double that of 1990) was maintained in 1998, but because of the decline in foreign aid disbursements, the investment-to-GDP ratio was one percentage point lower than in 1997. Devastating floods in July-October 1998 hit 51 of the country's 64 districts, causing severe damage to industries, agriculture and infrastructure. The full impact of the floods will be felt in 1999 when the rate of economic growth is expected to fall to 3.6 per cent.

Nepal, the only LDC in South Asia whose GDP grew at less than 5 per cent in 1998, experienced a decline in GDP growth from 4 per cent in 1997 to 1.9 per cent in 1998. This poor performance was due to a decline in agriculture because of bad weather and to a contraction of output in the carpet and garment industries because of weak demand in the export markets. With a progressive decline in GDP growth, Nepal's dependence on foreign aid has been increasing but aid disbursements have been falling.

Growth has declined in Myanmar for two consecutive years. GDP growth rate dropped from 6.4 per cent in 1996 to 4.6 per cent and 1997 and is estimated to have fallen to 1.1 per cent in 1998. This trend is largely attributed to various constraints on agriculture, restrictions on imports, widespread power shortages and a decline in FDI, due partly to the crisis and partly to political unrest in the country. Since more than 50 per cent of FDI in Myanmar comes from other Asian nations, the effects of the Asian economic crisis on investment there cannot be overemphasized. Political unrest is also jeopardizing economic growth in Cambodia, where it has depressed tourism and combined with bad weather and the regional economic downturn to reduce the GDP growth rate to zero.

In the short term, improvements in the economies of Asian LDCs will depend on improvement in weather conditions for agriculture, a pick-up in commodity prices and the speed of recovery from the effects of the crisis on the Asian economies, especially the NIEs, which constitute the most important sources of direct investment.

Economic growth in Maldives has generally been impressive during the 1990s, mainly because the country has made a shift from primary activities to secondary and tertiary activities. Tourism is an important dynamic sector, which in 1996 accounted for 11 per cent of employment, a third of the government revenue and 70 per cent of foreign currency earnings. Maldives' strong economic growth continued in 1998, led by tourism and fisheries. The sharp increase in tourism has also stimulated economic activity in the construction, distribution and transportation sectors. The long-term future of tourism and fisheries, the mainstays of the economy, will depend on protecting the coral reefs and ensuring the sustainable exploitation of marine resources.

In the short term, improvements in the economies of Asian LDCs will depend on improvement in weather conditions for agriculture, a pick-up in commodity prices and the speed of recovery from the effects of the crisis on the Asian economies, especially the NIEs, which constitute the most important sources of direct investment. Long-term prospects of growth will largely depend on the political will to continue with economic reforms, and on how quickly stability can be re-established in those LDCs beset with political crises. To ensure sustainable development, a number of LDCs, notably Maldives and Nepal, need long-term programmes for environmental rehabilitation and protection.

Pacific island LDCs

Economic performance among the Pacific island LDCs varied. On the whole, the Asian crisis had no direct impact on these economies, except for Solomon Islands, which has strong trade links with Asia. Samoa, which greatly depends on agriculture, had a GDP growth rate of 3.7 per cent in 1997, the best in the Pacific island countries. However, there was a slowdown in the rate of growth in 1998. Samoa's relatively good performance among the Pacific LDCs is largely attributed to efforts at diversification in terms of expansion in fish and copra production as well as in industry based mainly around coconut products.

At the other end of the spectrum, as just mentioned, is Solomon Islands, whose forestry exports were adversely affected by the Asian crisis in 1997 and 1998, and whose public expenditure was drastically reduced in an attempt to redress the fiscal deficit. As a result of these developments, the economy went into recession in 1998, with GDP growth estimated to have contracted by around 10 per cent. The possible depletion of Solomon Island's forestry resources has given rise to concerns about sustainable development in the country.

Vanuatu's economy also experienced negative growth, with GDP declining at an estimated 2 per cent in 1998. Activity lessened in manufacturing, the primary sector and services, including tourism. Riots[6] , followed by a declaration of a state of emergency in January 1998, harmed tourism. The export sector was indirectly hit by the Asian crisis and by currency devaluations among the Pacific trading partners. Kiribati's GDP grew by only 1.5 per cent in 1997 and 1998, mainly because of ailing public enterprises. GDP growth in Tuvalu was only 2 per cent in 1998, but government and private consumption was supported by a considerable injection of resources from the Tuvalu Trust Fund and significant workers' remittances from abroad.

Haiti

Haiti remains the poorest country in the western hemisphere, but there have been positive developments. GDP growth is estimated at about 4 per cent in 1998, compared to 1.1 per cent recorded for 1997, while inflation fell to 8.5 per cent from almost 21 per cent the previous year. As agriculture provides just over a third of total GDP, much of the improved GDP performance is probably underscored by the 60 per cent increase in rice yields reported for the Artibonite Valley (the result of agricultural reforms), as well as the recovery in the manufacturing sector, which dates back to 1994 and the reinstatement of the country's democratically-elected president. In the last quarter of 1998, however, Hurricane Georges caused severe damage to the island's economy, especially the agricultural sector and transportation infrastructure; the full impact of the damage is expected to be felt during 1999–2000.

There has been renewed private sector interest in the Haitian economy, especially in the telecommunications sector, but economic recovery is vulnerable to political instability. To sustain the country's fragile recovery, there is a need for fiscal consolidation and structural reforms, in particular reform of the financial sector to improve the country's rudimentary commercial banking system.

E. Short-term prospects for LDCs

Considering the impact of the Asian crisis on LDCs, the evolution and the final resolution of the crisis are likely to influence the short-term prospects for this group of countries. This will be particularly the case in such areas as resource flows, especially private capital flows, and prices of non-fuel commodities of export interest to LDCs.

ODA has played a significant role in supplementing the scarce resources of LDCs. But as noted below (see part one, chapter 2), the proportion of ODA in the combined GNP of donor countries plummeted to its lowest in 1997, and is unlikely to recover in the foreseeable future. Given the established linkage between aid and economic reform, the proportion of aid allocated to LDCs in the future is most likely to depend on the kind and extent of policy reforms implemented, or being implemented, by these countries. There is therefore a strong case for making a critical review of the effectiveness of policy reforms on which ODA has become, or is likely to become, conditional. Improved efficiency in the use of aid and growing aid flows could also open up access to international capital markets for LDCs.

Given the established linkage between aid and economic reform, the proportion of aid allocated to LDCs in the future is most likely to depend on the kind and extent of policy reforms implemented.

To the extent that the Asian crisis depressed investor confidence in emerging markets, recovery in Asia would help to engender and sustain the interest of private sector capital in LDCs which implement policy reforms. Recovery in Asia could entail further advantages for LDCs. First, commodity prices would improve, with a surge in export demand from Asia (see below). Second, a resumption of trade and investment links with Asian LDCs would be beneficial for these economies. For African LDCs, a resuscitation of the fledgling trade and investment links with Asia could open the way for increased private sector interest and investment, which would be particularly auspicious, considering the decline in ODA flows.

As discussed further in the next chapter, effective resolution of the debt burden of LDCs would help promote investor confidence as well as free up resources for much-needed investment, particularly in infrastructure and human resource development and economic diversification programmes.

Recovery in Asia could entail further advantages for LDCs. For African LDCs, a resuscitation of the fledgling trade and investment links with Asia could open the way for increased private sector interest and investment, which would be particularly auspicious, considering the decline in ODA flows.

F. Recent trends in prices of commodities of relevance to LDCs

As already pointed out, in 1998, there was a 16 per cent drop in the prices of almost all non-oil commodities. Metals and minerals lost a third of their peak price recorded in August 1995, while food prices remained one-fifth below their peak of April 1996. Copper lost more than a quarter of its price, and coffee and tropical beverages, 18.1 per cent and 17.3 per cent respectively (table 2).

Non-oil commodity prices are likely in the foreseeable future at worst, to slide down further or, at best, to remain static, for a variety of reasons. As noted in 1996, the long-run decline in the prices of primary commodities is underscored by weak demand on the world markets due to changes in the sectoral composition of world output, technological advances (increasing use of substitutes and greater economy in the use of substitutes), and productivity increases due to the application of new technologies (UNCTAD, 1996:51). This scenario has been accentuated by the sharp declines in demand from crisis-hit Asia since mid-1997, and the accumulation of high inventory levels. Overall, commodity prices are unlikely to recover in 1999, in particular considering currency depreciations in major commodity-exporting countries.

The Asian financial crisis dealt a double blow to non-oil commodity prices, from both the demand and supply angles. Massive currency devaluations, accompanied by the collapse of domestic demand in the importing countries, dented world demand while at the same time stimulating supply sourced from the crisis-hit countries. Downward pressure on the prices of these commodities has also come from macroeconomic policy reforms in LDCs, including increased levels of privatization of production, which has increased supply levels far beyond those of demand. Over the period 1995–1997, world grain and soyabean production increased by about 10.5 per cent and 13.2 per cent respectively, compared to their long-run trends of 1.4 per cent and 3.6 per cent. Over the same period, aluminium production surged by more that 10 per cent, compared to a 5.6 per cent growth in total demand, while copper production rose by 12 per cent, in contrast to a demand growth of 7.6 per cent (World Bank, 1999). The delayed impact of currency devaluations in large commodity-producing countries such as Russia and Brazil is likely to dent world demand for non-oil commodities and depress prices further. The World Bank has therefore forecast a 6.3 per cent fall in non-oil commodity prices for 1999. In addition, the prices of metals and minerals are projected to drop by a further 10.3 per cent in 1999, while a 5.2 per cent decline has been projected for agricultural products (World Bank, 1999).

Any recovery in commodity prices is expected to be painfully slow, and would depend on how long it takes to deplete existing stocks. To a large extent, it would also depend on a pick-up in world economic activity, especially in middle-income developing countries with high income elasticities of demand for commodities (World Bank, 1999). In Asia particularly, this would be contingent upon the success of financial and corporate restructuring as well as on a successful debt work-out to relieve the region's debt overhang.

Given the fact that the Organization of Petroleum Exporting Countries (OPEC) basket of crude oil prices serve as a reference, stabilization of the price

TABLE 2: SELECTED PRIMARY COMMODITY PRICES OF DIRECT RELEVANCE TO LDCS
(Annual average growth rates, percentages)

	1990–1995	1995–1997	1997–1998
All food index	3.3	2.1	-11.2
Tropical beverages	8.4	6.3	-17.3
Food	1.4	1.5	-12.0
Agricultural raw materials	3.5	-10.1	-10.0
Minerals, ores and metals	0.2	-6.2	-15.3
Combined index (current dollars)	2.6	-2.1	-12.3
Coffee (composite indicator price)	14.1	-1.6	-18.1
Tea	-4.3	14.8	2.7
Copra	13.7	-0.5	-6.7
Tobacco	-4.9	15.6	-5.0
Cotton	1.5	-11.9	-7.8
Jute	-2.2	-9.2	-14.2
Copper	2.0	-12.6	-26.9
Crude petroleum	-5.2	6.5	-30.6

Source: UNCTAD, *Monthly Commodity Price Bulletin* (various issues).

of oil rests to a great extent on whether members of OPEC and other producers can attain and sustain reductions in output. This is because the two major factors responsible for the sharp decline in oil prices in the last quarter of 1998 are weak global demand combined with rising oil production, especially increased output in Iraq, which neutralized cuts in production by other OPEC members (World Bank, 1999). This imbalance in the demand and supply of oil during 1998 resulted in a huge build-up of stocks, which can be run down only through effective supply management by OPEC.

At their 23 March 1999 meeting in Vienna, a dozen of the largest producers of oil, including several non-OPEC members, agreed to trim their output by about 2.1 million barrels a day for the next 12 months. This deal was almost certainly responsible for the $3.00 rise in the price of a barrel of oil to more than $13.00 in April 1999. At the September 1999 ministerial meeting, OPEC agreed to a further cut in output amounting to 2.8 million barrels a day up to March 2000, when the next OPEC Heads of State meeting takes place in Venezuela. Following that decision, the price went up to $21.00 a barrel. The latest price (late November 1999) is close to $27.00 a barrel, the highest since the Gulf War.

Future oil prices will largely depend on the effectiveness of the implementation of the deal to cut down production by all those who signed it, which is far from guaranteed, especially considering the past record of OPEC on the implementation of its agreed production quotas. Just as some oil producers have great incentive to stick to their quotas in order to avoid another collapse in their revenues that would almost certainly accompany quota bursting, other producers may also want to make up for last year's revenue loss by producing more than their quota. Additional impetus to quota-bursting might come from the newly elected civilian regime in oil-dependent Nigeria, which is under pressure to service the country's debt and to produce quick results in terms of fixing the dilapidated infrastructure, restoring essential services, and addressing Nigeria's severe balance-of-payments crisis.

The impact of global economic developments in 1998 on economic growth in LDCs and on their growth prospects in the foreseeable future suggests that these economies are part of the global economic system, albeit on its fringes, and underscores the significance of external factors for the development of these economies.

Increases in oil supply could come from other sources as well. Some of the non-OPEC producers, especially the new producers, could take advantage of the high price situation and reduce prices in a bid to increase their market share at the expense of OPEC members. Given the fact that new producers, for example in the Caspian Sea, have come onto the scene, and that improved technology has rendered production economically viable in marginal fields, such as in Siberia, a fresh oil glut cannot entirely be ruled out.

G. Conclusions

The impact of global economic developments in 1998 on economic growth in LDCs and on their growth prospects in the foreseeable future suggests that these economies are part of the global economic system, albeit on its fringes, and underscores the significance of external factors for the development of these economies. Improved growth rates of the global economy in 1999, as predicted by the IMF (1999), would therefore have a positive impact on LDC economies. In this regard, the abatement of the Asian financial and economic crisis would be a positive development, not only for the Asian LDCs, but also for the African and Pacific LDCs, as this would have removed one major cause of the recent global economic downturn. If the global economic recovery in 1999 were consolidated in 2000, the associated pick-up in global demand would stem the decline in, if not increase, commodity prices. Prospects would also be enhanced greatly for increased private and official financial flows to developing countries, including LDCs. In particular, the resumption of economic growth in 1999 in the EU would most likely enhance demand for LDC exports, as Europe is the largest single market for LDCs. Further liberalization of international trade in agriculture, under the aegis of the WTO, would be crucial in this regard. On the other hand, fiscal consolidation in the Euro-zone countries in order to meet the fiscal deficit requirements of the European Central Bank is likely to reduce the aid budgets of these countries and bring down the already historically low levels of ODA flows to LDCs.

Economic growth in LDCs is dependent on an increased flow of external resources to supplement scarce domestic resources, which, among other things, requires effective resolution of the debt overhang, arresting and reversing the decline in ODA flows, and increasing FDI to LDCs.

On the domestic front, weather, government policies and internal conflicts are important variables in the short- to medium-term economic performance of LDCs. In view of the contribution of agriculture both to GDP and to foreign exchange receipts, normal weather conditions, especially in the case of African LDCs, where agriculture is mostly rain-fed, are crucial for resuscitating growth in LDCs. In the medium to long term, economic development efforts of LDCs would be boosted greatly by more concerted policies on, and the allocation of more resources to, the horizontal and vertical diversification of exports in order to improve their value-added component as well to stabilize foreign exchange earnings. Resumption and consolidation of economic growth and development in several LDCs would depend on finding lasting solutions to the internal conflicts that have wreaked so much havoc in these countries. Most importantly, however, economic growth in LDCs is dependent on an increased flow of external resources to supplement scarce domestic resources, which, among other things, requires effective resolution of the debt overhang, arresting and reversing the decline in ODA flows, and increasing FDI to LDCs. These issues are the focus of the next chapter.

Notes

1. This section and the one on African LDCs draw heavily on African Development Bank (AfDB), 1999.
2. The LDCs listed by the Food and Agriculture Organization (FAO) as facing food emergency conditions are: Angola, Burundi, Democratic Republic of Congo, Ethiopia, Guinea Bissau, Liberia, Mauritania, Rwanda, Sierra Leone, Sudan, Uganda and Zambia (see AfDB, 1999).
3. The base year for the GDP growth estimates of 1997 and 1998 is 1990, while that for the GDP data in annex table 2 is 1995, hence the apparent discrepancy.
4. Overall, the average growth rate for the 45 LDCs for which data are available is estimated at 3.4 per cent over the period 1990-1998.
5. This section and the following one on Pacific Island LDCs draw heavily on Asian Development Bank (ADB), 1999, and Economic and Social Commission for Asia and the Pacific (ESCAP), 1999.
6. These were linked to the publication of the Ombudsman's report on the management of the Vanuatu Provident Fund.

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Development finance, external debt and investment

Chapter 2

Introduction

One critical determinant of the ability of LDCs to improve their productive capacity and competitiveness is availability of investible resources. There is therefore a need to identify forms of action by Governments and the private sector in LDCs, and to delineate areas of intervention by the international community, that would enable LDCs to secure sufficient levels of development finance. Such measures would seek to raise levels of domestic savings, increase export earnings and enhance the inflow of both official and private external resources. Action is also needed to ease the LDCs' debt burden.

This chapter reviews recent developments in LDCs relating to mobilization of, and access to, internal and external resources for development. Special attention is paid to developments and trends in ODA, external debt, export earnings, savings and investment. The review is, however, limited by a paucity of data. Complete balance-of-payments data, for example, are available for only 10 of the 48 LDCs, and for a very brief period (1992-1997). Thus, only a qualified statement can be made on the extent to which LDCs' international transactions constitute an avenue for, or a constraint on, the mobilization of development resources.

The evidence presented in section A of this chapter indicates that ODA, the traditional source of development finance for LDCs, which also constitutes a critical factor in the design and implementation of policy reforms, has generally been on the decline during the 1990s. Although there are recent cases of favourable reviews of aid budgets among donor countries, including a new debt relief initiative (section B), the overall downward trends warrant a serious review of the role of ODA in the sustainable development of LDCs. While LDCs themselves are seriously exploring new avenues in their endeavour to mobilize resources for enhancing productive capacities, ODA will continue to be a significant part of LDC development budgets for the foreseeable future, given that access to non-ODA finance remains limited.

Recent developments relating to export earnings, savings and investment in LDCs are reviewed in section C. Persistent current account deficits, especially on the trade balance, indicate that LDCs are not yet in a position to take advantage of the opportunities presented by globalization and to mobilize adequate resources for their own development from external trade. Although their capacity to mobilize domestic savings is still low, such savings have begun to increase in response to reforms and generally favourable economic trends. However, since domestic savings will not fill the resource gap in the near future, private foreign capital, especially, is increasingly viewed as a critical factor in the development of LDCs' capacity to respond to the challenges of globalization. The data in this chapter suggest that there are positive, albeit uneven, developments relating to FDI inflows to LDCs. However, unanswered questions about FDI include (a) the extent to which it can generate adequate multiplier effects to engender better integrated LDC economies, and (b) its long-term implications for the current account balances of host LDCs.

A. Recent trends in official development assistance and other financial flows to LDCs

ODA and other development finance from the main donor countries have declined since the beginning of the 1990s. Since then, LDCs that rely mostly on ODA have to cope with reduced aid flows as well as volatile and generally depressed commodity prices, while their access to private finance for investment remains limited. If this situation persists, adjustment and reform programmes in LDCs as well as their agendas for poverty reduction and social and human development will be at risk.

Official and private resource flows

Total resource flows to LDCs in 1997 were $15.1 billion, as compared with $15.2 billion in 1996 and $16.2 billion in 1995, and official flows accounted for 90 per cent of that amount.

ODA flows to LDCs started to decline in nominal terms in 1995. There was a particularly sharp drop in 1996, by no less than $2.4 billion in comparison with the previous year. The decline continued in 1997, when net ODA to LDCs dropped by $0.7 billion to $13.5 billion (as compared with $16 billion in 1990). In real terms, ODA flows to LDCs have fallen by 23 per cent since the beginning of the decade. Both bilateral and multilateral financing flows have been contracting over the past two years. Other official flows in the form of non-concessional bilateral and multilateral finance to the LDCs have remained modest ($0.2 billion net in 1997), and these countries in general have not been able to compensate for the shortfall in official development finance by recourse to private financing.

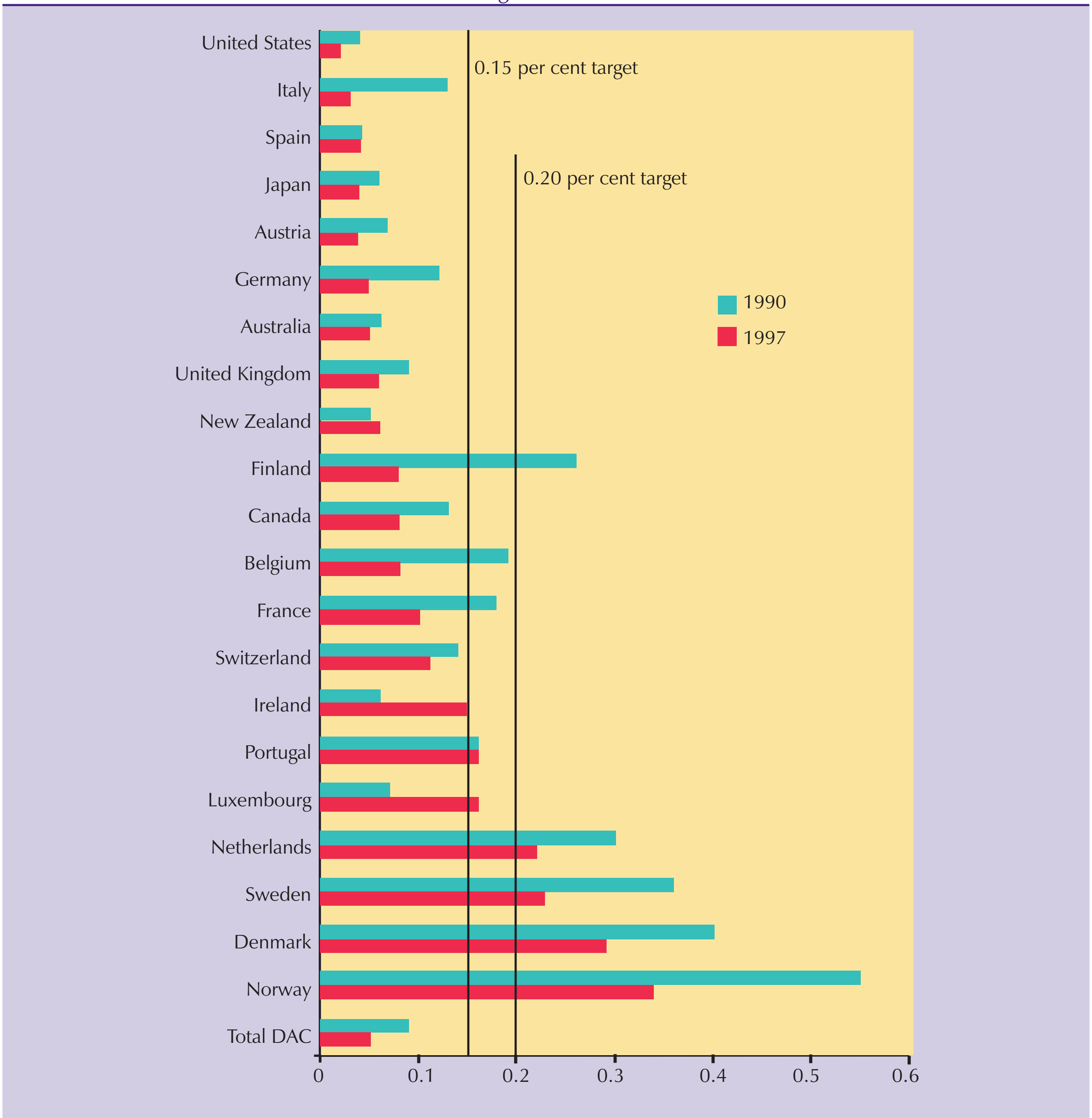
As a share of the combined GNP of the donor countries that are members of OECD/DAC, total ODA has fallen for five consecutive years, from 0.33 per cent in 1992 to 0.22 per cent in 1997.

Private capital flows to LDCs from the member countries of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) amounted to $1.1 billion on a net basis in 1997, up from $0.7 billion in 1996, when there was a significant increase in private flows to LDCs as a group. In 1995, there was a net outflow of private capital from these countries. Inflows of portfolio equity investment again turned negative in 1997. That same year, in contrast, there was a turnaround in export credits, with a net inflow of $0.3 billion. There was also a $0.6 billion increase in FDI from DAC member countries to LDCs in 1997, following a smaller increase the previous year. However, the bulk of these direct investment flows went to a limited number of countries.[1]

Donors' aid budgets

As a share of the combined GNP of the donor countries that are members of OECD/DAC, total ODA has fallen for five consecutive years, from 0.33 per cent in 1992 — the level maintained during the first three years of the decade — to 0.22 per cent in 1997, the lowest ratio recorded since 1970 when the United Nations adopted the ODA target of 0.7 per cent of donor countries' GNP for developing countries. Following this overall trend, ODA to LDCs has also contracted sharply. The share of aid to LDCs in DAC donors' GNP has fallen from 0.09 per cent at the outset of the decade to 0.05 per cent in 1996 and 1997 (chart 1).

Chart 1: ODA to LDCs from DAC member countries, 1990 and 1997
(Percentage of donor's GNP)



Source: UNCTAD secretariat, based on OECD data.

Total ODA contributions from OECD donor countries allocated to LDCs fell by 29 per cent in dollar terms between 1990 and 1997. In terms of share of donor's GNP, the lowest ratios in 1997 were recorded by the United States (0.02 per cent) and Italy (0.03 per cent). Japan was the most important donor to LDCs in volume terms in 1997, followed by France, the United States and Germany. These four countries each provided over $1 billion of aid to LDCs, and together they accounted for over half of all DAC aid to LDCs in 1997.

The recent fall in total ODA has been largely the result of cuts in the aid budgets of the G-7 countries, and this also holds true for aid to LDCs. There has been a steadfast implementation of ODA programmes on the part of a number of smaller donor countries. Aid from countries that are not members of the G-7 has remained broadly stable overall since 1992, with the ODA programmes of Ireland, Luxembourg, New Zealand and Portugal growing vigorously and their aid to LDCs increasing in line with this overall growth. Four DAC members — Norway (the top performer in 1997, with 0.34 per cent of GNP going to aid for LDCs), Denmark, Sweden and the Netherlands — have maintained their aid programmes and continued to meet the special 0.20 per cent ODA target for LDCs set in 1990 at the Second United Nations Conference on the LDCs. Another positive development in 1997 was the progress made in this respect by Ireland, Luxembourg and Portugal, which all achieved the 0.15 per cent United Nations target in that year, Ireland and Luxembourg for the first time. In terms of overall trends, however, the 1990s have witnessed a fall in the GNP share of aid to LDCs in 16 of the 21 DAC member countries, a rise in only three, and stagnation in two. Even the top four performers in meeting the 0.20 per cent ODA target for LDCs have reduced the share of their GNP going to those countries (See chart 1 and annex table 22).

The outlook and role of ODA

The financial crisis which spread from East Asia; civil unrest and war affecting large parts of sub-Saharan Africa and the Balkans; and plans for enhanced debt relief have intensified competing claims on global resources and could contribute to a further reduction in traditional aid programmes.

Prospects for reversing the general downward trend of all aid, and for renewed growth in total ODA, are highly uncertain. The financial crisis which spread from East Asia; civil unrest and war affecting large parts of sub-Saharan Africa and the Balkans; and plans for enhanced debt relief have intensified competing claims on global resources and could contribute to a further reduction in traditional aid programmes. Already, preliminary data indicate a continued decline in some donors' ODA budgets in 1998, and this trend may not be reversed unless there is a renewed awareness of the importance of ODA to the sustainable development of LDCs. Rescue packages for the crisis countries, emergency assistance and rehabilitation programmes for the conflict countries as well as deeper debt relief also have important implications for the financial situation of multilateral institutions, which play an important role in meeting LDCs' financing needs.

There are, however, more positive developments indicating that LDCs and their needs for special support have not been forgotten. First of all, there is the continuing high priority given to these countries by a number of donors; as seen above, one-third of the DAC countries (7 out of 21) met the special United Nations aid targets for LDCs in 1997, despite the overall fall in aid. LDCs could also benefit from the new aid policies of Germany and the United Kingdom. The latter has reaffirmed its commitment to meeting the 0.7 per cent ODA target for developing countries and reversing the decline in its aid. The United Kingdom in 1997 was the sixth largest donor to LDCs in volume terms. The programme of the new German Government formed in October 1998 also included a commitment to reverse the downward trend in the country's ODA. These commitments set an example for other G-7 countries. Moreover, DAC members are discussing a measure to liberalize aid procurement (untying aid) for LDCs, which could enhance the effective use of aid resources in the latter.

In late 1998 and early 1999, negotiations were successfully concluded on replenishment of the resources of the International Development Association (IDA) and the African Development Fund, both of vital importance for LDCs. In November 1998, representatives of 39 donor countries agreed on a replenishment that will allow the IDA to provide concessional lending of $20.5 billion to the poorest developing countries over fiscal years 2000–2002. New contributions from donor countries to this package amount to some $11.6 billion.[2] This was followed by an agreement in January 1999 on the eighth replenishment of the

African Development Fund, amounting to some $3.4 billion. Twenty-four donor countries were party to this accord.

One of the more positive developments in 1999 was the comprehensive review of the HIPC initiative by the two sponsoring institutions, the IMF and the World Bank, which led to decisions aimed at speeding up the HIPC process and enhancing its benefits. A number of LDCs could thus receive additional debt relief over the next few years, provided they adopt and implement the required economic programmes (see below).

Finally, the economic outlook in OECD countries improved in 1999. Growth in the United States, which remains buoyant; declining trends in European unemployment; and the end of the Asian financial crisis boosted prospects for the world economy as a whole. Although a number of donor countries still pursue stringent budgetary policies, in principle there should now be more room for new expenditure commitments for priority purposes such as ODA.

Even if there is some hope for the allocation of increased ODA to the LDCs, overall concessional finance will remain scarce. ODA for development purposes will most likely continue to compete with other claims on resources, responding to domestic concerns in donor countries as well as to external or global concerns. This may force a reconsideration of the role of aid in encouraging the mobilization of private finance for investment in developing countries, including LDCs. ODA could also be used as a leverage to mobilize private finance, especially in developing the infrastructure in these countries, as improved infrastructure facilities are a precondition for growth and overall development in the poorest countries and for enhancing their prospects of attracting private capital[3] (see part two, chapter 4).

The capacity of ODA to contribute to the transformation of LDCs depends not only on the amounts available but also on the allocational and technical efficiency of aid and on the countries' absorptive capacity.

Most importantly, however, ODA is needed to achieve the international development policy goals: poverty reduction, improved education, health and gender equality, environmental sustainability and better governance. These have become widely accepted as priority areas for action by the partners in development cooperation. The DAC in 1996 set the target to reduce by half the proportion of the world's population living in extreme poverty by the year 2015, and also set specific targets for universal primary education and reducing infant, child and maternal mortality, amongst others.[4] More recently, similar objectives for Africa were set in the agenda for action endorsed by the Second Tokyo International Conference on African Development in October 1998. Nonetheless, progress towards these goals risks being undermined by a slowdown in the global economy and further decline in ODA. Renewed efforts are needed, especially by some of the major donor countries whose aid performance has slipped quite dramatically since the outset of the decade.

The capacity of ODA to contribute to the transformation of LDCs through its impact on economic growth depends not only on the amounts available but also on the allocational and technical efficiency of aid and on the countries' absorptive capacity. For example, a recent study by ESCAP on the impact of ODA on the economies of LDCs in the ESCAP region has revealed that the marginal impact of ODA on GDP was only little over one tenth of a percentage point. On average, in any given year between 1980 and 1996, more than three years of ODA money remained in the pipeline or unutilized for all the region's LDCs combined. The problem lies partly in the poor absorptive capacity for ODA in LDCs and partly in the rules, procedures and coordination arrangements surrounding the assistance.

The ESCAP study established that a 20 per cent improvement in the utilization of allocated ODA, which is equivalent to one year's worth of unutilized aid, could lead to an increase in real GDP of over 2 per cent (ESCAP, 1999). It is therefore evident that, while advocacy for increased ODA should continue, there is also a need for measures to remove impediments to aid disbursements, improve aid efficiency and enhance the capacity of LDCs to absorb ODA (box 1). Apart from a conducive institutional and policy environment (World Bank, 1998), aid efficiency is best achieved through raising the proportion of aid allocated to the most critical bottlenecks in the economy in order to increase the marginal returns to ODA.

How to reverse the persistent decline in aid flows, ensure that aid is directed towards countries such as LDCs which are the farthest from attaining the development goals mentioned above, and improve the utilization and efficiency of available ODA constitutes the principal challenge for the donor community and LDCs. LDCs must also do their best to overcome the fatigue and even cynicism that have come to be associated with ODA, by making it more effective in enhancing the productive capacities of their economies. Such efforts should go hand in hand with a strong commitment on the part of the donors to eliminate the poorest countries' debt overhang.

Box 1: Effective utilization of aid in LDCs in the ESCAP region[1]

1. Need for effective utilization of aid

Using a simple regression analysis, an ESCAP study showed a statistically significant link between GDP and ODA in LDCs of the ESCAP region[5]; the marginal impact of ODA on GDP, however, was only just over one tenth of one percentage point. The small impact may be partly due to the use of aid for humanitarian rather than investment purposes; it also suggests there may be significant scope for enhancing the contribution of aid to growth through better utilization. Thus, while the steady and increased flow of external aid is important, an equally pertinent issue is how the quality and effectiveness of this important resource can be enhanced.

2. Aid utilization of LDCs in the ESCAP region

Generally, the aid utilization rate is defined as the yearly disbursement relative to the amount committed for a given year. However, owing to the varying size of projects, the time required to complete them and the recipient country's ability to absorb the aid in a timely fashion, the yearly disbursement figures may not portray the extent of actual utilization of the aid flows. The method suggested in the literature for capturing the true utilization rate is to compare the cumulative disbursement with the cumulative commitment, which also includes the unused portion of aid remaining in the "pipeline". Although the utilization figures measured on yearly basis appear satisfactory — the utilization rate for the region's 13 LDCs combined was over 93 per cent between 1990-1996 — measured on a cumulative basis, the performance is significantly lower. In fact, the utilization rate on this basis for all LDCs in the ESCAP region has been only around 22 per cent over the past 15 years or so.

In general, during any given year of the period 1980-1996, more than three years of aid money on average remained in the pipeline or unutilized for all 13 Asian and Pacific LDCs combined. On a country-specific basis, there seems to be over four years' worth of unutilized pipeline aid for Bangladesh; the figure is even higher for Myanmar, with over six years of unutilized pipeline aid.

3. Impact of improved aid utilization on GDP

In light of the poor aid utilization performance by many LDCs in the ESCAP region, the ESCAP study analysed the impact of an improvement in the aid utilization rate on the countries' economic growth. Based on the combined data for all LDCs in the region, a 20 per cent rise in the prevailing aid utilization rate may lead to an increase in real GDP of over 2 per cent. Alternatively, this implies that an improvement in "pipeline" aid utilization by one year could enlarge GDP by 2 per cent. These important findings highlight the potential gains in real GDP that might be possible if these countries, through partnership with their donors, were able to improve aid utilization.

4. Impediments to, and policy recommendations on, effective aid utilization

There are many possible reasons for low aid utilization in these countries. In general, adequate technical skills, organizational structures, and economic environment and infrastructure are the preconditions for effective utilization of

Box 1 (contd.)

external aid in the LDCs. The ESCAP study noted that in Bangladesh, for example, political unrest was one of the causes of increased costs and delayed programme implementation. The lack of coordination amongst the institutions responsible for macroeconomic planning, aid programming and annual budgeting was cited in the study on the Lao People's Democratic Republic. In Nepal, administrative problems such as poor disbursement procedures, complex procurement rules and lack of local funds were listed as among the reasons for the low aid utilization rate. In the Pacific island LDCs, human resources and institutional capacity need to be improved. Since poor administrative structure is a concern in Vanuatu, budgeting reforms and a programme approach were suggested as two measures which might lead to better use of aid. These findings were considered during the fourth session of the Special Body on Least Developed and Landlocked Developing Countries in the ESCAP region (April, 1999). The recommendations of the Special Body, as summarized below, contain a number of actions that could be taken by the various players to improve aid utilization.

(a) Actions by recipient countries

LDC Governments need clearly to prioritize aid-funded projects in line with their development strategies and programmes. Domestic aid planning strategies should be pragmatic, taking into account available domestic resources and based upon realistic projections as to the use of aid.

Skilled personnel, competent economic management and institutional efficiency are essential for effective utilization of aid. Technical assistance should therefore be directed to human resource development and strengthening government institutions.

Good governance, as defined by the quality of aid management and the responsibilities placed on the administrative machinery, is essential for effective utilization of aid. Improving the effectiveness of external assistance requires political commitment and consensus among the stakeholders on economic, political and social issues, including the maintenance of security and the rule of law. Government accountability and transparency should be promoted.

Devolution of responsibilities and broad-based participation at the local and provincial levels could facilitate the implementation and monitoring of aid projects, relieve the burden of aid administration at the central level, and improve the quality, execution and evaluation of project proposals. Decentralization, however, would require more active coordination by the central Government and capacity-building and strengthening at local level, with implications for both human and financial resources.

Due to the local currency cost and to recurring expenditure implications, aid-funded projects should be fully integrated into the national budget process. The integration of aid projects into rolling development budgets, and a classification system to funnel aid through a single unified budget, could be useful in this regard. This would help increase transparency and give a clearer picture of the fiscal implications of aid-funded projects.

(b) Actions by donors

In order to determine eligibility for external aid, donors should also take into account such indicators as the level of poverty and economic and geographic vulnerability, in addition to the level of per capita income or growth rate of recipient countries.

Once the recipient Governments have formulated national priorities, donors should respect the corresponding goals and strategies. There are often cost overruns and long delays in completion of negotiations resulting from rigid administrative rules, lags between commitments and disbursements due to budget problems, complex procurement rules and conditionalities, as well as tied aid and tied export credits.

Coordination among donors should be made more effective and streamlined. Increased coordination and sharing of information among donors could reduce demands on their recipient partners and lower the number of missions having to be sent to that country.

(c) Coordination between recipient countries and donors

Efforts to use aid effectively are dependent on a genuine partnership between recipient countries and donors. This promotes a sense of ownership and a strong commitment by the recipients. Concerted efforts at aid coordination are necessary to minimize conflicting objectives, flaws in project design, deviations from project implementation plans, and also to avoid polarization of donor emphasis on selected sectors.

There should also be concerted efforts by the donors and the recipient countries to involve both domestic and foreign private sectors in the execution of development projects.

[1] The contents of this box are based on the ESCAP study (1999), *Enhancing efficiency in external aid utilization in the least developed countries*.

B. The external debt situation of LDCs and the HIPC initiative

Recent trends in the external indebtedness of LDCs

Chart 2 (A and B) summarize, respectively, the external debt situation of LDCs, and their debt service payments, both since 1985. The outstanding external debt of those countries as a group fell by over $2 billion in 1997. Their total external debt was $127 billion at the end of the year, as compared with $130 billion and $133 billion at the end of 1996 and 1995, respectively. This fall can be attributed mainly to lower ODA debts to OECD countries and to a decline in claims held by non-OECD countries. Net multilateral lending decreased marginally (see annex table 27). According to preliminary estimates, the external debt situation of the LDCs remained broadly unchanged in 1998. Debt service payments made by the countries as a group amounted to $4.4 billion in 1997, compared with $3.9 billion the previous year. A preliminary estimate for debt service paid by LDCs in 1998 is $4.2 billion.

Most debtor LDCs have not yet reached an exit from the debt restructuring process. With the effects of the global financial crisis on commodity prices, such a goal has in fact moved further out of reach, unless more generous and flexible action is undertaken under the HIPC.

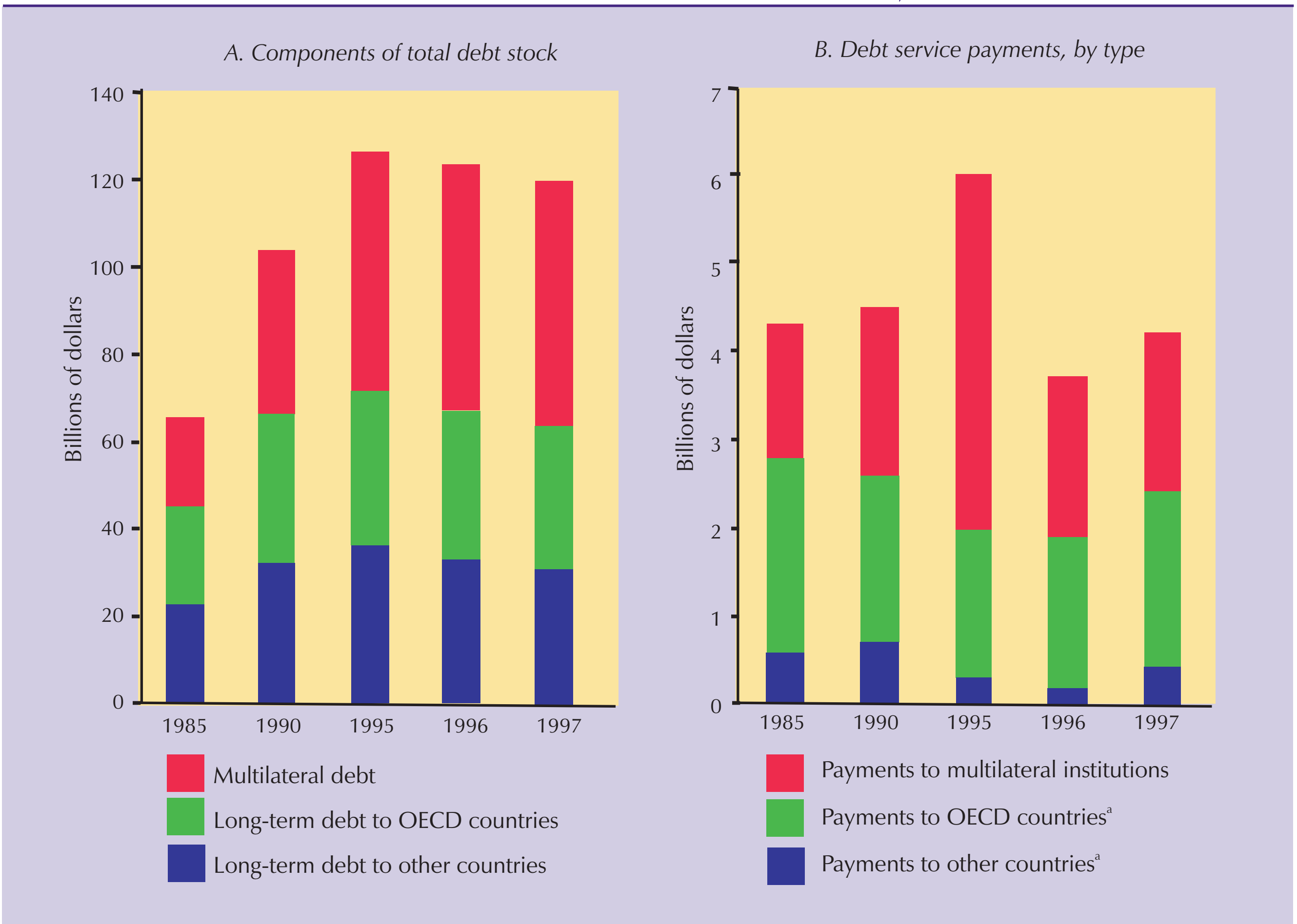
For the 44 LDCs on which reliable GDP figures are available, outstanding external debt at the end of 1997 amounted to 79 per cent of their combined GDP in that year. This ratio has been falling since 1994, when it peaked at 104 per cent. However, it is still very high, indicating a debt overhang that is seriously hampering the LDCs' adjustment and development efforts. The relatively low average debt-service ratio —13 per cent of exports in 1997, down from 22 per cent in 1995 (see annex table 29) — reflects payments actually made, not payments due. Many LDCs have been unable to meet their obligations fully, and have accumulated payment arrears and rescheduled their debts. By mid-1999, a total of 21 LDCs had benefited from a restructuring on concessional Naples or Lyon terms of their bilateral official debts with Paris Club creditors. Three new Paris Club agreements on Naples terms were concluded with LDCs in 1998 and early 1999 (with the Central African Republic, Rwanda and Zambia). In addition, Mozambique and Uganda obtained incremental relief on previously restructured Paris Club debts, and Mozambique had a stock restructuring in July 1999, as part of assistance under the HIPC initiative. These were among the first restructurings on Lyon terms, involving 80 per cent debt or debt service reduction on eligible obligations (as compared with 67 per cent under Naples terms, the most concessional terms offered before HIPC) (see annex table 30).

While the HIPC initiative holds promise for eventually addressing the debt overhang of the many LDCs, its implementation so far has fallen short of expectations. Most debtor LDCs have not yet reached an exit from the debt restructuring process. With the effects of the global financial crisis on commodity prices, such a goal has in fact moved further out of reach, unless more generous and flexible action is undertaken under the HIPC initiative. The decline in commodity prices — prices which are projected to remain depressed over the next several years — is likely to dampen export prospects for many LDCs, thus further weakening their debt-servicing capacity.

Implementation of the HIPC initiative

By mid-1999, fourteen HIPCs, nine of which were LDCs, had seen their cases reviewed under the HIPC initiative[6], and eight of the reviewed HIPCs were expected to receive additional assistance under the original HIPC framework. Among LDCs, Uganda and Burkina Faso were declared eligible for

CHART 2: EXTERNAL DEBT AND DEBT SERVICE PAYMENTS OF LDCS, 1985–1997



Source: UNCTAD secretariat, based on OECD data.
a Payments on long-term debt only.

HIPC assistance in 1997, and Mozambique and Mali qualified in 1998. Preliminary review of eligibility has also been completed for Ethiopia, Guinea-Bissau, Mauritania and United Republic of Tanzania; "decision points" for Mauritania and Tanzania were tentatively scheduled for late 1999 and early 2000, respectively. The finalization of the debt relief package for Ethiopia, however, was put on hold due to armed conflict with Eritrea, and Guinea-Bissau's debt situation will be revisited once a track record of policy implementation under the post-conflict recovery programme has been established. The ninth LDC, Benin, met the debt sustainability targets under the original HIPC framework, but its debt situation will be reconsidered and the country is now expected to qualify under the enhanced framework.

Only four countries had completed the HIPC process by November 1999 – Uganda and Mozambique (LDCs), Bolivia and Guyana (non-LDCs). Mali and Burkina Faso were scheduled to follow later.

Only four countries had completed the HIPC process by November 1999. The first to do so was Uganda, in April 1998, followed by Mozambique in June 1999. (The others were Bolivia and Guyana, not LDCs, in September 1998 and May 1999, respectively.) Mali and Burkina Faso were scheduled to follow later in 1999 and early 2000, respectively.

Although some headway has been made under the HIPC initiative, for all LDCs struggling to manage unsustainable debt burdens, the delivery of benefits must seem disappointingly slow, and there is an urgent need to speed up the process . Against this background, features of the enhanced framework aiming to this end, such as the provision of interim relief, are to be welcomed. However, there are other features which may, in practice, make the process even more difficult for LDCs to implement.

The enhanced HIPC initiative

In view of the above, and the worsened external prospects for LDCs, the comprehensive review of the HIPC initiative initiated by the IMF and the World Bank following their 1998 annual meetings is a most important development. There are two key issues militating against quick delivery of adequate debt relief to heavily indebted poor countries. There is the need first, to remove financing constraints and uncertainties and to endow the initiative with enough resources for an expeditious delivery of relief; and second, to relax the eligibility criteria by lowering the threshold and target ranges for debt sustainability, which could extend the benefit of relief under the initiative to a larger number of debtor countries.

In this context, in the first half of 1999, G-7 countries made a number of proposals for improving HIPC, aimed at addressing these concerns. The review process also attracted proposals from non-governmental organizations (NGOs) and international organizations, including the United Nations. The United Nations, among other bodies, proposed shortening the time frame for implementation to three years; applying less restrictive eligibility criteria, notably by reducing the thresholds of debt-to-exports and debt service-to-revenue ratios; setting a ceiling for the share of fiscal revenue allocated to external debt service; cancelling ODA debts; and extending at least 80 per cent debt reduction to other official bilateral debts. It is suggested by the United Nations that full cancellation of bilateral official debts be considered for post-conflict countries, countries affected by serious natural disasters and countries with very low social and human development indicators.

The new HIPC framework, emphasizes strengthening the link between debt relief and poverty reduction. An effort is being made to ensure that debt relief under the initiative is an integral part of broader efforts to implement outcome-oriented poverty reduction strategies.

In June 1999, the G-8 Cologne Summit issued recommendations for the enhancement of the HIPC initiative, known as the "Cologne debt initiative", aimed at making debt relief deeper and faster. Other objectives were broadening the initiative (expanding the number of eligible countries) and strengthening the link between debt relief and poverty reduction. Specific proposals to this end, based on the Cologne recommendations, were subsequently endorsed at the IMF and World Bank annual meetings in September 1999 on an enhanced HIPC framework. The main elements of that framework are:

- The lowering of debt sustainability thresholds to provide a greater safety cushion and better prospects for a permanent exit from unsustainable debt;
- The provision of faster debt relief through interim assistance;
- The introduction of floating "completion points" that would shift the focus of assessment towards positive achievements and outcomes rather than the length of the track record; and
- The (resulting) increase in the number of countries expected to be eligible for debt relief.

The new debt sustainability targets and other features of the new scheme are set out in box 2. Four additional LDCs are expected to become eligible for HIPC assistance under the enhanced framework; well over half of all LDCs — 27 in all — are now expected to qualify within the next several years (see box 3).

In the review process and the resulting new HIPC framework, emphasis is put on strengthening the link between debt relief and poverty reduction. An effort is made to ensure that debt relief under the initiative is an integral part of broader efforts to implement outcome-oriented poverty reduction strategies. A country

Box 2: New debt sustainability targets and mechanisms for faster and broader debt relief

Under the enhanced HIPC framework, deeper debt reduction would be obtained by lowering the debt sustainability targets:

- for net present value (NPV) debt-to-exports ratios: from 200-250 per cent to a unique ratio of 150 per cent;
- for NPV debt-to-fiscal revenue ratio: from 280 per cent to 250 per cent; the two accompanying eligibility criteria have also been reduced: for the exports-to-GDP ratio, from 40 per cent to 30 per cent, and for the fiscal revenue-to-GDP ratio, from 20 per cent to 15 per cent.

The Paris Club has agreed to increase its debt relief under the enhanced HIPC framework by providing debt cancellation of up to 90 per cent or more for the very poorest eligible countries. For poor countries not qualifying under the HIPC initiative, the Paris Club could consider a unified 67 per cent reduction under the Naples terms.

Moreover, for qualifying countries, forgiveness of bilateral ODA debt is envisaged, through a menu of options, over and above the amounts required to achieve debt sustainability. New ODA should preferably be extended in the form of grants.

As regards the provision of faster debt relief, the two three-year-stages of implementation are maintained, although it is specified that the second stage can be shortened if a country meets ambitious policy targets early on "floating completion points". The international financial institutions can provide "interim relief" for qualifying countries, before completion point. After completion point, these institutions can frontload the provision of debt relief.

In future, the amount of debt relief is to be determined at the decision point, based on actual data. Implementation would be retroactive, as additional assistance resulting from any modification of the HIPC initiative should be available to all eligible countries, including those that have already reached their decision or completion points under the present framework.

aspiring to assistance under the HIPC scheme would normally be expected to have in place a comprehensive and participatory poverty reduction strategy before the decision point (when decision on a country's eligibility for additional HIPC assistance is made). A new vehicle — a poverty reduction strategy paper (PRSP) — will be introduced. The PRSP would be produced by national authorities with the assistance of the IMF and the World Bank. It would guide all lending operations by both institutions as well as by donors. In addition, the IMF is reforming its Enhanced Structural Adjustment Facility (ESAF) to make sustainable poverty reduction a central objective.

Progress was made at the IMF and World Bank annual meetings in September 1999 on financing the HIPC initiative, notably through new pledges of bilateral contributions to the institutions' trust funds and agreement on financing the IMF's participation through gold sales. The IMF Board of Governors adopted a resolution enabling off-market transactions of up to 14 million ounces of gold, as a one-time operation of a highly exceptional nature.

Debt sustainability targets should realistically reflect the capacity of HIPCs to pay, and the new targets under the enhanced HIPC framework should be assessed in this light.

Outstanding policy issues

Debt sustainability targets should realistically reflect the capacity of HIPCs to pay, and the new targets under the enhanced HIPC framework should be assessed in this light. It can be argued that HIPC debt relief should seek in the first instance to remove whatever is the binding constraint, be it scarcity of foreign exchange or lack of budgetary resources. From this point of view, the new fiscal target still appears to be high. To begin with, the two additional criteria on exports-to-GDP and fiscal revenue-to-GDP ratios could be dropped. In the final analysis, benchmarks on debt service ratios, debt service-to-exports and debt service-to-fiscal revenue could better reflect the debt-servicing capacity of debtor countries. In this respect, the fiscal criterion could be set at a level below 25 per cent of debt service-to-fiscal revenue, given the competing claims for the financing of infrastructure, social and human development.[7]

The question of adequate financing remains a major concern. Full financing for the HIPC programme was far from assured following the 1998 annual meetings. The total costs for creditors of implementing the HIPC initiative (in addition to the traditional debt relief mechanisms) before the modifications of the scheme were estimated at $12.5 billion in 1998 NPV terms. The modifications would more than double this cost, to over $27 billion. All the elements in the envisaged financing package have to be in place to enable creditors to move forward together. Agreement was reached on enabling legislation for IMF gold sales, although on a more restrictive scale than foreseen in the resolution adopted by the Fund's Board of Governors. Funding for the enhanced debt relief programme may also be forthcoming at a slower pace than foreseen. Contributions to the financing of HIPC will require parliamentary approval in other donor/creditor countries as well. Failure by the major donors and by multilateral agencies to make suitable financing provisions could lead to further disappointment for the would-be recipients, who have engaged in lengthy and arduous macroeconomic adjustment programmes as a condition for securing debt relief.

The most important point about the financing of the HIPC initiative, however, is that debt relief for the poorest countries should not be provided at the expense of ODA funding for development programmes and projects in these and other countries — notably LDCs. The financial standing of multilateral development banks and their ability to provide support to all member countries also needs to be safeguarded.

The most important point about the financing of the HIPC initiative is that debt relief for the poorest countries should not be provided at the expense of ODA funding for development programmes and projects in these and other countries – notably LDCs.

It is thus, essential that debt relief be financed by resources that are additional to budgetary ODA allocations. Apart from IMF gold sales, additionality may also be obtained by allocations of special drawing rights (SDRs). A case can be made for a new general allocation of SDRs in the present context of global deflation and liquidity crisis in developing countries and countries in transition. Besides HIPCs, middle-income debtor countries also need additional liquidity for economic recovery. Creditor countries could cede their SDR allocations as donations to those countries in need of debt relief.

In addition to enhancing the external viability of HIPCs, reducing fiscal pressure and creating room for transferring resources to social expenditures should also be a key concern under the HIPC initiative. There is indeed merit in establishing a link between debt relief and poverty reduction, and in channelling resources freed up from debt service to finance social and human development projects. However, any such link should not take the form of additional conditionality imposed on the debtor countries. Social policies and expenditures are already being monitored under ESAF programmes, and debtor countries have had to demonstrate satisfactory progress on social sector reform before decisions on delivery of HIPC assistance are made.

There are a number of questions related to the new emphasis on poverty reduction in HIPC which need to be clarified. These concern, *inter alia*, the social expertise required; how to determine which social policies are the most effective for poverty reduction; and how to choose the set of outcome-oriented goals for social indicators and quantified intermediate indicators for implementing the new strategies.

The key question, however, is whether the establishment of poverty reduction strategy papers will increase the burden on HIPC countries and, in so doing, slow down the process by setting new requirements for obtaining debt relief, i.e. social policy conditionalities in addition to macroeconomic and structural reform conditionalities. There is also a need to ensure that the learning process entailed in the PRSP and efforts to enhance a sense of ownership do not further delay the implementation of the HIPC.

In summary, the ultimate objective of the HIPC initiative is to provide a clear exit from an unsustainable debt burden; and LDCs and other HIPCs need such debt relief without delay, in order to improve their near-term growth and development prospects. Under the enhanced HIPC framework, poverty reduction (targeting debt relief to transfer resources to social expenditures) has been added as another major objective. It remains to be seen whether the mechanisms foreseen under the new framework will be able to meet both these aspirations and deliver rapid exit as well as effective poverty reduction through participatory, fully recipient-owned new processes.

Box 3: LDCs and the HIPC initiative

Of the 48 LDCs, 30 are HIPCs and potentially stand to benefit from the initiative. By the end of 1998, 21 had already met the formal entry requirement of having an IMF/IDA-supported programme in place. Of these, 16 were judged to be likely to qualify for HIPC assistance under the original framework. Apart from the seven already declared or reviewed and expected to be declared eligible on the basis of debt sustainability analysis — Burkina Faso, Ethiopia, Guinea-Bissau, Mali, Mauritania, Mozambique and Uganda — this group included Chad, Guinea, Madagascar, Malawi, Niger, Rwanda, Sierra Leone, United Republic of Tanzania and Zambia. Four additional LDCs — Benin, Central African Republic, Lao People's Democratic Republic and Togo — are expected to qualify under the enhanced HIPC framework. Among these countries, Lao People's Democratic Republic has never been to the Paris Club, and most of its bilateral debt is owed to the Russian Federation. In principle, countries must make full use of traditional debt-relief mechanisms, such as concessional reschedulings with Paris Club creditors, to be eligible for debt relief under the HIPC initiative. Benin was considered ineligible for debt relief under the original HIPC framework because its debt sustainability targets would have been met through traditional mechanisms, but will now be reconsidered under the enhanced framework. Yemen is the only LDC in this group of early entrants not judged likely to qualify for HIPC assistance.

Initially, support under the HIPC initiative was to be made available to countries embarking on IMF- and World Bank-supported programmes prior to 1 October 1998. At the 1998 annual meetings of the Fund and the Bank, it was decided to extend this entry period to the end of 2000. This decision to extend the HIPC "sunset clause" is of potential benefit for the remaining nine HIPC LDCs — Angola, Burundi, Democratic Republic of Congo, Equatorial Guinea, Liberia, Myanmar, Sao Tomé and Principe, Somalia and Sudan — seven of which are in or emerging from civil conflict. All but two (Angola and Equatorial Guinea) in this group had already been thought to require HIPC assistance under the initial framework. These countries will now need to put the required economic programmes in place. Sao Tomé and Principe already had a staff-monitored programme for 1999, and expected to continue discussions with the IMF on an ESAF programme later in the year. Angola and Equatorial Guinea are not expected to qualify even under the new criteria.

There are six LDCs which have been classified by the World Bank as either severely or moderately indebted, although they are not HIPCs — Afghanistan (severely indebted), Bangladesh, Cambodia, Comoros, Gambia and Haiti (moderately indebted). Three of them, Cambodia, Gambia and Haiti, have been seen as having graduated from Paris Club reschedulings. The other three have never been to the Paris Club. Non-HIPC LDCs should not be excluded from consideration under the HIPC initiative, if their debt situation so warrants; debt sustainability analysis should be undertaken for all of them with a view to determining their debt relief needs. Malawi, which was originally among the severely indebted non-HIPCs, has already been moved from this group to be included among the HIPCs.

The 12 other LDCs can be considered as less indebted on the basis of the World Bank classification.[1] Four of them are less indebted low-income countries — Bhutan, Eritrea (which as a newly independent country has incurred little debt), Lesotho and Nepal. Their debt service ratios in 1997 ranged from 6 per cent of exports in the case of Nepal to 30 per cent in the case of Lesotho, and they all have a record of meeting their debt service obligations. The other eight LDCs in this group are, with the exception of Djibouti, island countries — Cape Verde, Maldives, and the five Pacific island LDCs: Kiribati, Solomon Islands, Tuvalu, Vanuatu and Western Samoa. The donor community may still wish to examine which debt relief-related measures could help support these countries' development programmes. For instance, they should benefit from new aid resources in grant form, or on highly concessional terms, in order to avoid future debt problems. They should not be excluded from general cancellation of LDCs' ODA debts, and might benefit from debt-for-development swaps or similar programmes still to be proposed.

[1] Twelve countries including Tuvalu, on which information is not available and which is not listed in the World Bank classification.

Outside the HIPC framework, the debt relief needs of LDCs which would not qualify for HIPC assistance should also be kept under review (see box 2). The G-8 countries at the Birmingham Summit in May 1998 called on those countries that had not already done so to forgive aid-related bilateral debt or take comparable action for LDCs undertaking the needed reforms. As a minimum, this recommendation should be fully implemented. Such action may need to be complemented by measures to reduce debt burdens stemming from remaining obligations to commercial creditors or multilateral institutions on non-concessional terms. Even with the new and more generous HIPC debt relief programme adopted in September 1999, "unfinished business" remains on the international community's agenda as far as LDCs' external debt problems are concerned. Monitoring of the implementation of the HIPC scheme and of the debt situation of the non-HIPC LDCs has to be continued. The issue can be considered resolved only when debt is no longer an obstacle to LDCs' adjustment and development efforts and to their prospects for sustainable growth.

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C. Export earnings, savings and investment

Export earnings

An analysis of the scanty data available indicates a generally unfavourable balance-of-payments situation for most LDCs. Between 1992 and 1997, seven of the 10 least developed countries for which data are available had negative overall balances, and 9 of them had negative current account balances. In 1997, the combined balance-of-payments deficit of the same LDCs constituted 5.6 per cent of their combined GDP. The largest cases were Lao People's Democratic Republic and Solomon Islands, whose balance-of-payments deficits constituted 16.14 per cent and 10.82 per cent, respectively, of their GDP.

A close examination of the 1997 current account data for 17 LDCs for which figures are available reveals an even more unfavourable picture. Fifteen had negative balances on their current accounts, constituting an average of about 5 per cent of their combined GDP. The current account deficits of Lao People's Democratic Republic, Nepal and Sudan comprised more than 8 per cent of their respective GDPs (table 3). These data raise questions as to whether aid transfers from bilateral donors so far are capable of offsetting the negative balances on the current accounts of most LDCs.

Although most LDCs depend on merchandise exports for earning foreign exchange (see part two, chapter 1), their trade balances are negative in the majority of cases. In 1997, the balance on goods was negative in 15 of the 17 LDCs for which figures are available. For the period 1991-1996, all 21 LDCs for which figures are available had negative balances on the trade account, and for the period 1981-1990, all but one (Guinea) had a deficit on the same account (table 4). In 1997, the combined deficit on the trade account constituted an average 16 per cent of the combined GDP of the 17 LDCs for which data are available. As indicated in table 4, the LDCs with the highest trade balance deficit-to-GDP ratios in 1997 are all small, mostly island States with a poor base for the production and export of goods (part two, chapter 1). Maldives, Samoa and Cape Verde had trade balance deficit-to-GDP ratios of 58.2 per cent, 43.9 per cent and 40.5 per cent, respectively. A disproportionately large part of the current account deficits for the 17 LDCs is attributable primarily to the large

Table 3: Current account in current value and as a percentage of GDP

Country	1981–1990 $ millions	1981–1990 % of GDP	1991–1996 $ millions	1991–1996 % of GDP	1997 $ millions	1997 % of GDP
Bangladesh	-513.0	-2.4	-168.4	-0.5	-327.0	-0.8
Burundi	-53.7	-5.0	-31.0	-3.1	4.0	0.5
Cape Verde	-8.3	-3.1	-31.0	-8.5	-30.0	-7.1
Equatorial Guinea	-20.3	-18.2	-86.0	-52.4	..	..
Ethiopia	-184.9	-2.8	-16.9	-0.3	-39.0	-0.7
Gambia	-0.2	-0.1	-0.5	-0.2	-24.0	-5.9
Guinea	-153.4	-6.6	-208.4	-6.1	-91.0	-2.4
Haiti	-75.8	-3.7	-57.5	-2.4	..	..
Lao People's Dem. Rep.	-99.9	-7.7	-129.4	-9.0	-225.0	-12.9
Madagascar	-206.9	-6.9	-232.0	-7.3	..	..
Maldives	-4.8	-5.5	-16.0	-7.0	-16.0	-4.7
Mali	-176.4	-10.7	-219.7	-8.9	-178.0	-7.1
Mozambique	-396.0	-15.0	-402.2	-21.3	..	..
Nepal	-151.2	-5.3	-290.5	-7.3	-418.0	-8.5
Rwanda	-82.3	-4.4	-42.7	-2.8	-93.0	-5.0
Samoa	4.5	4.1	-14.9	-10.1	9.0	4.7
Solomon Islands	-18.8	-11.2	-4.2	-1.5	-28.0	-7.5
Sudan	-204.2	-1.6	-598.7	-7.3	-828.0	-8.1
Uganda	-88.1	-2.3	-184.7	-4.4	-337.0	-5.2
United Republic of Tanzania	-394.8	-8.5	-664.4	-13.8	-544.0	-7.9
Vanuatu	-7.6	-6.3	-16.0	-7.5	-19.0	-7.6
LDCs (average)	-135.1	-5.9	-162.6	-4.3	-187.3	-4.2

Source: IMF, *Balance of Payments Statistics Yearbook*, various issues.

Table 4: Balance on goods in current value and as a percentage of GDP

Country	1981–1990 $ millions	1981–1990 % of GDP	1991–1996 $ millions	1991–1996 % of GDP	1997 $ millions	1997 % of GDP
Bangladesh	-1481.5	-6.8	-1628.4	-4.8	1748.0	-4.3
Burundi	-58.2	-5.4	-87.2	-8.7	-11.0	-1.2
Cape Verde	-85.7	-32.0	-166.4	-45.4	-172.0	-40.5
Equatorial Guinea	-12.0	-10.8	-24.9	-15.2	..	..
Ethiopia	-433.8	-6.6	-616.4	-11.0	-448.0	-7.1
Gambia	-29.2	-12.6	-54.2	-15.0	-87.0	-21.4
Guinea	79.9	3.4	-36.2	-1.1	118.0	3.1
Haiti	-132.3	-6.5	-259.9	-10.7	..	..
Lao People's Dem. Rep.	-124.2	-9.5	-200.0	-13.9	-282.0	-16.1
Madagascar	-71.8	-2.4	-128.5	-4.1	..	..
Maldives	-39.6	-45.1	-130.7	-56.5	-199.0	-58.2
Mali	-105.7	-6.4	-129.2	-5.2	9.0	0.4
Mozambique	-483.3	-18.3	-631.0	-33.3	..	..
Nepal	-342.9	-12.0	-696.2	-17.5	-1309.0	-26.6
Rwanda	-107.9	-5.7	-210.0	-13.5	-153.0	-8.3
Samoa	-40.0	-35.8	-75.7	-51.5	-85.0	-43.9
Solomon Islands	-4.4	-2.7	3.7	1.3	-29.0	-7.8
Sudan	-368.3	-2.9	-568.4	-6.9	-828.0	-8.1
Uganda	-76.8	-2.0	-286.5	-6.9	-467.0	-7.1
United Republic of Tanzania	-558.2	-11.9	-758.2	-15.8	-449.0	-6.5
Vanuatu	-38.3	-31.5	-51.4	-24.1	-44.0	-17.5
LDCs (average)	-215.0	-12.6	-320.8	-17.1	-363.8	-16.0

Source: IMF, *Balance of Payments Statistics Yearbook*, various issues.

negative trade balances. The persistent current account deficits in LDCs are largely a function of supply-side constraints in the goods sector and adverse terms of trade, the latter underlain by the frequently depressed commodity prices in the world markets (see part two, chapter 1).

The balance on traded services looks better than the balance on goods. In 1997, the number of LDCs with negative balances on traded services was 11 out of 17, compared with 15 having negative balances on goods. The 17 LDCs had an average *positive* services balance-to-GDP ratio of 4.3 per cent in 1997. However, almost all the countries with positive balances on traded services are small, mostly island States which depend heavily on tourism (table 3, and part two, chapter 1).

LDCs are trapped in a vicious circle whereby the existing production structure can generate little diversification and export earnings in the absence of new investment. But this requires substantial amounts of foreign exchange and imports. Export growth is thus constrained by the low availability of imports, which cannot be increased because of inadequate export earnings and capital inflows.

The problem with LDC exports as a source of investible resources is that these countries' relative export prices are subject to a secular downward trend and fallacy-of-composition. Therefore a greater export drive on the part of LDCs, within the framework of established concentrated production structures (see part two, chapter 1), tends to aggravate the problem. The real answer to the problem lies in export diversification and, hence, investment, which in turn, requires considerable amounts of imports of intermediate and capital goods. This means that LDCs are trapped in a vicious circle whereby the existing production structure can generate little diversification and export earnings in the absence of new investment. But this requires substantial amounts of foreign exchange and imports. Export growth is thus constrained by the low availability of imports, which cannot be increased because of inadequate export earnings and capital inflows.

Given declining trends in ODA and the low levels of private capital inflows (see below), the most readily available option for LDCs to finance the bulk of their current account deficits is foreign borrowing, especially from multilateral institutions. Indeed, the adoption of economic reforms by most LDCs since the 1980s is to a considerable extent a function of the need to qualify for multilateral credits. Foreign borrowing could of course play a positive role in development, if credits were channelled mainly into enhancing productive capacity. This would eventually boost surpluses on the trade account, thereby obviating the need for external credits. On the other hand, borrowing to finance consumption would put LDCs in a vicious circle, with debt service outflows intensifying the current account deficits, thus creating demand for more credits. In this regard, there is a need to study the sectoral allocation of external credits in order to assess their contribution to productive capacities in LDCs.

Savings

Given the context in which concessional financing is declining, and given the unpredictability of private capital flows, the significance of internally generated resources for economic and social development in LDCs cannot be overemphasized. As an integral part of efforts to enhance their productive capacity and competitiveness, LDCs must therefore strive to devise strategies that would improve the framework for mobilization of domestic savings. However, this is a complex "chicken-and-egg" issue, because capacity to mobilize internal savings depends primarily on the level of GDP. Against this backdrop, the record of moblization of domestic savings in LDCs has not been an impressive one, though there are increasing signs of improvement.

During the second half of the 1990s, the general trend in gross domestic savings (GDS) in LDCs has shown signs of appreciable recovery from the

TABLE 5: BALANCE ON SERVICES IN CURRENT VALUE AND AS A PERCENTAGE OF GDP

Country	1981–1990		1991–1996		1997	
	$ millions	*% of GDP*	*$ millions*	*% of GDP*	*$ millions*	*% of GDP*
Bangladesh	-274.3	-1.3	-467.0	-1.4	-601.0	-1.5
Burundi	-96.7	-8.9	-87.7	-8.7	-32.0	-3.4
Cape Verde	9.8	3.7	10.9	3.0	19.0	4.5
Equatorial Guinea	-33.5	-30.1	-60.9	-37.1	..	..
Ethiopia	-47.2	-0.8	-27.7	-0.5	-4.0	-0.1
Gambia	1.7	0.8	10.0	2.8	34.0	8.4
Guinea	-145.0	-6.2	-216.2	-6.4	-211.0	-5.5
Haiti	-76.2	-3.8	-71.2	-3.0	..	..
Lao People's Dem. Rep.	-14.5	-1.2	-20.5	-1.5	-16.0	-1.0
Madagascar	-122.8	-4.1	-100.9	-3.2	..	..
Maldives	40.3	45.9	137.4	59.4	223.0	65.2
Mali	-191.1	-11.6	-297.9	-12.0	-263.0	-10.4
Mozambique	-65.5	-2.5	-94.7	-5.0	..	..
Nepal	63.4	2.3	224.7	5.7	641.0	13.1
Rwanda	-87.5	-4.6	-105.8	-6.8	-185.0	-10.0
Samoa	1.7	1.6	9.2	6.3	25.0	12.9
Solomon Islands	-33.9	-20.2	-43.4	-15.0	-24.0	-6.5
Sudan	-22.5	-0.2	-92.4	-1.2	-141.0	-1.4
Uganda	-139.8	-3.6	-332.4	-7.9	-528.0	-8.1
United Republic of Tanzania	-106.8	-2.3	-229.0	-4.8	-313.0	-4.6
Vanuatu	22.0	18.2	45.0	21.1	52.0	20.7
LDCs (average)	-62.8	-1.4	-86.2	-0.8	-77.9	3.5

Source: IMF, *Balance of Payments Statistics Yearbook*, various issues.

extremely low levels of the first half of the decade (see UNCTAD, 1995:14). From a very low annual average of 0.5 per cent of GDP between 1990 and 1994, GDS rates have progressively risen to 3.7 per cent in 1995, 4.5 per cent in 1996 and 7.2 per cent in 1997 (table 6). Even the proportion of individual LDCs recording negative savings dropped in 1990-1994 from 46 per cent of the 38 LDCs for which data are available to 24 per cent in 1996-1997. Despite this positive trend, however, the levels of savings in LDCs as a whole are still quite low. The general explanation for this state of affairs is, of course, the low per capita incomes, which are the major determinants of personal savings. It might also be said that debt-servicing obligations undermine national capacity to mobilize domestic savings, insofar as debt servicing deprives the least developed economies of potentially investible resources.

During 1996-1997, of the 38 LDCs for which figures are available, nine recorded negative gross domestic savings, ranging from -0.3 to -31 per cent of GDP (tables 4 and 5), and only four were able to mobilize savings in excess of 15 per cent of their GDP. The most impressive were Equatorial Guinea and Bhutan, which recorded average domestic savings rates of 56.3 per cent and 33.3 per cent of GDP, respectively. An additional seven LDCs recorded GDS rates of between 10 and 15 per cent of GDP. The majority of the least developed countries were able to record savings ranging from only 0 to 10 per cent of GDP. A few individual countries, notably Burundi, Chad, Guinea Bissau, Mozambique and Yemen, were able to make the transition from negative to positive savings rates between 1990 and 1997 (table 6).

The generally low gross domestic savings rates mean that the capacity of LDCs as a whole to mobilize internal resources for development is extremely low.

The generally low GDS rates mean that the capacity of LDCs as a whole to mobilize internal resources for development is extremely low. The considerably large gap between GDS-to-GDP and GDI-to-GDP ratios, as indicated in table 6, suggests that LDCs continue to depend on resources generated abroad, in the form of foreign aid (especially concessional assistance), other remittances, and capital inflows, to finance much of their domestic investments. One particularly notable case is that of Lesotho which, despite its negative saving rates

Table 6: Gross domestic savings as a percentage of GDP, 1980–1997

Country	1980–1984	1985–1990	1990–1994	1995	1996	1997
Angola	..	24.0	21.1	15.7	20.2	27.3
Bangladesh	12.1	11.6	13.5	13.5	13.2	14.7
Benin	-0.9	3.1	6.1	10.3	8.8	10.8
Bhutan	8.1	12.1	25.2	41.1	34.6	32.2
Burkina Faso	-4.3	2.4	6.5	7.2	7.6	9.2
Burundi	3.0	3.4	-5.8	-7.3	0.3	2.7
Cambodia	..	2.7	5.3	4.7	4.5	4.3
Cape Verde	..	7.7	-0.4	-14.5	-7.0	-4.4
Central African Republic	-3.2	0.9	1.9	7.5	-0.3	6.7
Chad	-4.4	-11.3	-4.7	2.0	2.3	1.3
Comoros	-6.5	-2.6	-1.2	-7.0	-6.1	-2.6
Dem. Rep. of the Congo	8.6	13.4	6.4	14.2	13.5	9.0
Djibouti	..	..	-12.8	-8.7	-7.7	-6.3
Equatorial Guinea	..	..	-0.2	27.3	44.9	67.7
Eritrea	..	..	-30.5	-31.6	-31	-17.4
Ethiopia	3.4	5.5	4.8	7.5	4.7	8.7
Gambia	5.5	7.6	7.4	1.0	2.2	3.8
Guinea	..	16.4	14.1	17.1	16.9	18.8
Guinea-Bissau	-1.8	-0.1	4.1	-1.2	1.8	5.1
Haiti	6.2	4.9	-4.8	-12.5	-8.5	-4.5
Kiribati	-36.7	-40.4	-42.6	..	..	..
Lao People's Dem. Rep.	2.7	0.5	..	11.6	12.0	11.4
Lesotho	-78.8	-67.2	-34.7	-17	-1.8	-9.8
Liberia	16.6	16.4	..	..	..	..
Madagascar	0.8	5.9	3.3	3.6	6.4	3.6
Malawi	13.6	10.1	6.4	8.1	0.9	2.1
Maldives	..	..	..	..	..	..
Mali	-0.9	-0.3	6.2	10.9	10.8	13.7
Mauritania	1.8	11.5	8.0	5.1	7.8	8.6
Mozambique	-9.0	-8.2	-8.0	10.7	9.5	13.7
Myanmar	14.8	10.0	12.4	13.5	12.8	12.4
Nepal	10.1	11.4	11.2	13.0	9.5	10.1
Niger	6.8	-0.3	1.1	0.4	3.2	3.3
Rwanda	4.8	5.3	-8.8	-13.7	-9.8	-7.5
Samoa	-6.9	-8.8	-8.5	..	..	..
Sao Tome and Principe	-18.8	-15.3	-14.3	-21.8	-19.9	-16.1
Sierra Leone	1.1	3.9	15.0	-1.9	-5.5	-8.1
Solomon Islands	11.7	9.0	3.1	..	..	..
Somalia	-18.2	5.6	-12.5	..	..	..
Sudan	3.4	8.0	..	..	..	..
Togo	17.1	7.6	7.4	12	11.6	9.9
Uganda	1.7	3.0	1.5	7.2	4.7	7.6
United Rep. of Tanzania	..	1.3	-1.4	-0.1	3.4	..
Vanuatu	15.3	6.3	13.4	..	..	..
Yemen	..	..	-2.6	2.3	-8.0	12.8
Zambia	13.2	15.0	8.7	8.2	8.8	9.8
LDCs (average)	-0.2	2.2	0.5	3.6	4.5	7.2

Source: World Bank, *World Development Indicators, 1999* (CD-ROM).

Table 7: Gross domestic savings as percentage of GDP, 1996–1997
Ranking of LDCs by clusters
(Average)

S < 0	0< S < 5	5 < S < 10	10 < S < 15	S > 15
Cape Verde	Burundi	Benin	Bangladesh	Angola
Comoros	Central African Republic	Burkina Faso	Dem. Rep. of the Congo	Bhutan
Djibouti	Chad	Cambodia	Lao People's Dem. Rep.	Equatorial Guinea
Eritrea	Gambia	Ethiopia	Mali	Guinea
Haiti	Guinea-Bissau	Madagascar	Mozambique	
Lesotho	Malawi	Mauritania	Myanmar	
Rwanda	Niger	Nepal	Togo	
Sierra Leone	United Rep. of Tanzania	Uganda		
Sao Tome and Principe	Yemen	Zambia		

Source: Ranking based on World Bank, *World Development Indicators, 1999* (CD-ROM).
Note: Data not available for Afghanistan, Kiribati, Liberia, Maldives, Samoa, Solomon Islands, Somalia, Sudan and Vanuatu.
S GDS as percentage of GDP.

Table 8: Trends in savings and investments, 1980–1997

	1980–1984	1985–1989	1990–1994	1995	1996	1997
GDS % GDP, unweighted average of LDCs	-0.2	2.3	0.5	3.7	4.6	7.2
GDI % GDP, unweighted average of LDCs	20.7	20.3	22.7	23.1	24.5	23.3
GDI % GDP, average of LDCs, weighted by population size	16.4	15.7	16.3	18.4	18.4	18.1

Source: UNCTAD secretariat calculations.

throughout the period 1995-1997 (table 4), has an average GDI-to-GDP ratio of 84.7 per cent for the three years, the second highest after Equatorial Guinea. This phenomenon is largely a function of foreign investment in Lesotho's export-oriented garment industry.

Although the levels of savings in a given LDC may be determined by a combination of factors unique to that country, it seems that, by and large, the positive trend in gross domestic savings in these countries as a whole in the second half of the 1990s is a function of the economic reforms pursued by most of them during the period in question. These reforms have contributed to the upturn in per capita real GDP growth rates from the middle of the decade (see annex table 2), encouraged reductions in government consumption and improved the climate for private savings, especially through the liberalization of interest rates and the reform of the financial sector. There is a possibility that domestic savings may also have begun to benefit from activities generated by rising foreign investment (see further below), although research is necessary to establish whether such a linkage actually exists.

Unusually high savings rates may require special explanation. The impressive savings rates in Equatorial Guinea, for example, have benefited from activities in the budding oil sector. In the case of Bhutan, a country that depends predominantly on agriculture, the high GDS-to-GDP ratios may be attributed to the success of the Kingdom's policy, embodied in successive development plans that have accorded high priority to the control of recurrent government expenditure and mobilization of internal resources (Shaw, 1998: 161-63). There does not appear to be a common explanation in respect of the nine LDCs that have consistently recorded negative savings, except that five of them have a history of internal conflicts. Such situations will not only have a negative impact on economic activities; they will also undermine confidence in financial institutions.

There are a number of LDCs for which remittances from nationals working abroad constitute a sizeable pool of investible resources to augment domestic savings. Between 1990 and 1997, workers' remittances to the 22 LDCs for which figures are available (table 9) amounted to $22.5 billion, or 11.7 per cent of their total export earnings and 4.2 per cent of their combined GDP. The largest amounts go to Bangladesh, Burkina Faso, Cape Verde, the Comoros, Eritrea, Kiribati, Mali, Nepal, Samoa and Yemen.

In some LDCs, nationals working abroad have brought in significant amounts of foreign exchange.

In Cape Verde, workers' remittances were actually higher than earnings from exports. They amounted to 109 per cent of export earnings and 20.3 per cent of total GDP for the entire period. Over the same period (1990-1997), workers' remittances were equivalent to 84.5 per cent of export earnings and 24.2 per cent of GDP in Eritrea[8]; 75.8 per cent of export earnings and 25.6 per cent of GDP in Samoa; and 64.4 per cent of export earnings and 24.6 per cent of GDP in Yemen.

There is no doubt, therefore, that in some LDCs, nationals working abroad have brought in significant amounts of foreign exchange, a part of which may have been mobilized to build up the productive capacities of the economies of these countries by financing importation of capital and intermediate goods, including agricultural inputs. These statistics suggest that enhanced liberalization of trade in services within the WTO framework, in particular through the fourth mode of supply (movement of natural persons) under the General Agreement on Trade in Services (GATS), has the potential to boost the investible resources available to LDCs.

Investment

LDCs as a group have recorded higher levels of domestic investment during the 1990s than during the 1980s. During the second half of the present decade some improvement in investment has been achieved compared with the first half of the decade. As illustrated in table 10, the average annual gross domestic investment (GDI) as a percentage of GDP rose from 22.6 per cent for the period 1990-1994 to 24.4 per cent in 1996. However, it fell slightly the following year, to 23.3 per cent. The most plausible explanation for that drop is the Asian financial crisis, which set in during the year and subsequently turned into a global crisis (see part one, chapter1). The rising trend in GDI in LDCs seems to have resulted from a generally favourable investment climate which, at least in part, is arguably a function of the reform policies pursued by the majority of LDCs since the 1980s. The considerable degree of macroeconomic stability that has been engendered in many LDCs, combined with specific measures to create incentives for domestic as well as foreign investors, may have begun to bear fruit. However, at less than 25 per cent, which is the average for developing countries as a whole, the average GDI-to-GDP ratio for LDCs is rather modest. It means that, as a whole, these countries continue to experience very low levels of capitalization, which can only perpetuate their least developed status.

LDCs as a group have recorded higher levels of domestic investment during the 1990s than during the 1980s. However, they are not investing enough even to meet replacement needs of the capital stock, let alone to create new productive capacity.

With such low levels of investment, LDCs are not investing enough even to meet replacement needs of the capital stock, let alone to create new productive capacity. Capital stock replacement needs for LDCs, where the infrastructure has been destroyed by years of civil war or sheer neglect, are extremely high. In the case of African LDCs, it has been suggested that the most favourably placed among them need GDI-to-GDP ratios in the high twenties just to sustain current growth rates (AfDB, 1999:23). In order to be able to reduce substantially the number of the poor, say by 50 per cent, over the next decade and a half, African

Table 9: Workers' remittances as a percentage of export and GDP, 1990–1997

Country	1990 Workers' remittances ($ millions)	1990 Per cent of export (%)	1990 Per cent of GDP (%)	1991 Workers' remittances ($ millions)	1991 Per cent of export (%)	1991 Per cent of GDP (%)	1992 Workers' remittances ($ millions)	1992 Per cent of export (%)	1992 Per cent of GDP (%)	1993 Workers' remittances ($ millions)	1993 Per cent of export (%)	1993 Per cent of GDP (%)	1994 Workers' remittances ($ millions)	1994 Per cent of export (%)	1994 Per cent of GDP (%)	1995 Workers' remittances ($ millions)	1995 Per cent of export (%)	1995 Per cent of GDP (%)	1996 Workers' remittances ($ millions)	1996 Per cent of export (%)	1996 Per cent of GDP (%)
Bangladesh	761.0	40.0	2.5	764.0	36.2	2.5	848.0	34.4	2.7	944.0	32.5	2.9	1 089.0	35.6	3.3	1 198.0	29.0	3.2	1 217.0	27.0	3.0
Benin	97.3	24.2	5.3	96.1	20.9	5.1	108.8	21.2	6.7	110.5	23.1	5.2	72.6	17.9	4.9	57.0	10.5	2.8	62.0	11.1	2.8
Burkina Faso	139.7	40.0	5.1	113.0	33.5	4.1	128.8	42.7	6.5	117.2	40.3	5.7	80.3	29.5	4.3	110.2	36.0	4.7	109.2	35.2	4.3
Cambodia	..	..	..	..	..	..	9.0	..	0.5	9.0	2.6	0.4	10.0	1.8	0.4	10.0	1.0	0.3	10.0	1.2	0.3
Cape Verde	46.4	76.3	15.2	53.0	99.9	16.6	74.0	146.6	20.7	74.0	148.0	22.3	83.0	135.7	23.9	104.0	125.7	24.8	92.0	91.2	21.6
Comoros	10.0	28.7	4.0	10.1	20.6	4.1	16.0	33.3	6.0	16.0	30.4	6.1	15.2	38.4	8.2	12.2	26.6	5.7	16.9	40.0	7.9
Djibouti	..	..	..	..	..	..	1.5	0.8	0.3	1.5	0.7	0.3	1.5	0.7	0.3	1.0	0.5	0.2	..	..	..
Eritrea	..	..	..	..	..	..	85.9	97.6	19.7	91.4	65.8	22.4	166.4	115.3	32.6	119.0	69.4	20.7	136.1	68.0	21.6
Guinea	..	..	..	..	..	..	..	..	..	..	..	..	0.5	0.1	0.0	0.5	0.1	0.0	1.1	0.1	0.0
Kiribati	2.6	23.4	8.1	2.4	14.7	7.0	2.6	13.4	7.6	2.6	13.8	7.7	2.9	12.2	7.5	3.0	11.5	6.3	3.0	50.0	5.5
Madagascar	4.5	1.0	0.1	8.8	1.8	0.3	12.0	2.4	0.4	11.6	2.2	0.3	10.9	1.7	0.4	9.0	1.2	0.3	6.1	0.8	0.2
Mali	107.0	25.5	4.3	93.0	21.1	3.8	116.6	26.4	4.1	125.6	28.1	4.7	103.2	25.5	5.6	112.1	21.2	4.5	107.1	20.6	4.0
Mauritania	13.7	2.9	1.3	11.7	2.5	1.0	50.1	11.7	4.2	2.3	0.5	0.2	4.9	1.2	0.5	5.4	1.1	0.5	5.0	0.9	0.5
Nepal	61.0	16.1	1.7	65.4	15.0	1.8	54.2	9.5	1.6	65.9	9.8	1.7	70.4	7.3	1.7	101.4	9.5	2.3	77.6	7.7	1.7
Niger	13.1	2.5	0.5	12.9	3.2	0.6	18.0	4.4	0.8	13.9	4.1	0.6	5.7	2.2	0.4	6.3	2.0	0.4	6.0	1.8	0.4
Rwanda	0.7	0.5	0.0	0.6	0.4	0.0	..	..	..	2.9	2.8	0.1	..	..	..	..	..	..	..	..	..
Samoa	42.8	96.3	29.4	34.1	91.6	23.5	39.1	92.1	26.3	31.3	74.1	25.8	36.5	78.2	26.7	39.2	60.9	25.3	42.7	56.7	24.4
Sao Tome & Principe	0.1	1.2	0.2	0.6	5.6	1.1	1.1	10.6	2.4	1.5	14.2	3.2	3.4	29.1	6.9	0.5	5.3	1.1	0.5	4.5	1.1
Togo	26.9	4.1	1.7	29.0	4.6	1.8	16.2	3.0	1.0	8.8	2.6	0.7	15.3	3.7	1.6	19.9	3.2	1.5	25.8	4.0	1.8
Vanuatu	6.9	9.3	4.5	7.0	8.6	3.6	6.8	7.8	3.5	4.9	5.7	2.5	5.8	5.6	2.7	6.1	5.5	2.6	6.0	5.1	2.4
Yemen	1 498.2	97.1	31.7	998.0	70.2	20.3	1 018.2	78.5	18.6	1 038.6	75.8	22.9	1 059.3	53.6	31.6	1 067.0	48.9	28.9	1 123.0	45.1	21.9
Total LDCs	2 831.9	13.2	4.6	2 299.7	11.5	3.7	2 606.9	12.8	4.0	2 673.5	12.9	4.1	2 836.8	12.4	4.6	2 981.8	10.5	4.3	2 940.0	9.5	3.9

Source: UNCTAD secretariat calculations based on World Bank, *World Development Indicators, 1999* (CD-ROM).

LDCs will need to sustain a minimum annual GDP growth rate of 7 per cent over the whole of that period. This would require an annual GDI-to-GDP ratio of close to 30 per cent.[9] As can be gleaned from table 10, the majority of African LDCs are far from this target.

Performance among individual LDCs in respect of investment rates has varied greatly. It ranges from negative investment, as in the case of Sierra Leone during 1997, to a GDI-to-GDP ratio of 96.5 per cent for Equatorial Guinea in the same year (table 10). Between 1995 and 1997, Sierra Leone, Burundi, Djibouti and the Democratic Republic of Congo invariably recorded annual GDI-to-GDP ratios of less than 10 per cent. The majority of LDCs have maintained GDI-to-GDP ratios of between only 10-15 per cent. LDCs that have kept their GDI-to-GDP ratios over 25 per cent for the three-year period are Bhutan, Cape Verde, Equatorial Guinea, Lao People's Democratic Republic, Lesotho, Mozambique, and Sao Tome and Principe. In addition, Angola, Yemen, Mali, Eritrea and Burkina Faso experienced GDI-to-GDP ratios of 25 per cent or higher for part of this period (table 11).

As in the case of the savings rates, there are several explanations for variations in investment rates between individual LDCs. These include historical factors, the policy environment, governance, peace and security, economic infrastructure, institutional arrangements and natural resource endowment, among others. An examination of the trends and regional distribution of FDI in LDCs will help to bring the role of such factors into sharp focus.

Distribution and trends in FDI

Cumulative FDI — inward stocks — in LDCs was nine times greater in 1997 ($1,044 billion) than in 1980 ($108 billion). As indicated in table 10, annual FDI inflows — in current value — have been on an upward trend in LDCs as a whole during the second half of the 1990s, rising from $1.4 billion in 1995 to $2.9 billion in 1998. Behind this apparently favourable general picture, however, a close examination of the evidence indicates considerable disparities between regions and between individual LDCs.

Between 1980 and 1997, a significant geographical redistribution of FDI took place among LDCs at both the interregional and intraregional levels. In 1997, African LDCs still received the highest proportion of total FDI stocks of all least developed countries, but this proportion was significantly lower than in 1980 (65 per cent vs. 85 per cent). Yet, the share of African LDCs in total FDI in Africa increased by five percentage points to 17 per cent over the same period. Meanwhile, the share of Asian LDCs in overall FDI stocks in LDCs grew from 8 per cent to 31 per cent, although on average, the share of Asian LDCs in total FDI stocks in Asia remained under 1 per cent. The share of the five Pacific island LDCs in total FDI stocks for all LDCs hovered at around 3 per cent throughout this period (table 13). In 1997, the Pacific island LDCs boasted the highest FDI per capita — $57 — compared with $32 for African LDCs and $22 for Asian LDCs.

Apart from relative population size and differences in natural resource endowments, especially oil and minerals, the disparities in the proven ability of LDCs to attract foreign investors reflect strong differences in the capacity of these countries to:

- overcome their structural handicaps, in particular, the disadvantages of smallness, shortages of skilled human resources, and remoteness from large markets;

Table 10: GDI as a percentage of GDP, 1980–1997

Country	1980–1984	1985–1989	1990–1994	1995	1996	1997
Angola	..	14.9	15.6	25.0	22.7	24.8
Bangladesh	21.2	18.9	18.9	20.1	20.8	20.9
Benin	17.8	12.6	14.8	19.6	17.2	18.5
Bhutan	37.3	36.0	38.4	45.9	44.5	42.7
Burkina Faso	17.8	21.7	20.4	22.5	24.8	25.5
Burundi	17.4	16.0	13.7	7.2	9.9	6.9
Cambodia	..	10.2	12.1	21.3	20.4	16.2
Cape Verde		39.6	37.4	34.8	33.5	34.3
Central African Republic	9.4	12.6	11.8	14.7	3.5	9.0
Chad	3.8	8.9	11.4	17.8	19.3	19.4
Comoros	33.4	24.2	20.8	19.9	18.9	21.3
Dem. Rep. of the Congo	9.8	13.8	6.3	9.4	7.2	7.2
Djibouti	..	..	15.6	8.6	9.3	9.5
Equatorial Guinea	..	..	37.7	76.3	127.7	96.5
Eritrea	..	..	12.8	19.3	29.3	41.0
Ethiopia	10.8	13.0	12.1	16.5	19.2	19.1
Gambia	22.4	17.2	21.2	20.2	21.6	17.8
Guinea		16.2	18.1	20.6	20.0	21.8
Guinea-Bissau	28.6	35.6	32.4	22.4	23.1	24.0
Haiti	17.0	14.7	7.1	8.7	9.5	10.3
Kiribati	49.2	61.3	67.5	..	..	..
Lao People's Dem. Rep.	6.2	9.5		26.1	30.6	28.7
Lesotho	42.1	49.9	77.0	83.2	89.3	85.6
Liberia	16.0	9.2	..	..	..	..
Madagascar	10.4	10.9	11.8	11.0	11.7	11.8
Malawi	19.9	17.3	20.9	16.6	12.4	12.3
Mali	15.4	20.0	23.1	26.1	26.1	23.4
Mauritania	33.7	27.1	19.3	16.0	19.3	17.6
Mozambique	8.2	14.5	25.9	36.1	30.2	29.6
Myanmar	20.0	12.4	13.5	14.3	13.4	13.0
Nepal	18.3	20.6	21.2	23.4	23.0	21.5
Niger	17.0	5.6	6.2	7.6	9.7	10.9
Rwanda	15.4	15.4	12.5	8.7	10.4	10.9
Samoa	30.9	29.4	39.0	..	..	..
Sao Tome and Principe	41.7	29.9	48.6	58.1	50.2	49.8
Sierra Leone	3.3	6.5	8.8	5.6	9.4	-5.1
Solomon Islands	32.1	30.3	29.1	..	..	..
Somalia	29.2	28.6	15.6	..	..	..
Sudan	15.4	13.0	..	..	..	..
Togo	21.9	17.2	15.5	16.2	16.3	15.7
Uganda	7.3	9.8	14.8	16.2	16.1	15.3
United Rep. of Tanzania	..	18.1	25.4	21.9	18.1	20.4
Vanuatu	24.8	33.2	43.6	..	..	..
Yemen	..	..	18.4	25.4	25.3	21.3
Zambia	17.6	14.7	13.8	14.0	14.9	14.9
LDCs (average)	20.6	20.3	22.6	23.1	24.4	20.0

Source: World Bank, *World Development Indicators, 1999* (CD-ROM).
Note: Data not available for Afghanistan, Maldives and Tuvalu.

Table 11: GDI as a percentage of GDP (Ranking of LDCs by clusters), 1980–1997

	1980–1984	1985–1989	1990–1994	1995	1996	1997
GDI/GDP>25%						
1	Bhutan	Bhutan	Bhutan	Angola	Bhutan	Bhutan
2	Comoros	Cape Verde	Cape Verde	Bhutan	Cape Verde	Burkina Faso
3	Guinea-Bissau	Guinea-Bissau	Guinea-Bissau	Cape Verde	Equatorial Guinea	Cape Verde
4	Kiribati	Kiribati	Kiribati	Equatorial Guinea	Eritrea	Equatorial Guinea
5	Lesotho	Lesotho	Lesotho	Lao People's Dem. Rep.	Lao People's Dem. Rep.	Eritrea
6	Mauritania	Mauritania	Equatorial Guinea	Lesotho	Lesotho	Lao People's Dem. Rep.
7	Samoa	Samoa	Mozambique	Mali	Mali	Lesotho
8	Solomon Islands	Solomon Islands	Samoa	Mozambique	Mozambique	Mozambique
9	Sao Tome & Principe	Sao Tome and Principe	Sao Tome & Principe	Sao Tome & Principe	Sao Tome and Pincipe	Sao Tome & Principe
10	Somalia	Somalia	Solomon Islands	Yemen	Yemen	
11		Vanuatu	United Rep. of Tanzania			
12			Vanuatu			
10%<GDI/GDP<25%						
1	Bangladesh	Angola	Angola	Bangladesh	Angola	Angola
2	Benin	Bangladesh	Bangladesh	Benin	Bangladesh	Bangladesh
3	Burkina Faso	Benin	Benin	Burkina Faso	Benin	Benin
4	Burundi	Burkina Faso	Burkina Faso	Cambodia	Burkina Faso	Cambodia
5	Ethiopia	Burundi	Burundi	Central African Rep.	Cambodia	Chad
6	Gambia	Cambodia	Cambodia	Chad	Chad	Comoros
7	Haiti	Central African Rep.	Central African Rep.	Comoros	Comoros	Ethiopia
8	Liberia	Comoros	Chad	Eritrea	Ethiopia	Gambia
9	Madagascar	Dem. Rep. of the Congo	Comoros	Ethiopia	Gambia	Guinea
10	Malawi	Ethiopia	Djibouti	Gambia	Guinea	Guinea-Bissau
11	Mali	Gambia	Eritrea	Guinea	Guinea-Bissau	Haiti
12	Myanmar	Guinea	Ethiopia	Guinea-Bissau	Madagascar	Madagascar
13	Nepal	Haiti	Gambia	Madagascar	Malawi	Malawi
14	Niger	Madagascar	Guinea	Malawi	Mauritania	Mali
15	Rwanda	Malawi	Madagascar	Mauritania	Myanmar	Mauritania
16	Sudan	Mali	Malawi	Myanmar	Nepal	Myanmar
17	Togo	Mozambique	Mali	Nepal	Rwanda	Nepal
18	Vanuatu	Myanmar	Mauritania	Togo	Togo	Niger
19	Zambia	Nepal	Myanmar	Uganda	Uganda	Rwanda
20		Rwanda	Nepal	United Rep. of Tanzania	United Rep. of Tanzania	Togo
21		Sudan	Rwanda	Zambia	Zambia	Uganda
22		Togo	Somalia			United Rep. of Tanzania
23		United Rep. of Tanzania	Togo			Yemen
24		Zambia	Uganda			Zambia
25			Yemen			
26			Zambia			
GDI/GDP<10%						
1	Central African Rep.	Chad	Dem. Rep. of Congo	Burundi	Burundi	Burundi
2	Chad	Lao People's Dem. Rep.	Haiti	Dem. Rep. of Congo	Central African Rep.	Central African Rep.
3	Dem. Rep. of Congo	Liberia	Niger	Djibouti	Dem. Rep. of the Congo	Dem. Rep.of the Congo
4	Lao PDR	Niger	Sierra Leone	Haiti	Djibouti	Djibouti
5	Mozambique	Sierra Leone		Niger	Haiti	Sierra Leone
6	Sierra Leone	Uganda		Rwanda	Niger	
7	Uganda			Sierra Leone	Sierra Leone	

Source: World Bank, *World Development Indicators,* 1999 (CD-Rom).

Table 12: FDI inflows to LDCs, 1980–1998
(in millions of current US dollars)

Region/Country	1980	1985	1990	1995	1996	1997	1998
Africa	370.1	451.5	266.5	1 217.0	1 294.8	1 954.5	2 236.0
Angola	37.4	278	-334.8	472.5	180.6	412.0	396.2
Benin	4.4	-0.1	0.7	1.0	25.5	27.4	26.0
Burkina Faso	0.1	-1.5	0.1	1.5	17.0	12.6	14.0
Burundi	4.6	0.6	1.3	2.0	0.4	0.5	0.4
Cape Verde	..	..	0.3	26.2	28.6	11.6	15.0
Central African Republic	5.4	3.0	0.7	-0.3	2.7	4.3	4.0
Chad		53.7	-	12.1	23.3	37.4	35.0
Comoros	..		0.4	0.9	0.5	0.7	0.7
Dem. Rep. of the Congo	109.6	69.2	-14.0	-22.3	24.8	-7.4	-
Djibouti	0.2	0.3	0.1	3.2	19.8	25.4	25.0
Equatorial Guinea	..	2.5	11.1	126.9	376.2	0.4	200.0
Ethiopia	1.0	0.2	4.0	32.1	13.4	67.9	178.3
Gambia	-	..	-	7.8	12.2	12.7	14.4
Guinea	0.6	1.2	17.9	0.8	23.8	17.4	15.0
Guinea-Bissau	..	1.5	2.1	0.1	1.1	10.0	8.0
Lesotho	4.5	0	17.1	0.5	18.6	11.7	30.0
Liberia	..	-16.2	225.3	4.6	-132.1	291.3	200.0
Madagascar	-0.8	-0.2	22.4	9.8	10.2	244.7	100.0
Malawi	9.5	0.6	23.3	25.4	43.6	22.1	70.2
Mali	2.4	2.9	5.8	111.2	83.9	39.4	30.0
Mauritania	27.1	7.0	6.8	7.0	4.2	0.9	5.6
Mozambique	4.4	0.4	9.2	45	72.5	64.4	212.7
Niger	49.2	-9.4	40.9	7.2	14.7	-7.1	0.1
Rwanda	16.5	14.7	7.7	2.0	2.3	2.6	7.1
Sierra Leone	-18.7	-31	32.5	-1.7	19	9.6	30
Somalia	-	-0.8	5.6	0.1	0.1	0.1	-
Sudan		-3.1	-31.2	0.1	0.4	97.9	9.6
Togo	42.8	16.3	18.3	0.3	21.1	5.0	5.0
Uganda	4.0	-4.0	-6.0	124.6	120.1	175	210.0
United Republic of Tanzania	4.6	14.6	-3.4	120.0	150.1	157.9	172.1
Zambia	61.8	51.6	202.8	97.0	117.1	207	221.8
Latin America and the Caribbean	13.0	5.0	-	7.4	4.1	5.0	6.0
Haiti	13.0	5.0	-	7.4	4.1	5.0	6.0
Asia	43.6	5.1	51.0	149.8	440.4	447.6	658.4
West Asia	33.9	3.2	-130.9	-217.7	-60.1	-138	100.0
Yemen	33.9	3.2	-130.9	-217.7	-60.1	-138	100.0
South, East and South-East Asia	9.7	1.9	181.9	367.5	500.5	585.6	558.4
Afghanistan	9.0	..	..	..	0.7	0.1	0.1
Bangladesh	..	-	3.3	1.9	13.6	141.4	317.3
Cambodia	..	..	..	150.8	293.6	203.7	140.0
Lao People's Dem. Republic	..	..	6.0	88.0	128.0	86.0	45.0
Maldives	-0.1	1.3	5.6	7.2	7.6	7.7	7.0
Myanmar	0.4	-	161.1	114.6	37.9	123.7	40.0
Nepal	0.3	0.7	6.0	5.0	19.2	23.1	9.0
The Pacific	5.2	6	30.5	36.8	40.6	72.7	48.2
Kiribati	..	0.3	0.3	0.3	0.7	1.0	0.5
Solomon Islands	2.5	0.7	10.5	2.1	6.0	21.5	10.0
Vanuatu	2.7	4.7	13.2	31.1	32.8	30.3	27.7
Western Samoa	..	0.5	6.6	3.4	1.2	20.0	10.0
Grand total: 44 LDCs	431.7	467.4	347.9	1 411.0	1 779.9	2 479.8	2 948.5
Memo item:							
FDI inflows to developing countries	7 965.5	15 562.6	35 410.5	106 224.0	135 343.0	172 533.0	165 936.0

Source: UNCTAD/DITE database on FDI.
Note: Data not available for Afghanistan, Bhutan, Sao Tome and Principe and Somalia.

TABLE 13: CUMULATIVE FDI IN LDCS AND OTHER DEVELOPING COUNTRIES, 1980–1997

(FDI inward stock in $ millions and as a percentage)

Regions	1980	1985	1990	1995	1996	1997
Developing countries (DCs)	108 068	209 856	357 497	768 364	896 023	1 043 666
DCs other than LDCs	106 147	206 569	351 328	755 325	880 661	1 026 491
LDCs	1 921	3 287	6 169	13 039	15 362	17 175
LDCs as a proportion of DCs (%)	1.8	1.6	1.7	1.7	1.7	1.6
Africa	13 367	23 082	37 497	56 253	60 480	65 177
Africa: non-LDCs	11 741	20 293	32 103	47 469	50 482	54 017
Africa: LDCs	1 626	2 789	5 394	8 784	9 998	11 160
Africa as a proportion of DC (%)	12.4	11.0	10.5	7.3	6.7	6.2
African LDCs as a proportion of LDCs (%)	84.6	84.8	87.5	67.4	65.1	65
African LDCs as a proportion of African countries (%)	12.2	12.1	14.4	15.6	16.5	17.1
Latin America and the Caribbean (LAC)	18 470	34 720	57 976	112 163	125 076	141 064
LAC countries: non-LDCs	18 391	34 608	57 835	112 022	124 930	140 915
Haiti	79	112	141	141	146	149
LAC countries as a proportion of DCs (%)	17.1	16.5	16.2	14.6	14	13.5
Haiti as a proportion of LDCs (%)	4.1	3.4	2.3	1.1	1.0	0.9
Haiti as a proportion of LAC countries (%)	0.4	0.3	0.2	0.1	0.1	0.1
Asia	45 523	108 350	192 715	423 647	501 619	585 915
Asia: non-LDCs	45 367	108 058	192 268	419 946	496 867	580 568
Asian LDCs	156	292	447	3 701	4 752	5 347
Asia as a proportion of DC (%)	42.1	51.6	54	55.2	56	56.6
Asian LDCs as a proportion of LDCs (%)	8.1	8.9	7.3	28.3	30.9	31.2
Asian LDCs as a proportion of Asian countries (%)	0.3	0.3	0.2	0.9	0.9	0.9
Pacific	1 167	1 171	2 127	3 705	3 894	4 272
Pacific: non-LDCs	1 106	1 076	1 939	3 293	3 428	3 752
Pacific: LDCs	61	95	188	412	466	520
Pacific countries as a proportion of DC (%)	1.1	0.6	0.6	0.5	0.4	0.4
Pacific LDCs as a proportion of LDCs (%)	3.2	2.9	3.0	3.2	3.0	3.0
Pacific LDCs as a proportion of Pacific countries (%)	5.2	8.1	8.8	11.1	11.9	12.2

Source: Calculations from UNCTAD, *World Investment Report, 1998*.

- promote their competitive advantages in the light of globalization trends (in particular, vis-à-vis natural resource-seeking investors); and
- create an enabling business environment, with improvements in physical and institutional infrastructure, including the legal and regulatory framework.

A close examination of recent FDI trends at the regional level will provide deeper insights into these issues.

African LDCs

Although African countries have been relatively disadvantaged as far as FDI to developing countries is concerned, a positive trend has become evident during the 1990s. Among African nations, the share of LDCs in total FDI stocks rose by 5 percentage points between 1980 and 1997. In terms of yearly FDI inflows, African LDCs accounted for a greater proportion of total FDI in Africa in 1997 than in 1980 (22 per cent vs. 11 per cent). Much of the increase in FDI took place during the 1990s, and is attributed mostly to Angola, Equatorial Guinea, Mozambique, United Republic of Tanzania, Uganda and Zambia. In 1997, the six accounted for about 12 per cent of total FDI stocks in Africa (a huge increase, from less than 1 per cent in 1980) and 55 per cent of total FDI stocks in the 33 African LDCs. Equatorial Guinea, Mozambique and Uganda are among the seven African countries that have been classified as front-runners in attracting FDI in the 1990s (UNCTAD, 1998b:178).

The substantial FDI inflows to the above-mentioned and a few other African LDCs, notably Malawi and Madagascar, have been attributed to market-oriented reforms (trade liberalization, privatization, enhancement of the legal framework) and to efforts by the countries in question to promote new investment opportunities, mostly in the primary sector. Uganda, which is among the countries that signed international agreements governing investment protection, received an award in the United Kingdom for the best African investment promotion agency in 1997. Mozambique was ranked as the second most important recipient of FDI among African LDCs in 1998. The areas that have proved most attractive to FDI in Mozambique are mining, tourism and energy (see box 4). The oil sector is the major attraction to FDI in both Angola and Equatorial Guinea.

In several African LDCs, substantial increases in public receipts have resulted from total or partial privatization of State-owned enterprises and from payments of fees stipulated in new mining agreements entered into with foreign investors (royalties from prospection and extraction agreements). FDI in productive sectors is mostly directed at export activities, particularly in the primary sector, and to a lesser extent in tourism. During the 1990s, in the wake of various sectoral rehabilitation programmes, foreign participation intensified in the sectors of cotton (Uganda, United Republic of Tanzania), sugar (Zambia, Uganda, Mozambique), tea (United Republic of Tanzania, Uganda), fisheries (Madagascar, Sao Tome and Principe), and petroleum and mining (Angola, Equatorial Guinea, Mozambique, United Republic of Tanzania, Uganda, Zambia).

FDI in productive sectors is mostly directed at export activities, particularly in the primary sector, and to a lesser extent in tourism.

Several African LDCs have experienced dis-investment at one time or another since the early 1980s. The worst affected include Central African Republic, Democratic Republic of the Congo, Niger, Sierra Leone, Somalia and Sudan. The recent trend seems encouraging because the number of African LDCs so affected has fallen from 16 in 1983-1987 to 12 in 1988-1992 and six in 1993-1997. Dis-investment in African LDCs amounted to $292 million during 1993-1997, compared with $582 million in 1983-1987. The drop in both divested amounts and number of affected countries signifies, at least in part, an improvement in the investors' perception of business conditions and prospects in African LDCs.

Asian and Pacific island LDCs

As table 13 indicates, the share of Asian LDCs in FDI stocks for all LDCs increased progressively from 8 per cent in 1980 to 31 per cent in 1997. This dramatic rise is a function of the surge in intraregional investments, the main sources of which have been China, Republic of Korea, Malaysia, Singapore and Thailand.

In Bangladesh, FDI from Asian developing countries accounted for 83 per cent of FDI stocks between 1990 and 1994. The corresponding figure for Myanmar was 39 per cent during the same period. A total of 204 foreign investment projects were approved in Myanmar between October 1988 and September 1996, with Singapore as the main source of FDI, followed by the United Kingdom, France and Malaysia. Between August 1994 and March 1996, more than half of all FDI in Cambodia came from Malaysia and Singapore. Thus,

Box 4: Mozambique: Liberalization opens up potential to attract more foreign investment

Since the end of civil war, and since the democratic elections in 1994, Mozambique has experienced continuous growth, particularly during the past three years, resulting in its position as Africa's fastest-growing economy in 1998. Foreign investors have been increasingly attracted by the country's improving economic performance and more favourable investment environment: Mozambique has received steadily growing FDI inflows since the 1990s, ranking it as the second most important FDI recipient among African LDCs in 1998, and making it comparable to the best-performing African countries. Mozambique benefits from its proximity to South Africa, which is its most important trading partner and a source of significant investments. In addition, Portugal, the United Kingdom and the United States are important investors. Promising investment opportunities are to be found in the country's most dynamic domestic sectors, such as energy exploration, transport and tourism, but also in mining and telecommunications, further stimulated by progress in privatization efforts.

Foreign companies are particularly active in mining exploration activities, where the total volume of FDI inflows was estimated at $19 million in 1998. In the light of the growing distribution of exploration licenses — 150 licenses were issued in 1998, as compared to only one in 1990 — this trend is expected to be sustained into the near future, with several large projects in related sectors slated to come on-stream when exploration activities turn into production.

Since the energy sector was liberalized in 1997, private-sector power generation has been allowed. Several preparatory studies conducted, or under way, indicate the interest of foreign investors in the exploration of Mozambique's vast reserves of coal and energy. Currently, 11 foreign companies are holding concessions for oil and gas exploration (box table). Although Mozambique is thought to have considerable reserves, the development of fields also depends on end-user markets and because infrastructure facilities are missing in rural areas, those markets are most likely to be found across the country's borders. While the reconstruction of transport lines to Malawi and Zimbabwe is already completed, in the near future the country might also resume exports to South Africa.

Box table: Foreign investors holding concessions in energy exploration

Company	*origin*	*project*
Enron	United States	Pande field
ARCO	United States	Temane field (jointly)
Zarara	United Arab Emirates	Temane and Buzi field (jointly)
BP	United Kingdom	Zambezi Offshore Block
LONRHOPET	United Kingdom	Rovuma Block
SASOL	South Africa	Mazinga Block
CANOP	Canada	Limpopo Block
Scimitar	Canada	Buzi-Divine and Inhaminga Blocks
Antrim	Canada	Zambezi Onshore Block (jointly)
Norbay	Norway	Zambezi Onshore Block (jointly)
Leopardus	Canada	Temane and Buzi Fields (jointly)

Source: EIU Country Profile 1999-2000 (Economist Intelligence Unit Ltd., London, 1999), p.22.

The tourism sector has already attracted considerable foreign investment since the number of visitors began to pick up after the end of civil war, and demand for high-quality accommodation is rising. Examples of foreign investors who have already tapped the potential of this sector are the opening by Portuguese investors of two business-class hotels in 1998 and the acquisition of Maputo's five-Star hotel by Mövenpick (Switzerland). Furthermore, South African investors are involved in developing beach lodges, and Blanchard Mozambique Enterprises (United States) envisages the development of a large-scale eco-tourism beach and safari project.

Other projects include the construction of the Mozal Aluminium Smelter in Maputo, which began in 1998, with the involvement of Billiton and Mitsubishi. Four separate sugar refineries, planned by South African and Mauritian investors, will help Mozambique become a net sugar exporter in the near future. In addition, private-sector participation is envisaged in five urban water plants.

Having rapidly progressed with the privatization programme introduced in 1992, Mozambique offers vast possibilities for foreign investment in infrastructure projects and energy exploration. Traditionally, transport has been an important economic element, as the country has facilitated shipment of exports and imports of neighbouring landlocked countries. Furthermore, the planned transfer of the ports and railways company to private investors has already attracted the interest of investors from within the region. The participation in transport corridors and related activities, such as the Pande gas pipeline project, might open further opportunities to foreign investors. A recent example is Trans-African Concessions (France), which was awarded a licence to build and operate the Maputo-Gauteng toll road, part of the Maputo transport corridor which links the country with South Africa.

Further liberalization measures envisaged concern air traffic and telecommunications, and a study on the installation of a satellite-based communication system is currently under way. Liberalization of the banking sector since 1992; accompanying measures, such as the establishment of the country's first venture capital fund by the Commonwealth Development Corporation; an envisaged second venture capital fund; and the planned opening of a stock market in 1999 are expected to enhance the country's capacity to provide financial resources to the private sector. At present, six foreign banks, mainly with Portuguese ownership, are operating. The Government continues to pursue efforts to establish export processing zones, but Mozambique has yet to approve the SADC Trade Protocol leading to the establishment of a free trade area.

Sources: EIU Country Report and Country Profile, various issues.

the "flying geese" model of development, observable in the newly industrializing economies of the region, has benefited many neighbouring Asian LDCs by stimulating FDI in low-cost, labour-intensive activities in which these countries have a comparative advantage.[10]

During the 1990s, the top three Asian host LDCs for FDI were Cambodia, Myanmar and Lao People's Democratic Republic. In 1997, FDI flows to the three amounted to $204 million, $124 million and $86 million, respectively. In Myanmar, foreign investment was directed principally at the petroleum sector in the 1990s and, subsequently, at labour-intensive manufacturing, especially the garment sector. Until February 1998, most investments approved were in the mining sector, most probably due to the introduction in 1994 of a new mining law which allowed foreign participation in mining. However, several corporations originating in the United States and operating in gas exploration have already pulled out of Myanmar due to concerns about the political situation. More recently, other potential investors have also been discouraged by the unstable political environment, and this resulted in a substantial decline in foreign investment in 1998.

The "flying geese" model of development, observable in the newly industrializing economies of the region, has benefited many neighbouring Asian LDCs by stimulating FDI in low-cost, labour-intensive activities in which these countries have a comparative advantage.

In Cambodia, after the conclusion of the United Nations peace-keeping operation in 1993 and the creation of the Cambodian Investment Board in August 1994, FDI inflows multiplied by more than four times between 1994 and 1996, with the garment industry as the main beneficiary. Foreign investors have also shown interest in rubber, palm oil, wood processing, food processing and tourism. In Lao People's Democratic Republic, as a result of joint venture agreements in the gold, lignite, petroleum and gas sectors, FDI inflows tripled to $160 million between 1994 and 1996. Other good prospects have been identified for foreign investment in coal, copper, zinc, tin and sapphire mining. In Bangladesh, following the discovery of substantial natural gas reserves in 1995, FDI intensified significantly in the second half of 1997: at the end of that year, it increased to $141 million, compared with $14 million in 1996. More than 50 per cent of total FDI flows to Asian LDCs in 1998 are estimated to have benefited Bangladesh. Before achieving a historical record of $23 million in 1997, FDI in Nepal had demonstrated a steady rise since 1992. Maldives has not benefited from substantial intraregional investment, partly because of its remoteness and very small size. The country still offers important investment opportunities, particularly in the tourism sector, though FDI inflows have never surpassed the 1994 record of $8.7 million.

The financial crisis exposed the vulnerability of Asian LDCs' dependence on intraregional investments. FDI flows to Asian LDCs in 1996-1997 grew by barely 10 per cent, compared with 42 per cent in 1995-1996.

The intensive investment in Yemen's petroleum and gas sector since the mid-1980s contributed substantially to the rapid rise of Asia's share in FDI flows to the least developed countries. However, from a peak of $897 million in 1993, FDI flows to Yemen dropped to $10.5 million in 1994, and massive dis-investment has taken place since the following year, with FDI amounting to $416 million in 1997. These developments are a result of the 1994 civil war and the political unrest that has plagued the country since then (see *EIU Country Report*, fourth quarter, 1997:30-31).

The financial crisis that hit several East and South-East Asian economies in July 1997 exposed the vulnerability of Asian LDCs' dependence on intraregional investments. FDI flows to Asian LDCs in 1996-1997 grew by barely 10 per cent, compared with 42 per cent in 1995-1996 and 53 per cent in 1994-1995. In Cambodia, which relies mainly on investments from China, Malaysia, Singapore and Thailand, FDI was scaled back by 63 per cent during the fist half of 1998 (ESCAP: 1999). In Lao People's Democratic Republic, where foreign investments come principally from Thailand, Republic of Korea and the United

States, FDI fell from $128 million in 1996 to $86 million in 1997 and $45 million in 1998 (table 12). The Asian crisis also led to a precipitous decline in Bangladesh's foreign portfolio investment in 1997.

The widening gap in FDI flows between Asian LDCs on the one hand, and African and Pacific island LDCs on the other, reflects the decisive role of intraregional investment in Asia, especially since the beginning of the 1990s. Despite efforts at regional integration in Africa, intraregional investment in that continent's LDCs plays only a peripheral role.

FDI stocks in Pacific island developing countries accounted for only 0.4 per cent of FDI stocks for all developing countries in 1997, compared with 1.1 per cent in 1980. The regional share of the four Pacific island LDCs for which data are available (Kiribati, Samoa, Solomon Islands, Vanuatu) grew from 5 per cent in 1980 to 12 per cent in 1997. This increase was largely attributed to the Solomon Islands and Vanuatu, where FDI inflows in the latter year totalled $21 million and $30 million, respectively. Vanuatu and the Solomon Islands represented 70-90 per cent of total FDI flows to the five Pacific island LDCs during the period 1990-1998. Australia, New Zealand and the United States are still the major sources of FDI for Pacific island LDCs.

The widening gap in FDI flows between Asian LDCs on the one hand, and African and Pacific island LDCs on the other, reflects the decisive role of intraregional investment in Asia, especially since the beginning of the 1990s. Despite efforts at regional integration in Africa, intraregional investment in that continent's LDCs plays only a peripheral role. Owing to historic ties, those countries have relied mainly on Western European investors. For the present, there are no signs of an African regional spill-over effect of a magnitude equivalent to what has happened in the Asian economies. However, South Africa, with its high growth potential, is expected to play an increasingly important role in FDI regionally in the foreseeable future, especially in the context of SADC. Indeed, South African investors are largely responsible for what interregional investment has taken place in the SADC region's LDCs.

Future prospects for FDI

An increasing number of LDCs appreciate the value of FDI and are shaping an economic and political climate conducive to inspiring investors' confidence.

Data on sectoral distribution of FDI and other forms of investment in LDCs are difficult to come by and need to be compiled systematically as a matter of priority. In the pre-reform period, when the public sector was dominant and macroeconomic instability was the order of the day in LDCs, private capital tended to shy away from productive investment. Owing to perceived risk and uncertainty, investors tended to invest in short-term liquid assets with shorter turnover periods (especially trading), rather than such long-term physical investments as manufacturing. Further research is needed in order to establish the extent to which this situation has changed. Indications are that in sub-Saharan Africa, only modest progress has been made (Nissanke, 1998:3). Those LDCs that are bedevilled by internal conflicts have hardly made any headway in attracting productive investment, although the case of conflict-ridden Angola indicates that, where rich natural resources are involved, investors are prepared to take risks.[11] All in all, an increasing number of LDCs appreciate the value of FDI and are shaping an economic and political climate conducive to inspiring investors' confidence.

The available evidence, within its own limitations, indicates that macro-economic and other reforms, in particular privatization and the creation of national investment promotion agencies, have been able to create an environment in which private capital is being increasingly redirected into productive investment. The most attractive area remains the extractive primary sector, especially mining, timber, oil and gas. There is, however, a need for both foreign investors and LDCs to ensure that issues pertaining to environmental protection and sustainable development are taken into account in the exploitation of natural resources. Slowly but surely, investors' interest is also rising in respect of low value-added and labour-intensive manufacturing, especially textiles and agro-processing; electricity and energy; telecommunications; and services, especially tourism and financial services. Furthermore, commercialization of LDC utilities has created space for private-sector participation in this sector (AfDB, 1999: chap. 5). A survey undertaken by UNCTAD in 1999 among African investment promotion agencies indicates that most of these sectors will remain the major focus for FDI in the immediate future.

D. Conclusions

There is no doubt that the resource gap in the least developed economies continues to be the basic cause of their poor supply response in the present globalized economy, characterized by intensely competitive trading relations. Under-capitalization is a common phenomenon, and the evidence presented above indicates that some LDCs cannot even replace depreciated capital stock, while a disproporti-onately large number of them are also unable to mobilize enough resources to build their productive capacities to levels where they can take advantage of the global economy. In these circumstances, competitiveness in international trade, let alone poverty reduction, must remain a distant goal for LDCs.

Internally generated resources, ODA from development partners, and private foreign capital each has an important role to play in raising the development potential of LDCs. The poor domestic resource base makes FDI, particularly in the productive sectors, quite critical, especially in the present context where the public sector has been and continues to be scaled down. Internally generated resources are necessary not only to fill gaps in those sectors that FDI will eschew but, as a long-run strategy, mobilization of such resources will help to lay the foundations for a solid, stable, integrated and self-sustaining domestic productive base. It is also important to reiterate the argument already made that ODA, especially concessional assistance, is crucial not only in terms of supplemental financing as such but, more importantly, for helping to create conditions that will attract foreign and domestic private capital. The important areas in this regard include developing the infrastructure, improving supportive services and strengthening human capital.

The data presented in this chapter indicate that developments in each of the three forms of development resources have left a major gap. Official development assistance to LDCs has been on the decline since the beginning of the decade. Austerity budgets in developed countries, and humanitarian crises in different parts of the world, have made serious inroads into ODA levels. Although FDI flows to LDCs have been rising, their levels do not match existing needs. They are also unevenly distributed across the sectors and are often unpredictable. Against the background of a poor productive base, fragile financial institutions as well as heavy debt-servicing obligations, domestic savings levels within LDCs are manifestly inadequate, and have a long way to go before they can constitute a basis for self-sustaining LDC economies.

There may be cause for guarded optimism. As we have seen, the various reform initiatives undertaken by LDCs appear to have led to a more fruitful dialogue between those countries and their development partners, enhanced prospects for higher FDI inflows, and improved the likelihood of mobilizing domestic savings. In addition, the seriousness of the debt burden for LDCs and other developing countries, and the extent to which it constitutes an impediment to development, is better appreciated by the development community, as reflected in the recent debt relief initiatives, especially the enhanced HIPC.

Measures to improve the effectiveness of aid by enhancing its allocative and technical efficiency would help to create new incentives for a renewed commitment to aid for LDCs.

The above-mentioned opportunities can bear fruit only if conscious measures are taken to exploit their potential. So long as LDC exports are undiversified, advocacy work needs to be intensified to encourage donor countries and development institutions to allocate more resources for ODA to help broaden the countries' productive base. In this connection, measures to improve the effectiveness of aid by enhancing its allocative and technical efficiency would help to create new incentives for a renewed commitment to aid for LDCs. It is also important to lessen the debt burden further by working out a less exclusionary and more development-friendly HIPC initiative that is guided by less rigorous and more realistic eligibility criteria, in order that it may benefit an increasing number of LDCs. In the search for investible resources, not only must current policies to promote exports, savings and investment continue, but new avenues must also be explored. In this regard, investments from other developing countries in the context of intraregional FDI flows present new opportunities, as has been demonstrated by the developments in Asia. In the case of African LDCs, intraregional FDI flows could be promoted by greater private sector involvement in regional integration programmes.

Notes

1. See annex tables 19 and 25, and for a detailed discussion of FDI to LDCs, see section C further below.
2. The rest of the package comes mainly from repayment of earlier credits and contributions from the World Bank itself.
3. See UNCTAD, *The Least Developed Countries 1998 Report*, Part one, chapter II.
4. See *Shaping the 21st Century: The contribution of development cooperation*, OECD, May 1996.
5. The 13 least developed countries in the Asia and Pacific region are Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Lao People's Democratic Republic, Maldives, Myanmar, Nepal, Samoa, Solomon Islands, Tuvalu and Vanuatu.
6. For an analysis of the features of the HIPC initiative as it was set up in 1996, see UNCTAD, *The Least Developed Countries Report, 1997* and *The Least Developed Countries Report, 1998*.
7. See "Finding solutions to the debt problems of the developing countries", report of the Executive Committee on Economic and Social Affairs of the United Nations (EC/ESA/99/2).
8. The statistics for Eritrea are available only from 1992, when it was no longer a part of Ethiopia.
9. This suggestion is made in a study of the state of the economies of African LDCs in 1998, which is soon to be published by the United Nations Economic Commission for Africa. Because the study is still in preparation, the ideas expressed should be regarded as tentative.
10. Under the Framework Agreement on the ASEAN Investment Area, the ten ASEAN member countries have agreed on a coordinated ASEAN investment cooperation programme (including investment incentives) in order to encourage investment in the region.
11. However, much of the stability of FDI in the Angolan oil industry is due to the fact that most of the fields are offshore.

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The Programme of Action for the Least Developed Countries for the 1990s[1]

A preliminary assessment of implementation, impact and implications for the future

Chapter

3

Introduction

The Programme of Action for the Least Developed Countries for the 1990s was adopted at the Second United Nations Conference on the Least Developed Countries [2], which was held in Paris in September 1990. The predecessor to this Programme was the Substantial New Programme of Action for the 1980s for the Least Developed Countries (SNPA) adopted at the first United Nations Conference on the LDCs in 1981. Both the SNPA and the Programme of Action have the same objective of addressing the development problems facing this group of very poor countries. The two programmes have similar orientations in that they encompass domestic policy measures to be implemented by LDCs themselves, with the international community providing complementary external support. The Programme of Action was necessitated by the fact that at the end of the 1980s, after a decade of implementing the SNPA, the economic and social conditions of LDCs had worsened. The Programme addresses the weaknesses of the SNPA and calls for a broad-based, human-centred approach to development in the least developed countries, including environmental concerns, participatory processes, transparency at all levels of decision-making, respect for human rights and observance of the rule of law.

The Programme of Action calls for a broad-based, human-centred approach to development in the least developed countries.

Issues related to the theme of the present report are central to the Programme of Action, whose primary objective is to halt any further deterioration in the socio-economic situation of LDCs, reactivate and accelerate growth and development in these countries and, in the process, set them on the path of sustained growth and development and end their marginalization in the world economy. The Programme outlines measures to address supply-side constraints, expand and diversify LDCs' productive bases, strengthen their competitiveness in trade and improve access for their exports in the world market.

This assessment and evaluation of the Programme of Action is undertaken to determine whether the Programme's objectives were met and, depending on the outcome, to establish the reasons for either success or failure. The exercise is also meant to identify the lessons that can be drawn from the process of implementation and the improvements that can be made on future programmes. As a first step, an evaluation is needed of the underlying assumptions of the Programme of Action, and of the realism of, and sense of balance in, these assumptions. Given the complexity of the situation, such an undertaking necessarily entails formulating an analytical framework to serve as a guide in assembling the necessary information and identifying the critical bottlenecks as well as the issues that need to be addressed by Governments and other stakeholders in LDC economies. In this context, with a focus on country-level situations, an assessment of the Programme of Action needs to provide concrete answers to the following questions:

(1) What were the objectives of the Programme of Action?

(2) What were the instruments (policies and programmes) set out in the Programme of Action to achieve the stated objectives, and how effective have they been in terms of both implementation and impact?

(3) What is the current situation in relation to the original objectives?

(4) In the event that the Programme of Action has been a failure or has had mixed results, what are the major bottlenecks that must be addressed if the objectives are to be achieved in either their original or their modified form?

(5) If it has been a success, what lessons can be learnt by others? and

(6) In either case, what is the way forward?

Within this framework, this Chapter has three main components. First, it reviews main elements of the Programme of Action and recent developments in the global economy which have an impact on its implementation. Second, against the backdrop of the global economic developments of the 1990s, it revisits the implementation arrangements set out in the Programme of Action and makes a preliminary assessment of their effectiveness in attaining the stated objectives. Finally, as an input to the preparatory process for the Third United Nations Conference on the LDCs, to be held in the first half of 2001, it summarizes the lessons learnt and draws implications for any future programme of action for the LDCs.

A. Main elements of the Programme of Action for the Least Developed Countries for the 1990s

The Programme of Action addresses the multifaceted development problems of LDCs, in particular the deterioration in their socio-economic situation, and proposes remedial action, on the basis of the principle of shared responsibility and strengthened partnership, with the objective of revitalizing their growth and development. The main partners in this undertaking are the Governments of LDCs and their development partners (that is, the international donor community). LDCs have the primary responsibility for their own development, including the definition and implementation of appropriate policies on a participatory basis. The international donor community is to provide adequate resources in support of those policies, and to improve the quality of that assistance while matching it closely with the needs of the countries concerned.

Five priority areas are designated for action by LDC Governments in their efforts to address their developmental problems and fight poverty. First, the main objective of macroeconomic policy should be to create a favourable environment and constitute a basis for sustained economic development. It is to provide the basis for overcoming the structural bottlenecks of the LDCs, lead ultimately to their transformation and contribute to the eradication of poverty. Second, human resources should be developed through the participatory approach, underscored by social justice and respect for human rights. Third, a more effective environmental management approach should be adopted in order to reverse degradation and attain a more sustainable use of natural resources while taking more effective action to deal with natural disasters.

Fourth, rural development should be pursued within an integrated framework which addresses various facets of the rural sector, including raising productivity in agriculture, enhancing food security, boosting rural incomes by promoting off-farm activities, and improving the quality of rural services. Finally, the Programme of Action envisages that by the end of its implementation period, LDCs will have attained a more diversified productive sector driven by private initiative and efficient public enterprises, a high level of regional cooperation, enhanced access to international markets and coordinated international action in support of commodities.

The international donor community, for its part, undertook to provide LDCs with substantially increased external support to complement LDCs' own efforts. A commitment was made to adopt an international debt strategy which will ensure that the debt overhang of LDCs does not choke their development efforts. LDCs' development partners also pledged to improve the international economic climate in a way that would facilitate the integration of those countries into the global trading system and enable them to reap the benefits of trade expansion. Competent NGOs were also called upon to work with LDCs and the international donor community to attain the objectives of the Programme of Action.

The international donor community undertook, among other things, to provide LDCs with substantially increased external support to complement LDCs' own efforts to adopt an international debt strategy which will ensure that the debt overhang of LDCs does not choke their development efforts.

Implementation framework for the Programme of Action

The Programme of Action attaches significance to the principle of transparent and measurable commitments. Thus, within LDCs policy reforms should be participatory, sound and concrete, and at the level of the international community, resources committed for assistance to LDCs should be adequate and predictable. Monitoring and follow-up mechanisms have been proposed for realizing the Programme's objectives. These consist of actions at three different levels — national, regional and global. United Nations Development Programme (UNDP) round table meetings and World Bank consultative groups to be organized by LDC Governments are the main mechanisms through which the objectives are to be translated into action at the country level. These country review meetings are to be convened every one to two years to discuss policy framework papers and national plans within a comprehensive framework of financial resources required to fund these plans and each country's debt service obligations. Sufficient experience is to be acquired through several pilot cases before the meetings are extended to all LDCs.

At the regional level, the United Nations regional commissions, as part of their ongoing work, are expected to facilitate the follow-up process by ensuring that the needs and problems of LDCs are addressed. In collaboration with UNCTAD, the regional commissions are also supposed to monitor progress made in economic cooperation between LDCs and other developing countries in the same region. Existing economic cooperation arrangements at the regional and subregional levels are to be improved and strengthened through cluster meetings, involving all countries concerned, organized every two years by the regional commissions.

Follow-up action at the global level revolves around the five priority areas, with UNCTAD, in collaboration with other related United Nations agencies, designated as the focal point for the review and implementation of the Programme. Analyses are to be undertaken of the experiences and lessons learnt from formulating and implementing policy framework plans and the functioning of country level coordination arrangements.

The economic and social performance of the least developed countries are to be assessed on a regular basis, in addition to the monitoring of the implementation of commitments and measures contained in the Programme itself. The response of development partners to the special needs and circumstances of LDCs are to be reviewed, and the involvement of women in the implementation of the Programme is to be monitored. Part of the monitoring process at this level involves the participation of UNCTAD in the UNDP round table meetings and the World Bank consultative groups. Finally, as mandated by the General Assembly, a High-level Intergovernmental Meeting on the Mid-term Global Review on the Implementation of the Programme of Action for the Least Developed Countries for the 1990s was held during September-October 1995 to conduct a comprehensive mid-term review of the situation in LDCs and report to the General Assembly on progress made in implementing the Programme.

Since the adoption of the Programme of Action, declines in ODA flows to LDCs, combined with the debt overhang, the increase in the number of countries categorized as LDCs, and, in several cases, domestic social and political upheavals, have impaired the capacity of LDC Governments to implement domestic policy reforms and/ or manage their own development.

The Programme of Action and recent developments in the global economy

Since the adoption of the Programme of Action, there have been many developments in the global economy with significant consequences for the objectives of the Programme itself, and for the capacity of LDCs to design and implement relevant policy reforms. These include the acceleration in the twin processes of globalization and liberalization; declines in ODA flows to LDCs, combined with the debt overhang; the increase in the number of countries categorized as LDCs; and, in several cases, domestic social and political upheavals, which have impaired the capacity of LDC Governments to implement domestic policy reforms and/or manage their own development.

Trade liberalization and globalization

By far, the most significant developments with repercussions for the Programme of Action are the twin processes of globalization and liberalization, which have been given greater impetus by the conclusion of the Uruguay Round Agreements. The trend towards liberalization has accelerated since the early 1990s, with virtually all Governments in different parts of the world implementing externally-oriented trade policy regimes. This has had profound implications for the role of government in economic development.

Globalization has been greatly boosted by the completion of the Uruguay Round of multilateral trade negotiations in 1994 and the subsequent establishment of the WTO in 1995 as the successor to the General Agreement on Tariffs and Trade (GATT). Multilateral trade liberalization attained within the WTO framework entailed significant tariff reductions, which have increased the competitive pressure on LDCs, in particular because of erosion of preferences on goods with preferential market access to developed-country, especially OECD, markets. The wide-ranging and complex multilateral trade rules, backed by an enhanced dispute settlement mechanism, have reduced the scope of policy choices by Governments (e.g. subsidies, local content requirements, and protection of infant industries) that have a direct impact on domestic firms, not only in the traditional GATT domain of trade in goods, but also in originally excluded sectors such as trade in textiles and agricultural products as well as new area of trade in services.

ODA flows

As discussed in part one, chapter 2, ODA flows to LDCs have declined during the implementation of the Programme of Action because of a variety of factors.[3] Thus, the anticipated volume of financial resources in support of the policy reforms in LDCs has not materialized. Furthermore, the external debt pressure on LDCs has been unrelenting, and a huge proportion of their meager financial resources has been diverted to debt servicing from the more immediate and pressing needs of infrastructure development, health care, human resources development and poverty alleviation.

Increased number of LDCs

The increased number of LDCs has complicated the scenario described above, for it has added to the number of claimants for diminishing aid resources. Whereas in 1990, 42 countries with an estimated population of 440 million were categorized as least developed by the United Nations, by 1997, the group had increased to 48 countries, with an estimated total population of 613 million. This represents a 36 per cent rise in the number of people living in countries classified as LDCs, contrasted with a 22.6 per cent decline of ODA flows in real terms to this group of countries over the same period. ODA per capita in real terms actually declined by 35.3 per cent. The high population growth rate of LDCs (2.6 per cent, as compared to 0.7 per cent for developed economies in the period 1990-1996) continues to increase at an alarming speed.[4]

Political instability/civil conflict

Political and civil strife is by no means limited to LDCs, but the incidence of political instability attributed to these is quite high in LDCs. For example, despite the characterization of the 1990s as the decade of democratization in Africa (which is home to about two thirds of all LDCs), there have been significant setbacks. According to information on 48 African countries, there were 11 military coups in 1990–1997, the number of civil wars increased to 17 in the 1990s from 11 in the pre-1990 period, and 13 countries have suffered setbacks in the democratization process during the decade (Bangura, 1998: 23).[5] The 1990s have thus been described as the decade of political instability in Africa — that is, democratization and political instability have been products of the same processes of change (Bangura, 1998: 23–24). It should, however, be noted that the statistics fail to capture the havoc being wreaked by political and civil strife in Africa, as it does not cover those countries that have had to suffer the spill-over effects of the conflicts. For example, the civil war in the Democratic Republic of the Congo has sucked in not only the neighbouring countries of Uganda, Rwanda and Burundi, which have domestic political problems of their own, but also such countries as Mozambique, Zimbabwe and Chad.[6] Other countries which have not been directly involved militarily (e.g. United Republic of Tanzania) have had to put up with an influx of refugees, with serious fiscal, political, economic, social and environmental implications. In effect, political instability has not only seriously damaged the productive capacities of the countries directly affected, but has also undermined the ability of other countries in the region (e.g. the Great Lakes region) to design and implement coherent and credible development policies of the sort called for in the Programme of Action.[7]

These major developments at the global and country levels have had significant implications for the implementation of the Programme of Action, as indicated below.

B. The Programme of Action: preliminary assessment of implementation and impact

A comprehensive assessment of the implementation of the Programme of Action at country level is in progress as part of the preparations for the Third United Nations Conference on the LDCs. In this report, therefore, discussion is limited to the general assessment of progress in the implementation of the Programme of Action undertaken in the mid-term review of 1995, and subsequent reviews by UNCTAD's Trade and Development Board and the annual LDC ministerial meetings. All of these assessments have led to the conclusion that the Programme of Action has not been effective in transforming the least developed economies, a verdict which underlies the decision of the General Assembly to convene the Third United Nations Conference, in order:

(i) To assess the results of the Programme of Action during the 1990s at the country level;

(ii) To review implementation of international support measures, particularly in the areas of official development assistance, debt, investment and trade; and

(iii) To consider the formulation and adoption of appropriate national and international policies and measures for the sustainable development of LDCs and their progressive integration into the world economy.

Against this background, the first part of this section discusses aspects of the Programme that have already been implemented. The second part examines what impact the Programme has had in LDCs. The third and final part presents issues arising from the assessment which might form part of a substantive agenda for a new and comprehensive Programme of Action for the sustainable development of LDCs and their progressive integration into the world economy in the first decade of the new millennium.

Implementation

LDCs have undertaken domestic policy reforms either autonomously, or as part of the policy-based lending of the IMF and the World Bank.[8] These reforms had two broad objectives, namely, to correct macroeconomic imbalances and stabilize LDC economies in the short-term, and to attain long-term structural reforms, including the rehabilitation of specific sectors. Data on autonomous policy reforms are hard to come by, and if available, are not very reliable. IMF and World Bank data on about four-fifths of all LDCs suggest that, as of December 1997, all but four (Myanmar, Somalia, Samoa and Sudan) of the 38 LDCs for which the data are available were beneficiaries of the Fund's Stand-by/ Extended Facility, Structural Adjustment Facility (SAF) and Enhanced Structural Adjustment Facility (ESAF). The World Bank supported domestic policy reforms via its structural adjustment and sector adjustment loans in about two-thirds of these 38 countries.[9]

IMF loans have been used to address issues of macroeconomic instability (stabilization programmes) in these LDCs, while World Bank credits have supported a range of domestic policy reforms. The latter include macroeconomic reforms and economic recovery programmes, as well as reforms in the industrial, agricultural, transport, financial, education and public sectors, and in a few cases, fiscal restructuring, private investment promotion, and population and health programmes (table 14). On the basis of the available information, it is difficult to establish the extent to which the reforms in question have succeeded in achieving the objectives of the Programme of Action, however, especially in respect of diversification of production, integrated rural development, human resources mobilization and development, and environmental protection. Closely focused country-level studies would have to be done before such an assessment could be made.

In addition to IMF and World Bank credits, which amounted to $13.125 billion from 1990 to the present (table 14),[10] external financing in support of policy reforms in LDCs has come from a variety of sources. Several LDCs have also participated in debt rescheduling programmes, while others have had part of their debts cancelled.[11] A total of 25 LDCs had about $13.8 billion of their debts rescheduled between 1988-1998 on various terms[12] in the Paris Club. Some LDCs have also benefited, or will benefit, from debt relief under the IMF/ World Bank HIPC debt initiative (see part one, chapter 2, for more details on aid flows and debt relief initiatives).

In keeping with the priority accorded to agriculture by the Programme of Action, this sector took the largest share of ODA allocated to economic activities in LDCs between 1993 and 1997.

While ODA continues to be regarded as an important item in the budgets of many LDCs, and has been used to enhance their productive capacities, there is every indication that it is an increasingly diminishing resource. As shown in the previous chapter, ODA to LDCs has declined progressively during the 1990s, and few donors have met the ODA target of 0.15–0.20 per cent of GNP, as called for in the Programme of Action. The share of LDCs in total financial flows (including non-concessional flows) to all developing countries declined from 21 per cent in 1990 to just below 8 per cent in 1997 (annex table 21). Given the centrality in the Programme of Action of financial flows to LDCs, these developments constitute a major setback to the Programme's implementation.

Analysis of ODA commitments to LDCs by purpose between 1993 and 1997 (table 15) indicates that between a quarter and a third was allocated to direct economic activities, including production sectors and economic infrastructure and services. Among the economic sectors, agriculture took the largest share, which is in keeping with the high priority accorded to it by the Programme of Action. If account is taken of resources allocated for debt relief and economic reform programmes, the proportion of ODA with a direct bearing on LDC economies ranged from 52 to 62 per cent, with the proportion dropping considerably from 1995. Concerns over the adverse impact of structural adjustment on the social sectors that have been expressed in various forums, including the mid-term review of the Programme of Action (see The Least Developed Countries 1995 Report, pp. 16–21), seem to have evoked donor response, because the proportion of ODA allocated to the social sectors in LDCs has increased since 1996 (chart 3 and table 15).

In summary, it is difficult to obtain reliable data on autonomous policy reforms in LDCs, but IMF and World Bank data indicate that about two-thirds of all such countries implemented policy reforms during 1990–1997. Although it is difficult to establish what level of external financial support would have been adequate to support these programmes, the failure of most donors to meet the ODA targets set out in the Programme of Action has resulted in inadequate ODA flows to LDCs from DAC countries throughout much of the 1990s. Such a development is bound to have impaired the LDCs' ability to meet the

TABLE 14: WORLD BANK AND IMF-SUPPORTED DOMESTIC POLICY REFORMS IN LDCS

Country	IMF facilities[a] (1990-2000)[b]		World Bank loans and credits[c] (Approval date: 1990-1998)		
	Total Nos.	Total amount ($ millions)[d]	Total Nos.	Total amount ($ millions)[d]	Purpose
Bangladesh	1	477	11	727	Industrial policy reform, energy and financial sectors, public sector management, industry and jute sector
Benin	3	143	3	107	Economic management
Burkina Faso	3	174	4	607	Transport sector, agriculture, and economic recovery
Burundi	1	60	1	31	Not available
Cambodia	1	121	1	39	Economic rehabilitation
Cape Verde	0		1	30	Economic reforms
Central African Republic	1	24	1	47	Not available
Chad	2	96	3	75	Economic recovery, and public sector
Comoros	1	4	1	26	Macroeconomic reform and capacity-building
Dem. Rep. of the Congo	1	98	0		Not applicable
Djibouti	1	7	0		Not applicable
Equatorial Guinea	2	36	0		Not applicable
Ethiopia	2	198	3	247	Not available
Gambia	1	27	0		Not applicable
Guinea	2	83	3	91	Education sector and public sector
Guinea Bissau	1	13	0		Not applicable
Haiti	2	159	1	38	Economic recovery
Lao People's Dem. Rep.	2	78	2	80	Not available
Lesotho	5	73	0		Not applicable
Madagascar	2	221	5	71	Agricultural sector, public sector, and multi-sector rehabilitation
Malawi	4	247	10	429	Agriculture, industry & trade, entreprenuership development, drought recovery, fiscal restructuring & deregulation
Mali	4	266	5	363	Agricultural sector, Economic recovery, Education and Economic management
Mauritania	2	133	8	199	Agricultural sector, economic recovery, education, economic management and public resource management
Mozambique	2	291	3	490	Economic rehabilitation programme, and economic recovery
Nepal	1	48	0		Not applicable
Niger	3	174	2	56	Economic recovery and public sector
Rwanda	1	43	2	163	Emergency recovery
Sao Tome and Principe	1	4	1	25	Not available
Sierra Leone	2	187	8	96	Reconstruction, and imports
Togo	2	157	3	114	Population and health, economic recovery and adjustment
Uganda	3	613	12	762	Agriculture, economic recovery, finance and education
United Rep. of Tanzania	2	483	7	672	Industrial rehabilitation, industry and trade adjustment, agriculture and finance
Yemen	2	551	2	158	Economic recovery
Zambia	1	1016	16	1077	Economic recovery, privatization and industry, economic and social adjustment, and investment promotion
Total		6 305		6 820	Not applicable

Source: *IMF Annual Report* (various issues); *IMF Survey* (various issues); *World Bank Annual Report* (various issues); *World Bank News* (various issues).

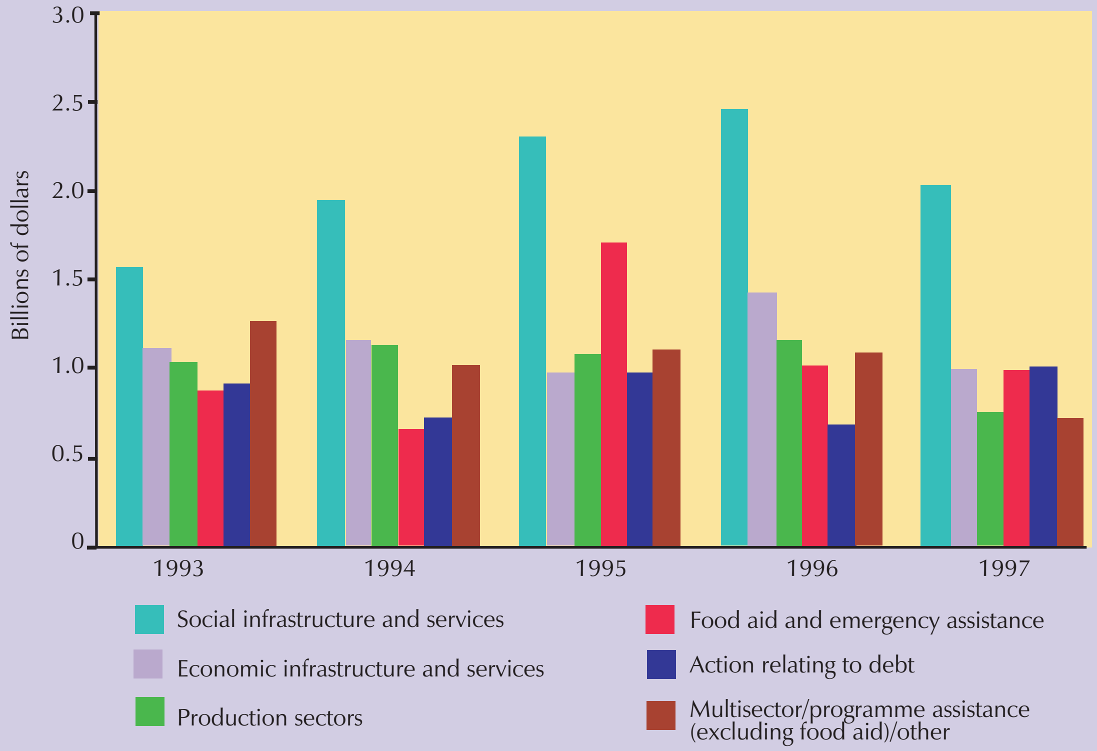
Notes: a Includes Stand-by/Extended Facility, Structural Adjustment Facility and Extended Structural Adjustment Facility.
b Includes facilities approved for periods beginning earlier than 1990 but ending any time in 1991, or later.
c Includes structural adjustment, sector and other loans, including IDA and African Facility, and co-financing.
d Total amounts include SDRs not purchased, and cancellations/reductions in amounts originally approved during period of implementation.

Table 15: Bilateral ODA commitments by purpose, 1993–1997
(current US dollars in millions)

	1993		1994		1995		1996		1997	
	$ millions	*% total*	*$ millions*	*% total*	*$ millions*	*% total*	*$ millions*	*% total*	*$ millions*	*% total*
Social Infrastructure & services	1 574.8	23.2	1 963.3	29.4	2 316.7	28.2	2 468.0	31.4	2 035.7	31.2
Education	395.0	5.8	477.4	7.2	615.5	7.5	600.6	7.6	569.5	8.7
Health	271.7	4.0	377.0	5.7	477.1	5.8	535.4	6.8	383.3	5.8
Water supply & sanitation	381.2	5.6	442.3	6.6	324.4	4.0	435.2	5.5	321.5	4.9
Economic infrastructure & services	1 114.9	16.4	1 159.8	17.4	984.0	12.0	1 424.5	18.1	998.8	15.3
Energy	511.6	7.5	226.7	3.4	376.7	4.6	499.5	6.4	222.1	3.4
Transport & communications	523.3	7.7	807.2	12.1	546.8	6.7	838.5	10.7	729.9	11.2
Production sectors	1 038.6	15.3	1 132.4	17.0	1 085.9	13.2	1168.0	14.8	762.4	11.7
Agriculture	686.6	10.1	691.5	10.4	685.0	8.3	767.5	9.8	568.3	8.7
Industry, mining, construction	134.0	2.0	135.8	2.0	139.4	1.7	155.0	2.0	66.0	1.0
Trade & tourism	218.0	3.2	305.1	4.6	262.6	3.2	245.6	3.0	128.1	2.0
Multi-sector	609.7	9.0	456.4	6.9	537.9	6.6	574.1	7.3	417.7	6.4
Programme assistance	1 161.9	17.1	904.2	13.6	1 226.7	15.0	870.9	11.1	707.1	10.8
Food aid	588.1	8.7	360.2	5.4	679.6	8.3	410.5	5.2	455.0	7.0
Action relating to debt	915.5	13.5	733.0	11.0	982.9	12.0	684.9	8.7	1 013.8	15.6
Emergency assistance	287.3	4.3	295.9	4.4	1 034.8	12.6	611.4	7.8	536.3	8.2
Unallocated/Unspecified	83.4	1.2	23.0	0.3	29.6	0.4	61.8	0.8	53.6	0.8
Total	6 786.1	100.0	6 668.0	100.0	8 198.5	100.0	7 863.6	100.0	6 525.4	100.0

Source: OECD, *Geographical Distribution of Financial Flows to Aid Recipients* (OECD, 1993-1997 Report).

CHART 3: BILATERAL ODA COMMITMENTS TO LDCS FROM DAC MEMBER COUNTRIES, 1993–1997
(by purpose)



Source: OECD, *Geographical Distribution of Financial Flows to Aid Recipients* (OECD, 1993-1997 Report).

Programme's development objectives, even though these countries have implemented the reform programmes.

Similarly, the extent of debt relief accorded LDCs during the implementation of the Programme of Action has been judged inadequate (UNCTAD, 1998:30–32 and part one, chapter 2, of this report). The total external debt of most LDCs has remained unacceptably high during the present decade. Between 1990-1996, the total debt stock for all LDCs increased by 16 per cent, from $114.8 billion to $129.5 billion, which is estimated to be 85 per cent of their combined GDP — that is, up from 81 per cent in 1990 and 69 per cent in 1985.[13] About half of all LDCs had debt stocks that exceeded, or were almost equal to, their total GDP in 1997. Between 1990 and 1997, LDCs expended an average 20 per cent of their export earnings on servicing their debts.[14] Given these realities, enhancing productivity and improving the competitiveness of LDC economies cannot but be closely linked to a comprehensive resolution of the debt issue. For any debt strategy to meet the needs of LDCs, it should be able to assure them a break from their external debt obligations, or at least reduce their debt stock to sustainable levels. The recent developments with the HIPC debt initiative, discussed in the previous chapter, are a step in the right direction, but it remains to be seen whether the new HIPC will be as "fast" and as "deep" as is necessary to provide the LDCs with much-needed debt relief.

Available evidence suggests that, at the country level, the UNDP round table meetings and World Bank consultative groups (which are a proxy indicator of success in policy dialogue between Governments and donors, and in coordination and resource mobilization) did not cover all LDCs, were not organized on a systematic basis, did not always succeed in mobilizing adequate financing, and did not adequately address LDCs' debt, which is negotiated separately under the Paris Club. In fact, these have hardly been linked to the Programme of Action, for which they were supposed to be the backbone.

At the regional level, the United Nations regional commissions have monitored the implementation of the Programme of Action in their respective regions by undertaking regular reviews.[15] The weakest link in the implementation mechanism has been the lack of organization of regional cluster meetings and sectoral reviews by agencies. Thus, the original objective of strengthening and enhancing existing cooperative arrangements at the regional and subregional levels has not been initiated because of resource constraints within the United Nations.

At the global level, monitoring has been more effective. As elaborated below, the regular reviews of the implementation of the Programme of Action undertaken by the General Assembly, UNCTAD Conferences and the Trade and Development Board have been instrumental in increasing the visibility of LDCs and in focusing the attention of the international community on their plight.

Regular reviews of the implementation of the Programme of Action undertaken by the General Assembly and UNCTAD have been instrumental in increasing the visibility of LDCs and in focusing the attention of the international community on their plight.

The impact of the Programme of Action on LDCs to date

Attempting to assess the impact of the Programme of Action on the development of LDCs is problematic, for three main reasons. First, apart from the ODA targets, which were clearly spelt out, other objectives of the Programme had not been well articulated or objectively expressed to facilitate easy assessment. For example, the prime objective of the Programme is "to arrest the further deterioration in the LDCs' socio-economic situation, to reactivate and accelerate growth and development in these countries and set them on the path of sustained growth and development".[16] (UNCTAD, 1992:17) It was noted that commitments undertaken should be measurable and transparent to facilitate monitoring and assessment of the Programme of Action (Principle No. 4), but performance indicators or criteria are not defined at any point in the document. A related problem is the difficulty of establishing benchmarks against which to assess whether the stated objectives of the Programme have been attained or not.[17] Second, as shown above, a good part of the implementation mechanism did not materialize.

The third and perhaps greatest difficulty in assessing the impact of the Programme is its multiple objectives. It focuses on development and related poverty issues in their various manifestations, and spans virtually all areas of economic and social activity in LDCs.

These objectives cover:

- overall macroeconomic framework, including financing growth and development;
- debt;
- external trade;
- economic and technical cooperation;
- human resource development;
- rural development, including agricultural development and ensuring food security;
- development of an industrial, service, and technological base;

- transport and communication infrastructure;
- environment and disaster mitigation, preparedness and prevention; and
- special problems of landlocked and island LDCs.

There were no attempts to translate the broad global development objectives to country-level targets and action plans. Accordingly, it is practically impossible to assess the Programme's impact *ex post facto* for each of these variables at country level.

The available evidence suggests it would be misleading to attribute economic and social developments in LDCs during the period of implementation of the Programme of Action to it, although some developments will have been influenced by it. That is, while there might be some correlation between the Programme and observed changes in economic and social developments in the least developed countries, it is difficult to prove a direct relationship of cause-and-effect (i.e. that the latter are the result of the former).

Economic and social developments in LDCs during the 1990s

The previous LDCs' Reports have indicated that, despite the policy reforms implemented in most LDCs, the group's overall economic performance has been poor, especially in the first half of the decade. Real GDP per capita deteriorated between 1990-1996 compared with the previous decade, 1980-1990. In terms of annual growth rates of per capita income, there has been some recovery since 1995, with an annual rate of almost 6 per cent in 1996, but this was below the per capita GDP growth rate of developing countries as a whole. Recovery in LDCs slowed down following the onset of the Asian financial crisis in 1997.

Given the weak economic performance of LDCs during the early part of the 1990s, it is not surprising that a decline in human welfare has not been averted in almost all these countries.

The weak performance of LDCs at the aggregate level during 1990-1994, however, masks the good economic performance of some individual countries. This strong-growth group of 12 LDCs[18] attained a real annual GDP per capita growth rate of about 2 per cent between 1990-1993. All other LDCs experienced declining rates during this period.

There has been limited progress in the area of export diversification. As shown below (part two, chapter 1), most LDCs have remained commodity-dependent. Export concentration has increased during the 1990s for 10 of the 22 LDCs for which data are available. The extent of export diversification for the remaining 12 has also been limited, and was accompanied by expansion of supply capacity in manufacturing and industries in only two nations — Uganda and Vanuatu (UNCTAD, 1998: 22-23). At the aggregate level, the LDC group has become further marginalized in the global economy, especially in terms of its share of world exports and imports (table 16).

Given the weak economic performance of LDCs during the early part of the 1990s, it is not surprising that a decline in human welfare has not been averted in almost all these countries. In 1993, 42 LDCs were placed by UNDP in the low human development category. Five years later, the number of LDCs in this category had declined to 35, but the proportion of such countries in the low human development category had increased: LDCs made up four fifths of the group in 1998, as compared to two-thirds in 1993.

The agreed conclusions and recommendations adopted by UNCTAD's Trade and Development Board and the annual ministerial meetings of LDCs between

TABLE 16: LDCS' SHARE IN THE WORLD ECONOMY, 1985–1997
(percentage)

	1985–1990	1991–1996	1994	1995	1996	1997
Output	0.8	0.8	0.8	0.8	0.9	0.9
Exports	0.5	0.4	0.4	0.4	0.4	0.4
Imports	0.8	0.7	0.6	0.6	0.6	0.6
FDI inflows	0.4	0.6	0.3	0.4	0.5	0.6

Source: UNCTAD database.

1990-1998 highlight the limited progress made in implementing the Programme of Action. LDC Ministers attribute the weak economies and progressive deterioration of social conditions in their countries to the debt overhang; inadequate external finance, as exemplified by the decline in ODA disbursements; limited market access for LDCs' exports; and severe supply-side constraints. They noted that despite the implementation of policy reforms, these constraints continue to frustrate (export) trade expansion in LDCs. Since the conclusion of the Uruguay Round of trade negotiations in 1994 and the subsequent creation of the WTO in 1995, LDC Ministers have also expressed concern about the lack of full and effective implementation of special and differential treatment measures and the increasing marginalization of LDCs in the global economy. The growing number of humanitarian and natural disasters has also aroused great concern among the Ministers, as these emergencies and unpredictable weather conditions have adversely affected LDCs' economic performance.[19] The Ministers have stressed the need for international cooperation in addressing complex humanitarian emergencies, including strengthening the response capacity of affected countries. They have also called for increased external support from LDCs' development partners and more concerted efforts to tackle the nations' debt burden.

One of the biggest development challenges facing LDCs on the eve of the twenty-first century would appear to be how to establish the necessary export capacity to produce goods and services on a competitive basis.

One of the biggest development challenges facing LDCs on the eve of the twenty-first century would appear to be how to establish the necessary export capacity to produce goods and services on a competitive basis. The mid-term review of the Programme of Action, for example, concluded that LDCs "have made limited progress in overcoming structural constraints, infrastructural insufficiencies, debt overhang, promoting and diversifying the enterprise and export sectors, attracting foreign investment and creating a technological base". This conclusion is as relevant at the end of the Programme's implementation period as it was during the mid-term review. Addressing these constraints would no doubt require concerted and better coordinated action by LDCs and the international community on a scale hitherto unknown.

INCREASED INTERNATIONAL VISIBILITY OF LDCS

Despite the limited achievements of the Programme of Action in terms of its stated objectives, it has engendered some positive developments in the international arena that are favourable to LDCs. In particular, it has had a significant unintended impact in terms of increasing the visibility in the international development community of LDCs and their predicaments. For example, least developed countries are now at the centre of UNCTAD's analytical work, in conformity with the Midrand Declaration adopted at UNCTAD IX. Within the United Nations system and in other international organizations, special units or offices have been established to be responsible for LDC issues. Several activities have been implemented by some of these organizations/agencies, as indicated below.[20]

First, in addition to making LDCs a cross-cutting issue in all its work, UNCTAD has established a Trust Fund for LDCs, with the objective of supplementing regular budgetary resources in order to provide enhanced technical assistance to LDCs in the broad area of development. The Secretary-General of UNCTAD has also launched a special initiative, which includes the Integrated Country Programmes (ICPs)[21] for LDCs, in support of a more coordinated approach to UNCTAD's technical assistance programme in these countries. These ICPs have become the de facto UNCTAD segment of the integrated framework for trade and trade-related technical assistance in LDCs (see below).

Second, the WTO Plan of Action, adopted at the First WTO Ministerial Conference in December 1996, gave rise in October 1997 to the High-Level Meeting on Integrated Initiatives for LDCs' Trade Development, at which the integrated framework was approved. Commitments to improve market access for LDC exports, including improvements in Generalized System of Preferences (GSP) schemes, were also made during the Meeting by several developed and developing countries.

Third, LDCs that are members of the WTO benefit from special and differential treatment measures incorporated into that organizations' multilateral trade agreements. These measures grant them derogation from some of the agreements, which are considered too onerous for them considering their level of development, and recognize their need for technical assistance, which would facilitate their participation in WTO and in the global trading system. LDCs also enjoy longer transition periods than other WTO members for assuming full responsibilities for the implementation of the commitments undertaken as members.

Fourth, the International Labour Organization (ILO) has implemented employment-intensive programmes in several LDCs. The International Maritime Organization (IMO), as part of its Integrated Technical Cooperation Programme on the implementation of international maritime standards, extended assistance to 32 least developed countries and has provided training in specialized maritime subjects to LDC officials at the World Maritime University and the International Maritime Institute. The International Telecommunication Union (ITU) has continued its assistance to LDCs in the development of rural telecommunications, human resource development, introduction of new technologies, and telecommunications sector restructuring, management and planning, as part of the Buenos Aires Action Plan adopted at the first World Telecommunications Development Conference in 1994, and in accordance with the special provisions for LDCs contained in the Valletta Action Plan adopted in 1999 at the second World Telecommunications Development Conference. The United Nations Centre for Human Settlements (Habitat) has operational activities in 32 LDCs aimed at capacity-building to address the problems of urban poverty and deterioration in living environment afflicting most of those countries. These activities also include low-income housing development and income-generating projects. Within the framework of its medium-term strategy for 1996-2001, the United Nations Educational, Scientific and Cultural Organization (UNESCO) has identified LDCs as priority beneficiaries and has strengthened its unit for coordinating the activities of LDCs. The United Nations Industrial Development Organization (UNIDO) has been devoting substantial resources to its technical assistance programmes in LDCs since January 1998 and has established two more offices in African LDCs, bringing the total number of UNIDO offices in those countries to six. Several other agencies have conducted activities in their areas of competence to assist

LDCs.[22] Much of the technical assistance of WTO is also currently directed at LDCs and other low-income countries. In effect, the area in which the Programme of Action has had the most positive impact falls outside its declared objectives — a fact which does not in any way diminish or underestimate the Programme's importance to LDCs.

Fifth, the Swiss Government has set up an Agency for International Trade Information and Cooperation (AITIC) to assist the less advantaged country missions[23] in Geneva. While the agency is still in its infancy and its effectiveness remains to be seen, its establishment demonstrates recognition of the need to assist LDCs in benefiting from the multilateral trading system by facilitating their active participation in the activities and negotiations of the WTO and other trade-related international organizations.

A preliminary assessment of the implementation of the Programme of Action suggests that at best its impact has been weak.

Finally, a group of developed and developing country members of WTO have established an Advisory Centre on WTO Law, which would be independent of the organization. The Centre would not only be expected to assist developing and least developed countries in bringing and defending disputes at the WTO, but would also complement training and technical assistance already being provided by the organization to these countries in this area. Specific functions, including regular seminars on WTO jurisprudence, legal advice on WTO law and internships for developing country officials dealing with WTO legal issues, are also envisaged for the Centre.[24]

Overall, a preliminary assessment of the implementation of the Programme of Action[25] suggests that at best its impact has been weak. The impact has been judged to be "mixed" in about half of its total stated objectives, and "questionable" in the other half (table 17).

Table 17: Has the Programme of Action attained its objectives?

Responsibility/Objectives	Positive	Mixed	Questionable
A. LDCs			
Trade diversification		X	
Efficient public enterprises			X
High level of regional cooperation		X	
Coordinated international action in support of commodities			X
B. International Community			
Sufficient external financial support			X
Improved environment for FDI		X	
Increased efficient & transparent use of grants		X	
International debt strategy			X
Facilitating LDCs' integration into the world economy			X
Greater involvement of NGOs			X
C. General			
Economic growth		X	
Social development			X
High visibility of LDC issues in the global arena	X		

Source: Excerpted from UNCTAD's annual assessment of the impact of the Programme of Action.

C. Issues for a new Comprehensive Programme of Action

In addressing the substantive issues that will make up the agenda of the Third United Nations Conference on the LDCs, three weaknesses of the Programme of Action will need to be looked at. They are: i) the need to take into account the diversity of LDCs and to base a global programme of action on country-level assessments of constraints, opportunities and potentials; ii) the need to spell out more clearly the implementation framework and institutional mechanism for monitoring, coordination and evaluation; and iii) the altered role of the State in the design and implementation of policy reforms and economic development programmes, including the increasing role of non-State actors in the context of a globalizing world economy.

Diversity of LDCs and the need for country-level programmes of action

The 48 least developed countries constitute a mixture on the one hand of particularly weak countries where development has never been more than very limited, and on the other hand of countries that have had brighter prospects and a history of successful agricultural and mineral exports but which have fallen on hard times because of war, natural disasters, limited access to some export markets, growing debt burdens, poor policies, mismanagement and other governance-related failures. The type of action programme that is feasible in any particular LDC will depend on the type of political and economic situation facing the country in question. It will be essential to distinguish among:

- Countries at peace, vs. those at war or still recovering from the impact of recent hostilities;[26]
- Countries pursuing good policies or attempting to do so despite external difficulties or despite shortcomings in their capacity to pursue such policies, vs. countries unwilling or unable to make essential reforms because of autocratic regimes or regimes too weak to maintain stability or restore transparency and accountability;
- Countries with good prospects for growth, relatively advanced capacity for management of development, and a relatively well-trained workforce, vs. those with acute shortfalls in such capacities;[27] and
- The special problems of the 10 island LDCs (eight of them very small), and the special geographic handicap facing the 16 LDCs which are landlocked and thus face extremely high costs in accessing the sea and world markets.

This approach boils down to an assessment of country-level needs, opportunities and potentials by addressing the pertinent internal and external problems.[28] Such an assessment should include feasible, tangible, and measurable targets on all key topics and should clearly express the respective countries' priorities. In this regard, it will also be essential to consider the possibility for targets or goals for donors, international agencies and the private sector (see part two, chapter 4).

Implementation, monitoring and coordination

The framework for implementing any programme is crucial to its success. One of the major weaknesses of the Programme of Action identified in the discussion above is that its implementation framework is weak and the institutional mechanism, including coordination for monitoring, is not clearly spelt out. A few important criteria that might help to strengthen the implementation framework for a new programme seeking to address the developmental problems of LDCs are as follows:

- *Flexibility:* This is important to ensure that such a programme accommodates unexpected global developments and the needs of different groups of LDCs, including the landlocked and island least developing country groups. For example, if anticipated external financial assistance fails to materialize, there should be a fallback position to make up for the deficit.
- *Principle of partnership:* Partnership between the main actors in development (State, donors, private sector/capital and civil society) must be well-defined and clearly articulated.
- *Multi-agency strategy*: This approach to development issues is most likely to optimize resource utilization, reduce overlap and waste, and increase synergies among development agencies operating in specific LDCs as well as among those focused on LDCs as a group. This is exemplified by the integrated framework which, as mentioned earlier, is being implemented by six international agencies, including UNCTAD. Coordination issues would, however, need to be sorted out for the efficacy of this approach to be fully realized. In addition, there has to be effective monitoring to identify and address problems quickly.
- *Evaluation mechanism:* This requires clearly defined objectives of what to evaluate as well as yardsticks for assessing whether or not anticipated outcomes have been attained. The programme's objectives should be clearly phased out to facilitate monitoring, unlike the present situation where all objectives are supposed to be attained at the end of a 10-year period, when the Programme of Action will have run its full course.

To facilitate the attainment of the goal of developing productive capacity for competitive trade, there may be a need for developing objectives for the different subgroups of LDCs. For example, the provision of adequate and reliable infrastructure (transport and telecommunications) is integral to trade expansion in all LDCs, but the provision of well-functioning international transport corridors will be an important component of this for the landlocked countries among them. For LDCs suffering from internal social and political strife, the priority might be restoring law and order, along with a functioning State within which development policies could be evolved and implemented.

For implementation, the multi-agency approach to technical assistance in trade and trade-related issues is laudable, and should be replicated. However, initial problems of coordination of the integrated framework among the six implementing agencies suggest that the approach is far from perfect and would benefit from an effective monitoring process, the result of which is fed back into the implementation process. A similar approach could be used in addressing a variety of issues in LDCs, such as human resources and institutional capacity development in public and private sectors, technological innovation and the acquisition of technological capacity.

In each LDC, coordination among different institutions or ministries dealing with similar issues (e.g. trade) will in itself facilitate coordination with external agencies engaged in similar or related projects aimed at creating competitive trade capacity. Indeed, judging by the previous experience of technical cooperation programmes in LDCs, the key to developing that capacity would have to be closer collaboration among the various institutions/agencies in designing and implementing technical assistance programmes. This would not only ensure coherence in policy advice and assistance but would also help to avoid duplication in such programmes and therefore reduce wastage of financial and human resources. Ongoing collaborative efforts in this regard among the International Trade Centre UNCTAD/WTO (ITC), WTO and UNCTAD — under the Joint Integrated Technical Assistance Programme (JITAP) — could be emulated. In addition, the relevance of technical assistance to LDCs could be greatly enhanced by prioritizing their development needs, for example into "priority" and "long-term" needs packages (UNCTAD, 1996c and part two, chapter 4, of this Report).

Development issues are much too intertwined to be left to one institution or to different institutions operating independently of each other. In particular, the issue of sustainable development is best addressed through closer cooperation among the "traditional" development institutions, Governments, the private sector, NGOs and civil society at large.

Development issues are much too intertwined to be left to one institution or to different institutions operating independently of each other. In LDCs in particular, the issue of sustainable development is fundamental to the improvement of basic social and economic conditions, which would be more effectively addressed on the basis of closer cooperation among the "traditional" development institutions, Governments and others, such as the private sector, NGOs and civil society at large. In this context, the role of the State and its relationship to other actors in the new globalizing environment is critical.

The redefined role of the State in the future Programme of Action

The Programme of Action assigns a pivotal role to LDC Governments in the design and implementation of policy reforms. It is important to summarize briefly how the developments of the ending decade have altered the role of the State and the implications this has for effective performance of the functions envisaged for LDC Governments under the Programme.

While the Programme envisaged a role for the public sector, the sector was expected to be efficient and to operate in a competitive environment. In due course, however, direct participation by the State in economic activities would have to diminish, increasingly giving way to private sector activities Aas constraints are overcome (UNCTAD, 1992:23). This envisaged role under the Programme of Action does not necessarily conflict with the new perspective on the role of the State, except for a shift in emphasis in the relationships between the State and the private sector and between the State and donors.

The Programme of Action underscores the catalytic role of the State in development. Even in the Paris Declaration, the State is assumed to be the principal actor in four of the five priority areas identified. It is only the fifth priority area, the development of a diversified productive sector, which is to be premised on private initiative. The Programme conceives of the relationship between the State and the donors in terms of the notion of "strengthened partnerships". The LDCs' development partners are called upon to provide adequate financial resources and technical assistance in support of development policies implemented by those countries.

The current state of play in the global economy would, however, demand important changes in the way the roles of the three main actors in the LDC development arena are viewed. Considering the increase of private capital flows to developing countries, albeit concentrated in a few of them in the 1990s, the role of Governments is still important, but that of the private sector has gained ground, and in many non-LDCs, that of donors has diminished somewhat. The private sector has started to play a pivotal role in organizing economic activities, using the market mechanism as the primary vehicle for allocating resources, and Governments and donors have then to play important supporting roles. The former has to provide the necessary institutional and legal framework that promotes the efficient functioning of markets and competition in domestic markets, while the latter must furnish the financial resources and technical assistance needed in support of these proactive government policies.

These respective roles for the three main actors are far from settled, particularly in LDCs. The global economic situation is very fluid, and in the aftermath of the financial meltdown and economic collapse in East Asia, the proper role for the private sector in development, especially in the least developed countries, has come under the spotlight and is likely to be redefined in the near future. There is growing consensus that government policy is an essential complement to economic liberalization and reform. At the same time, the role of civil society in development, including that of NGOs, has come to the fore. It is therefore important that any future action plan for LDCs should be flexible enough to accommodate the shifts in development paradigms that (re)define the roles of the main actors in the field of development.

It is important that any future action plan for LDCs should be flexible enough to accommodate the shifts in development paradigms that (re)define the roles of the main actors in the field of development.

D. Conclusions

Since the adoption of the Programme of Action in 1990, there have been major developments at the global level with significant implications for its implementation. As their numbers and populations have risen, LDCs have witnessed a considerable decline in the volume of financial resources to support their domestic policy reforms, and growth has consequently stagnated. At the same time, developments on the international scene have altered the role of the State in development; the kind of development or economic policies that States could "legitimately" pursue or implement; and the nature of the relationship between various actors — States, donors and the private sector, including civil society — in the field of development. Furthermore, the internal social and political dynamics of several LDCs have greatly weakened the capacities of some of those countries to formulate, let alone implement, coherent development strategies or policies. In retrospect, and especially considering the global economic developments and the multiple objectives of the Programme of Action against the background of optimistic forecasts of resource availability, the Programme appears to have been overly ambitious.

One of the key issues to be addressed through the ongoing assessment of the implementation of the Programme of Action is whether the poor performance of LDCs is a result of inadequacies in the Programme's implementation, including monitoring and follow-up, or deficiencies in the elements of the Programme itself. For example, as already pointed out above, round table meetings and consultative groups at the country level were not necessarily linked to the Programme of Action. In fact, the same could be said of a number of the major United Nations Conferences held during the decade.[29] Thus, while there might be some correlation between the Programme of Action and changes observed in the economic and social development of LDCs, it is difficult to prove a direct causal link. To facilitate evaluation of its results, any future programme of action will need clearly to spell out performance criteria and establish a framework for effective coordination among the various actors.

The most pressing development concern of LDCs on the eve of the twenty-first century could be encapsulated as how to address supply-side constraints to enable the countries to produce more competitively for domestic as well as international markets.

As shown in part two of this Report, the most pressing development concern of LDCs on the eve of the twenty-first century could be encapsulated as follows: how to address supply-side constraints to enable the countries to produce more competitively for domestic as well as international markets. This is not in any way to underestimate other constraints on trade relating to market access, especially tariff peaks and tariff escalation for products of special interest to LDCs. Developing the necessary capacity to engage in global trade competitively demands a holistic approach in which all the relevant actors (State, donors, private sector and civil society) have more or less equal stakes. It is anachronistic to talk of "States vs. markets". States and markets need to work in conjunction with donors and civil society in order to be able to address effectively the structural constraints of LDCs. This calls for a clear and unambiguous definition and articulation of the relationships among all these actors within a flexible framework that ensures maximum benefits to LDCs.

Notes

1. Information on the Programme of Action for the Least Developed Countries for the 1990s, unless otherwise stated, is extracted from UNCTAD (1992). The Paris Declaration and the Programme of Action were originally published in UNCTAD, 1990.
2. The least developed countries (LDCs) are a group of countries designated as "least developed" by the United Nations General Assembly on the basis of agreed economic criteria. The current set of criteria for identifying LDCs are: per capita GDP of $ 765 or less; augmented physical quality of life index (APQLI) of 47 or less; economic diversification index (EDI) of 26 or less; and population of 75 million or less. Countries with more than 75 million inhabitants have not been considered for inclusion in the United Nations list of LDCs since 1991. A country will qualify for inclusion in the list if (1) it meets all four formal criteria; or (2) it meets the population and per capita income criteria, meets the APQLI or EDI criterion, and is landlocked, is a small country with a population of 1 million or less and suffers from frequent climatic risks, such as drought, floods and cyclones. Attempts are ongoing to construct a more formal vulnerability index for the classification of LDCs. There were 24 countries on the first list of LDCs approved by the General Assembly in 1971 (see Simonis, 1991). By 1990 the number of countries had increased to 42, and at present there are 48 countries in this group, made up of 33 in Africa, 9 in Asia, 5 in the Pacific and 1 in Latin America and the Caribbean (Haiti).
3. See also UNCTAD's Least Developed Countries Reports for 1997 and 1998.
4. Rising populations of course imply less availability of per capita aid resources. However, one would like to establish what the resource situation would have been if all donors had honoured their aid commitments to LDCs, as outlined in the Programme of Action. The issue of the aid resource gap facing LDCs warrants more research and analysis.
5. The number of civil wars in the 1990s includes some of those wars carried over from before 1990. Setbacks in the democratization process are defined as successful military coups, including those that were subsequently reversed, and cases where the second post-1990 elections were either boycotted by the opposition parties, or the incumbent president was returned unopposed (see Bangura, 1998).
6. The war between Eritrea and Ethiopia has also had fiscal consequences, especially for Uganda, but for Sudan and Somalia as well, reflecting the dynamics of civil conflict in the entire region, whereby insurgents are harboured by neighbouring countries.
7. For a more detailed discussion of the implications for LDCs of economic regress and State failure, see UNCTAD (1997), pp. 123–148. Political instability and economic regress can be mutually reinforcing. Just as political instability and civil strife are likely to undermine the economic base of a society, an economy in a state of regress is conducive to a state of social instability and conflict.
8. Most of these programmes were introduced during the mid-to-late 1980s. Only a handful of LDCs implemented these programmes in the 1990s. Thus, it is difficult to determine whether LDCs undertook the reforms because of the conditionalities

attached to IMF/World Bank loans, or because they had been exhorted to do so by the SNPA, or indeed, by the Programme of Action.

9. Eleven LDCs which did not benefit from these loans are: the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Gambia, Guinea Bissau, Lesotho, Myanmar, Nepal, Samoa, Somalia and Sudan.
10. The latest data indicate that net flows under IDA to all LDCs amounted to $1.4 billion in 1998.Between 1997 and March 1999, gross disbursement of IMF concessional resources to LDCs totalled SDR 678 million; net disbursements, SDR 95 million.
11. Data on debt cancellations are unavailable.
12. These include the Naples, Toronto, and London terms and, since 1998, the Lyon terms.
13. The figures for 1997 indicate that there are signs of an improvement in the external debt situation of LDCs. LDC debt stock constituted 79 per cent of their combined GDP — the best since 1990.
14. There are signs of some improvement in the last two years. The annual average proportion of export earnings spent on debt service by LDCs dropped to below 20 per cent for the first time in 1996. See annex 29 of this Report.
15. ESCAP, for example, has established a special body on LDCs and landlocked developing countries, and ECA has monitored progress on the Programme of Action during its annual meetings.
16. In addition to this, various objectives are listed under three basic principles of the Programme of Action: (a) shared responsibility and strengthened partnership; (b) primary responsibility of LDCs for formulating and implementing appropriate policies; and (c) adequate external support from LDCs' development partners (UNCTAD, 1992:18-20).
17. In theory, benchmarks set by major sectoral global conferences could be used. In practice, these benchmarks are limited by the fact of being broad global targets and benchmarks, which do not take into account realities at the national level.
18. This group includes Bhutan, Botswana (which has since graduated from the LDC group), Cape Verde, Chad, Guinea-Bissau, Maldives, Solomon Islands, Bangladesh, Lao People's Democratic Republic, Lesotho, Nepal and Tuvalu.
19. Natural disasters are of course not limited to LDCs, but LDCs are least able to cope with their consequences.
20. Increased visibility for LDCs is of itself an achievement because of a long and embattled history to give them recognition. The issue of the least developed among the developing countries and the question of special measures on their behalf was already on the agenda of the first United Nations Conference on Trade and Development (UNCTAD I) in Geneva in 1964. However, efforts in the 1960s by the UNCTAD Research Division to identify the group failed to get the endorsement of the Trade and Development Board. It was not until 1971 that the Economic and Social Council established an independent group of experts, the Committee for Development Planning (later renamed the Committee for Development Policy), to formulate the list, which was formally recognized in 1975 with 25 countries.
21. The objective of the ICP is to rationalize UNCTAD's technical cooperation activities, in particular to coordinate such activities at the country level to ensure that they complement (and not duplicate) each other. The ultimate goal is to enhance the efficacy of UNCTAD's technical assistance in LDCs.
22. For the details of activities undertaken by United Nations specialized agencies, see the Secretary-General's Report to the Fifty-fourth Session of the General Assembly, dated 20 August 1999 (A/54/269).
23. That is, LDCs and other low-income countries, including some economies in transition, with annual per capita income of less than $1,000 and lacking a tradition of active participation in international trade.
24. For further details on this, see BRIDGES (1999), p. 5, and SEATINI Bulletin (1999), p. 3.
25. This is based on UNCTAD's annual assessment of the implementation of the Programme of Action.
26. The kind of programme that can be put forward may be greatly constrained or risk a lack of realism where there is no peace; the problem will nevertheless arise as to what support the international community can give in the face of unsettled conditions to ease suffering, cope with the burden of refugees, assist the civil population at the grass roots, avoid famine, accelerate peace efforts, continue health and education programmes even under adverse conditions, and set in train a recovery process once the hostilities cease.
27. The weaker of these countries may require extraordinary external support measures to move the development process forward and may entail more moderate expectations as to domestic resource mobilization in the short run.
28. This includes commitment to policy and administrative reforms; outlining the investment requirements for infrastructure and human capital and for alleviating poverty and for

basic education and health services; specifying the greater efforts needed to mobilize internal resources; and presenting the case for the external resources needed for a realistic but ambitious development effort over the next decade.

29. The major United Nations conferences convened since the Second United Nations Conference on the LDCs in 1990 contained significant references to measures in favour of LDCs. However, these are not directly linked to the Programme of Action, and in fact, there is no reference to the Programme of Action as such.

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Part Two

Marginalization, Productive Capacities and the Least Developed Countries

Patterns, trends and options in export production in LDCs

Chapter 1

Introduction

The supply capacity of a country, which is an integral part of its economic structure, can be analysed from two perspectives. From a static perspective, it can be understood in terms of the characteristics of supply at a given point in time which, in the context of globalization, essentially means the production of tradeable goods and services, with a greater or lesser degree of diversification. From a dynamic perspective, the supply capacity is constantly challenged by the forces of globalization — which are constantly creating new economic opportunities — and the economy will be more or less able to respond to them by adapting its structures. The extent to which an economy is able to meet this demand in a competitive manner reflects the relative strength of its supply capacity. Trading opportunities may also arise in a situation where a productive capacity has become sufficiently competitive in the field of import substitution. This economic option is not inconsistent with liberalization if it takes place in a competitive context. The supply capacity will be deemed weak if there is limited scope for deriving adequate benefits from an existing form of export production, or for evolving towards an improved one in order to compete more effectively. Improvement of a given supply capacity can only take place in the context of a competitive business environment at home and abroad.

Among LDCs, the production of tradeables varies greatly, ranging from very high concentration on a few merchandise and/or service exports (in nearly half of the group), to cases of relative diversification, with notable progress in manufacturing. It is generally agreed that LDCs will gain from diversifying their exports instead of evolving towards greater export concentration, or failing to reduce existing levels of concentration.

Concentration on a few tradeable goods or services as such cannot always be regarded as a negative factor in the dynamics of development. Many small developing countries that are not part of the group of LDCs have demonstrated steady growth and relative prosperity in spite of their high degree of export concentration. What matters for an economy with high export concentration, is the nature of global demand for its single export product, or narrow range of products, and how competitively they are produced. As will be demonstrated in this chapter, even among LDCs, there are some cases of successful narrow specialization, based on activities that have been competitive in response to a stable or growing demand which the country in question is able to meet steadily.

However, export concentration is generally regarded as undesirable because: (a) it renders an economy vulnerable to external shocks associated with the products on which a country concentrates; (b) it limits opportunities for earning adequate foreign exchange; and (c) it does not foster intersectoral linkages, and therefore, militates against the emergence of a nationally integrated economy.

Successful export diversification generally depends on whether there is an enabling environment to attract both domestic and foreign investors. This implies the presence of an adequate economic infrastructure, in particular the existence of effective producer services. Most LDC economies that are characterized by a high degree of export concentration, lack such infrastructure.

Although in many developing countries, including a few LDCs, efforts to attract foreign investors and encourage local entrepreneurship have led to improvements in their production and export structures, LDCs, in general, have been least attractive to potential foreign investors (see part one, chapter 2). This problem underlies the difficulties experienced by many LDCs in their attempts at export diversification. In the absence of sufficient investment and significant structural changes, economic linkages have not expanded, and structural weaknesses have, in turn, discouraged new investment.

This chapter first reviews the export trade profiles of LDCs, and proposes a classification of these countries according to the nature of their production for export and the degree of concentration, or diversification, of their exports. Second, it examines the evolution of these structural patterns, and identifies developments that underlie this process. The proposed development strategies and interventions in chapter 3 below draw on the nature and evolution of these structural patterns. Finally, on the basis of output and productivity data for the major LDC exports, it assesses supply response capabilities in LDCs in the last two decades, and examines some spheres of production that show potential for growth in the quest for developing LDC export trade.

In the absence of sufficient investment and significant structural changes in LDCs, economic linkages have not expanded, and structural weaknesses have, in turn, discouraged new investment.

A. Supply trends: overview of the export trade profiles of LDCs

Although some LDCs are responding to new trading opportunities in the global economy with a measure of success, production of tradeables in most LDCs has remained relatively undeveloped due to numerous supply-side constraints. For these countries, a successful approach to developing export production implies reinforcing supply capacities, especially with adequate capital stock and infrastructure; well-developed human capital; as well as appropriate policies and institutional arrangements. What is more, in the modern competitive global environment, production has become increasingly knowledge-intensive - knowledge being the basis for product innovation, which is key to competitive trading. In order to enhance the competitiveness of their products in terms of quality, cost and efficiency of delivery, LDCs — most of which have a deep-rooted colonial legacy that frustrates export diversification — need to pursue policies that effectively address the structural weaknesses inherent in this legacy. An analysis of the export data below suggests that, in general, LDCs are still far from this goal.

Classification of LDCs by export trade profile

Table 18 classifies LDCs into 11 categories of export trade based on the relative share of exports in the total value of exports of a given LDC over the period, 1995–1997. These are further divided into two broad groups defined according to the predominance of merchandise exports (Type 1), or service exports (Type 2), over this period. Within this broad framework, further classification is made on the basis of the relative share of export product types (e.g. agricultural, mineral, manufactured, etc.) in the total value of exports, and then on the basis of the degree of product concentration in the export trade of individual LDCs. The measure of concentration is also based on the share of each product in the total value of exports. The general pattern that emerges from this analysis is that, first, the exports of most LDCs are dominated by merchandise rather than services and, second, LDCs tend to have a high export concentration in which one, or a narrow range of either merchandise or services, or both, account for a substantial share of export earnings. Few LDCs have a diversified export structure.

Three quarters of LDCs (36 out of 48 countries) derived their export earnings predominantly from merchandise exports during the period, 1995–1997. This proportion was lower than its equivalent (86 per cent) in respect of 72 other developing countries during the same period. However, the merchandise exports of the latter category of countries has a higher content of manufactured goods, and service exports are generally more developed and more diversified in these countries than in LDCs.[1] On the basis of the foregoing, two important points can be made. First, as part of their export diversification strategy, LDCs should seek to raise the manufacturing value-added content of their exports. Second, production of tradeable services is as relevant to LDCs as it is to other developing countries. Indeed, considerable benefits accrue to a number of LDCs that export predominantly international services (in particular, tourism) either in a context of diversification (as observed in Vanuatu or Nepal), or because there is little, if any, scope for steady or sizeable merchandise exports.

As part of their export diversification strategy, LDCs should seek to raise the manufacturing value-added content of their exports. Also, production of tradeable services is as relevant to LDCs as it is to other developing countries.

In 20 of the 36 LDCs exporting predominantly merchandise, the value of merchandise exports was equal to three times the value of service exports in 1995–1997. In eight LDCs, the value of merchandise exports was particularly high, at 10 times the value of service exports, partly as a result of strong performance in the export of goods (e.g. in Equatorial Guinea, Mauritania, Sudan and Yemen), and partly because of poor performance in the export of services (e.g. in Malawi and the Central African Republic). Among the 36 LDCs predominantly exporting merchandise, only two countries (Ethiopia and the United Republic of Tanzania) demonstrated a fair balance between the two broad spheres of exports.

Of the 12 LDCs predominantly exporting services (Type 2), four have a limited merchandise export base and rely largely on tourism or transport services (Cape Verde, Comoros, Djibouti and Kiribati); five have demonstrated success in tourism activities while maintaining fairly large volumes of merchandise exports, in spite of limited diversification (the Gambia, Maldives, Samoa, Sierra Leone and Vanuatu); two have recorded parallel progress in service exports and diversified exports of goods (Nepal, and to a lesser extent, Mozambique); and one (Haiti) has transformed from being a predominantly merchandise exporter to a predominantly service exporter, essentially due to poor performance in merchandise trade. Among these 12 predominantly service exporting LDCs, earnings from exports of services in the period 1995–1997 were more than double the earnings from merchandise exports in eight countries. Seven of these are small States that have benefited from successfully specializing in the export of tradeable service activities, such as tourism or transport, without which they might have enjoyed little growth, considering their limited base for merchandise trade.[2]

"External rental income" in some LDCs

In a few LDCs, a sizeable proportion of foreign exchange inflows does not result from export earnings, but rather, from specific income that is not associated with productive activities, and is often labelled "external rental income".[3] This includes remittances from nationals living abroad, income from trust funds, royalties from fishing rights, and large foreign expenditure due to the

TABLE 18: CLASSIFICATION OF LDCs BY EXPORT TRADE PROFILE

Categorization of LDCs by type of export concentration or diversification	Country (in decreasing order of export concentration)	First export product (as % of merchandise exports) 1995-1997	Second export product (as % of merchandise exports) 1995-1997	Share of two main export products (% of merch.exp.) 1987	Share of two main export products (% of merch.exp.) 1995-1997	First export service (% of service exports) 1995-1997	Exports of goods/ Exports of services 1995-1997	Exports of good and services (% of GDP) 1997	Current account balance to GDP ratio (%) 1997	Per capita GNP (in dollars) 1997	Average real growth of GNP per capita 1990-1997
Type 1: Predominantly merchandise exporters											
A. Highly concentrated merchandise exports											
***(i) Dominant export product is agricultural, and service exports are highly concentrated*:** exports of goods >50% of total exports of goods and services; first agricultural export >50% of total exports of goods; first service export >50% of total exports of services											
	Sao Tome & Principe	cocoa (96.4)	copra (...)	99.4	96.4	travel (56.7)	2.0	28.4	-75.5	290	-1.7
	Uganda	coffee (69.0)	cotton (2.2)	96.8	71.2	travel (82.0)	3.5	12.6	-7.9	330	4.4
	Malawi	tobacco (63.2)	tea (6.7)	72.6	69.9	transport (58.6)	16.5	24.4	0.8	210	0.8
	Solomon Islands	timber (59.2)	fish products (21.2)	70.0	80.4	business services (77.5)	2.4	47.0	-7.4	870	1.0
	Myanmar	food & live animals (50.6)	crude materials (inedible) (28.2)	75.0	78.8	travel (80.4)	4.7	-	-	-	-
(ii) Dominant export product is agricultural, and service exports are relatively diversified: exports of goods >50% total exports of goods and services; first agricultural export >50% total exports of goods; no service export >50% total exports of services											
	Guinea-Bissau	cashew nuts (85.8)	wood (6.3)	77.9	92.1	-	-	21.0	-10.2	230	1.0
	Burundi	coffee (80.7)	tea (7.8)	87.8	88.5	transport (18.4)	9.7	10.0	0.4	140	-5.9
	Rwanda	coffee (74.4)	tea (10.0)	90.8	84.4	travel (16.8)	1.6	6.0	-5.0	210	-5.7
	Ethiopia	coffee (63.5)	hides (13.2)	79.6	76.7	air transport (45.5)	1.4	16.0	-7.1	110	2.2
	Chad	cotton (59.4)	live cattle (10.9)	92.9	70.3	travel (21.9)	2.5	16.9	-4.5	230	1.0
	Mauritania	fish (56.3)	iron ore (41.8)	100.0	98.1	travel (40.1)	17	39.7	2.1	440	1.5
	Mali	cotton fibre (55.5)	live animals (19.8)	61.8	75.3	travel (32.2)	6.9	25.5	-7.0	260	0.3
	Afghanistan	dried fruits and nuts (51.3)	carpets and rugs (13.1)	65.0	64.4	-	-	-	-	-	-
(iii) Dominant export product is mineral (and service exports are relatively diversified): exports of goods >50% of total exports of goods and services; first mineral export >50% of total exports of goods; no service export >50% of total exports of services											
	Yemen	petroleum (95.3)	animals (2.5)	-	97.8	travel (32.0)	11.1	44.0	2.4	270	-1.5
	Angola	petroleum (74.6)	diamonds (2.5)	97.4	77.1	business services (39.0)	19.0	67.9	42.9	260	-10.0
	Guinea	bauxite & alumina (59.9)	-	88.9	59.9	transport (42.7)	5.7	17.9	-2.3	550	2.7
	Liberia	iron ore (55.1)	rubber (28.0)	81.9	83.1	-	7.1	-	-	-	-
	Zambia	copper (52)	cobalt (11.3)	91.3	63.3	-	14.1	33.0	-	370	-0.9
	Niger	uranium (51.9)	livestock prod. (...)	84.6	-	travel (21.0)	8.7	16.2	-8.1	200	-1.9
(iv) Dominant export product is manufactured (and service exports are relatively diversified): exports of goods >50% of total exports of goods and services; first agricultural export >50% of total exports of goods; first service export >50% of total exports of services											
	Lesotho	clothing (54.8)	-	72.3	-	travel (45.9)	3.8	32.6	14.1	680	2.5
B. Relatively diversified merchandise exports											
***(i) Highly concentrated service exports*:** exports of goods >50% of total exports of goods and services; no merchandise export >50% of total exports of goods; first service export >50% of total exports of services											
	Benin	cotton (49.6)	petroleum (2.9)	83.1	52.5	transport (56.8)	2.9	24.8	2.4	380	1.7
	Lao PDR	wood products (38.9)	garments (20.0)	46.5	58.9	travel (54.0)	3.2	23.9	-12.8	400	3.9
	Sudan	cotton (18.7)	ovine (14.0)	48.2	32.7	construction (66.3)	18.6	5.8	-19.5	290	3.7
	United Rep.ofTanzania	coffee (17.7)	cotton (16.3)	57.8	34.0	travel (70.0)	1.5	21.5	-7.9	210	0.9
(ii) Relatively diversified service exports: exports of goods >50% of total exports of goods and services; no merchandise export >50% of total exports of goods; no service export >50% of total exports of services											

Table 18 (contd.)

Categorization of LDCs by type of export concentration or diversification	Country (in decreasing order of export concentration)	First export product (as % of merchandise exports) 1995-1997	Second export product (as % of merchandise exports) 1995-1997	Share of two main export products (% of merch.exp.) 1987	Share of two main export products (% of merch.exp.) 1995-1997	First export service (% of service exports) 1995-1997	Exports of goods/ Exports of services 1995-1997	Exports of good and services (% of GDP) 1997	Current account balance to GDP ratio (%) 1997	Per capita GNP (in dollars) 1997	Average real growth of GNP per capita 1990-1997
	Central African Rep.	diamonds (49.7)	coffee (15.7)	50.3	65.4	transport (18.1)	4.4	20.9	-2.7	320	-1.0
	Bangladesh	garments (49.1)	jute products (10.4)	47.2	59.5	transport (13.2)	7.0	12.3	-2.2	360	3.3
	Equatorial Guinea	petroleum (44.6)	wood products (41.6)	61.9	86.2		35	100.6	-132.8	1,060	12.1
	Burkina Faso	cotton (42.2)	live animals (18.9)	75.4	61.1	travel (32.7)	3.9	13.9	0.8	250	0.8
	Somalia	live animals (40.0)	bananas (6.9)	89.6	46.9			-	-	-	-
	Eritrea	raw materials (29.8)	food products (26.2)	-	56.0			30.8	-3.2	230	2.9
	Togo	cotton (29.8)	phosphates (23.8)	58.4	53.6	business services (32.5)	3.0	31.4	-6.1	340	-1.2
	Tuvalu	clothing & footwear (29.5)	copra (21.5)	86.4	51.0			-	-	-	-
	Bhutan	electricity (24.9)	cement (12.8)	57.0	37.7			31.3	-15.8	430	2.0
	Madagascar	coffee (18)	vanilla (16.7)	53.5	34.7	business services (33.4)	1.7	21.9	-3.8	250	-1.6
	Dem. Rep. of Congo	diamonds (17.2)	petroleum (11.4)	67.5	28.6			24.0	-	110	-9.6
	Cambodia	timber (16.5)	logs (11.8)	88.0	28.3	travel (42.5)	2.3	14.6	-6.9	300	2.7
Type 2: Predominantly service exporters											
A. Highly concentrated service exports											
(i) Merchandise exports are highly concentrated, and dominant export product is from fisheries, or agricultural, or mineral: exports of services >50% of total exports of goods and services; first service export >50% of total exports of services; first agricultural export >50% of total exports of goods											
	Maldives	fish products (59.4)	apparel and clothing (17.4)	42.9	76.8	travel (92.3)	0.35	122.2	-4.6	1 180	4.3
	Kiribati	copra (63.0)	fish (6.2)	89.4	69.2	fishing license fees (76.5)	0.26	17.4	3.6	910	-0.6
	Gambia	groundnuts (54.1)	-	31.1	54.1	travel (68.8)	0.17	8.8	-5.8	340	-0.6
	Sierra Leone	diamonds (50.6)	titanium (5.7)	65.2	56.3	travel (65.9)	0.46	10.6	-14.6	160	-5.7
	Samoa	coconut products (70.3)	kava (6.7)	68.9	77.0	travel (58.5)	0.23	41.0	4.7	1 140	0.7
(ii) Merchandise exports are highly concentrated, and dominant export product is manufactured: exports of services >50% of total exports of goods and services; first service export >50% of total exports of services; first manufactured export >50% of total exports of goods											
	Nepal	basic manufactures (51.6)	misc. manufactures (32.7)	57.2	84.3	business services (68.8)	0.47	26.3	-9.3	220	2.2
(iii) Relatively diversified merchandise exports: exports of services >50% total exports of goods and services; first service export >50% total exports of services; no merchandise export >50% total exports of goods											
	Haiti	clothing (47.6)	handicraft (15.4)	69.4	63.0	travel (87.2)	0.76	8.4	-4.7	380	-4.4
	Mozambique	shrimps (43.3)	cotton (11.7)	70.7	55.0	business services (76.7)	0.89	18.2	-15.6	140	2.6
	Comoros	vanilla (42.5)	ylang-ylang (26.5)	88.6	69.0	travel (61.8)	0.31	15.7	-8.8	400	-3.1
	Vanuatu	copra (43.1)	beef and veal (16.7)	49.9	59.8	travel (55.6)	0.34	43.7	-7.7	1 340	-3.5
B. Relatively diversified service exports											
(i) and highly concentrated merchandise exports: exports of services >50% of total exports of goods and services; no service export >50% of total exports of services; first primary commodity export >50% of total exports of goods											
	Cape Verde	fish products (62.6)	bananas (11.7)	96.9	74.3	air transport (38.5)	0.47	25.4	-7.0	1 090	1.0
ii) and relatively diversified merchandise exports: exports of services >50% total exports of goods and services; no service export >50% total exports of services; no merchandise export >50% total exports of goods											
	Djibouti	live animals (15.5)	food products (12.8)	29.0	28.3	sea transport (4.0)	0.22	13.1	-4.7	-	-

Source: Data drawn from UNCTAD, the World Bank and the International Monetary Fund.

presence of military bases. In Tuvalu, the income generated by the Tuvalu Trust Fund, a capital fund established in 1987 and based on bilateral equity contributions invested in international financial markets, has been sufficient to offset the budget deficit of the country. Philatelic sales are sometimes also regarded as external rental income insofar as they involve products made abroad (with little counterpart value added in the issuing country) but rich in collectors' value worldwide. These sales represent a sizeable proportion of total export earnings in Tuvalu, and predominantly classified as exports of goods as opposed to exports of postal services, because collectors' demands worldwide for Tuvalu's stamps are greater than the demand in Tuvalu for mere postal services.

In Djibouti, the substantial expenditure maintained by the French military base, with its multiplier effect on the local economy, is estimated to generate income worth more than the country's total export receipts. In Cape Verde and Samoa, and to a lesser extent in Kiribati and Tuvalu, remittances from nationals abroad account for a substantial portion of the foreign exchange inflows received by these countries. In some cases, they are equivalent to total export receipts. Finally, in Kiribati, Maldives and Mauritania, fishing licence fees are an important source of foreign exchange.

"Rental" activities have gained such importance in some LDCs that they can be analysed as durable strategic choices.[4] Deriving income from "rental" activities is accepted and encouraged as a legitimate option for countries that have very weak supply capacities, in particular, very small and remote island LDCs. Among these countries, a common explanation for this type of economic orientation is the marketability of relatively unique assets of a geographical or exotic nature, as an easier alternative to the painstaking efforts needed to develop supply capacities requiring a sufficient infrastructure and productive human resources. The benefits derived by Tuvalu from renting its "dot to" Internet domain name (.to) to global television networks and other television-related operations worldwide, is a symbolic example of rental income based, by definition, on a unique feature. It is important to caution, however, that the flows of income from military bases and remittances from nationals working abroad are subject to changes in geopolitical and/or diplomatic situations. Although such sources should be taken full advantage of, it is advisable for LDCs that depend on them to consider supplementing them with more secure alternatives for earning foreign exchange, preferably based on productive activities.

Predominantly merchandise exporters

A close examination of the 36 Type 1 LDCs reveals a specific pattern of export concentration on the basis of products and product types. Twenty (or 53 per cent) of these countries had a highly concentrated merchandise export structure in the period 1995–1997, with one dominant export product accounting for more than half the total value of exports of goods. Of this latter group, 13 were predominantly exporters of agricultural products (cashew nuts, cocoa, coffee, cotton, dried fruits, timber and tobacco) and fish, while six were exporters of mineral products (bauxite and alumina, copper, iron, petroleum and uranium), and only one (Lesotho) had a merchandise export structure dominated by manufactured products, mainly in the form of garments. The remaining 47 per cent of this category of LDCs had a somewhat more diversified merchandise export base, with no single commodity or manufactured export product representing more than half of the total value of earnings from merchandise exports. However, for the most part, diversification in this context can only be relative, for in at least half of this sub-category of LDC, the two leading exports (of goods or goods and services) accounted for up to 80 per cent of total export earnings.

In a number of instances, export concentration was found in both merchandise and service exports in LDCs that predominantly export merchandise. The concentration in international services was particularly high in Uganda and Myanmar, where the international travel sector accounted for about four fifths of the total value of service exports, and in Solomon Islands, where business services represented slightly more than three quarters of the total value of service exports.

Export concentration was quite high among LDCs whose export trade was dominated by minerals and/or oil. Only one of the six LDCs with a highly concentrated mineral/oil export structure, namely Yemen, had a service sector (travel) that ranked as the second largest source of foreign exchange in 1995-1997. However, at 2.7 per cent, the contribution of this sector to total export earnings was insignificant.

Overall, three quarters of LDCs that are predominantly merchandise exporters, suggest a significant degree of export concentration, with their two leading export sectors of goods, or goods and services, accounting for more than half of total foreign exchange earnings. The leading merchandise exports were based mainly on agricultural and mining activities, with the former being more dominant. Manufactured goods and fisheries featured in just a few LDCs.

Three quarters of LDCs that are predominantly merchandise exporters, suggest a significant degree of export concentration, with their two leading export sectors of goods, or goods and services, accounting for more than half of total foreign exchange earnings.

Predominantly service exporters

The export structures of LDCs that derive a greater part of their export earnings from service exports are also concentrated. Seventy-five per cent, or nine, of the predominantly service exporting LDCs (Type 2) had a highly concentrated service export structure in 1995–1997, with a single dominant international service accounting for more than half of the total earnings from exports of services. In six of them (Maldives, the Gambia, Sierra Leone, Comoros, Samoa and Vanuatu), the dominant service sector was travel, consisting mainly of services provided to international tourists and other visitors. In two other countries (Nepal and Mozambique), export concentration was in international business services, while in Kiribati, fishing licence fees accounted for three quarters of the total receipts from the export of services.

Merchandise exports in predominantly service-exporting LDCs also tend to be concentrated. Seven of the nine LDCs with highly concentrated service exports had a highly concentrated merchandise export structure in 1995–1997. Particularly high was the concentration of merchandise exports in Samoa and Kiribati, where coconut products accounted for 70 per cent and 63 per cent, respectively, of the total value of merchandise exports. Only in Cape Verde and Djibouti were the service and merchandise export structures relatively diversified, with transport (air transport in Cape Verde, sea transport in Djibouti) ranking first among the foreign exchange-earning sectors, but accounting for less than 50 per cent of the earnings from service exports.

Considering that in 83 per cent, or 10, of the 12 LDCs exporting predominantly services, the two largest export sectors accounted for between one half and two thirds or more of total export earnings, export concentration was very high in this category of LDCs. In seven of these countries, the second largest export sector was a merchandise (clothing, copra, diamonds, basic manufactures, shrimps, tuna and vanilla). In the remaining three, the second largest, as in the case of the first, was an international service (communications in the Gambia, business services in Samoa and Vanuatu).

Two relevant and important questions that arise, from the point of view of economic development, are: a) to what extent have the export profiles of LDCs changed over time; and b) what are the underlying reasons for the evolution of the export profiles of LDCs? The next section addresses these questions.

Evolution of LDC export trade profiles

The nature of the evolution of LDC export profiles over a 12-year period, is summarized in table 19, which indicates the relative contributions of specific merchandise and service exports to total export earnings in each LDC in 1985 and 1997. The table shows that seven LDCs evolved from being predominantly exporters of merchandise in 1985 to being predominantly exporters of services in 1997. The LDCs that went through this transition include Comoros, Haiti, Kiribati, Mozambique, Nepal, Samoa and Sierra Leone.

Only in the case of Samoa and, to a lesser extent Kiribati, could the transition from mainly merchandise exports to mainly service exports be attributed to efforts at export diversification. Even then, merchandise production in these LDCs, as indicated below, suffered some setbacks that contributed to the transition . In the remaining LDCs, the transition largely reflects considerable declines in the production of export goods rather than any significant increase in service exports. These instances of economic regress had a lot to do with either warfare, a decline in the productive base due to population pressure and environmental degradation, or an inability to compete with more efficient producers due to inadequate investment in agriculture.

In Samoa, output of coconut, the principal agricultural export, declined during the 1990s, partly as a result of falling prices and partly due to the outbreak of the taro leaf blight in 1993. In the meantime, a tourism development programme launched in the 1980s surged ahead and, between 1988 and 1997, the number of tourist arrivals increased by 51 per cent. Business services also increased steadily. Kiribati’s merchandise export base virtually collapsed in 1979 with the cessation of phosphate mining, exacerbated by a lack of progress in agriculture. The raising of the price of fishing licences in 1996 boosted Kiribati’s foreign earnings substantially. Also, as tourism in that country is a fast-rising industry, the balance of exports is tipped in favour of services.

In Mozambique, earnings from service exports began to exceed earnings from merchandise exports in 1992, mainly as a result of a growth in the export of business services, and to a lesser extent, in the international transport sector. Meanwhile, production of cashew nuts and sugar, the principal merchandise exports, fell due to the effects of guerrilla warfare and past economic mismanagement. By the early 1990s, when the civil war ended and new economic policies were getting under way, annual production of cashew nuts in Mozambique had declined by 85 per cent, compared with the early 1970s when Mozambique was the largest producer of cashew nuts in the world. Post-war attempts at rehabilitating the industry have been constrained by both internal and external factors. The internal factors include inadequate physical and social infrastructure, poor crop husbandry, inferior processing technology and an inefficient marketing system. On the international front, there is stiff

Table 19: Leading exports of LDCs, 1985 and 1997
(as percentage of total exports)

Country	1985 Products	1985 Percentage	1997 Products	1997 Percentage
Afghanistan	Natural gas	52.3	Dried fruits and nuts	51.3
	Dried fruits and nuts	15.9	Carpets and rugs	13.1
	Carpets and rugs	4.5	Wool and hides	4.9
	Wool and hides	3.8	Cotton	1.4
	Travel	0.1		
Angola	Petroleum	93.4	Petroleum	70.9
	Diamonds	6.2	Diamonds	2.4
			Business services	1.9
			Transport	1.5
			Insurance	0.4
Bangladesh	Jute manufactures	25.3	Garments	49.6
	Garments	15.9	Jute manufactures	9.1
	Fish and shrimps	10.6	Fish and shrimps	8.8
	Raw jute	10.1	Hides and skins	5.9
	Transport	2.5	Transport	1.6
Benin	Palm oil	16.1	Cotton yarn	36.8
	Cotton	15.3	Transport	14.6
	Transport	10.0	Travel	5.7
	Coffee	9.5	Crude petroleum	2.2
	Machinery and equipment	5.7	Seed cotton	1.7
Burkina Faso	Raw cotton	31.2	Raw cotton	33.5
	Basic manufactured products	20.4	Live animals	15.1
	Live animals	9.3	Gold	9.6
	Karite nuts	5.8	Hides and skins	7.0
	Transport	3.5	Travel	6.6
Burundi	Coffee	75.0	Coffee	72.9
	Tea	6.5	Tea	7.3
	Transport	1.3	Transport	1.7
	Raw cotton	0.6	Raw cotton	1.0
	Hides and skins	0.6	Business services	0.8
Cambodia	..		Sawn timber	23.0
			Logs	16.6
			Travel	12.9
			Transport	9.5
			Rubber	7.8
Cape Verde	Transport	71.1	Air transport	26.8
	Fish products	13.9	Fish products	20.1
	Textile products	5.2	Sea transport	13.4
	Travel	2.9	Travel	11.2
			Bananas	3.7
Central African Republic	Coffee	21.3	Diamonds	40.8
	Diamonds	17.6	Coffee	12.8
	Wood	13.6	Wood products	12.3
	Cotton	9.4	Cotton	10.1
	Transport	4.3	Transport	3.4
Chad	Cotton	59.5	Cotton	42.1
	Travel	7.2	Live cattle	7.9
	Transport	1.5	Travel	6.3
	Livestock and meat	1.2	Business services	5.3
			Live sheep	3.7
Comoros	Vanilla	53	Travel	45.9
	Cloves	15.5	Vanilla	10.9
	Travel	9.0	Transport	8.7
	Ylang-ylang	7.5	Ylang-ylang	6.6
	Transport	2.7	Business services	4.4
Democratic Rep. of the Congo	Copper	34.1	Diamonds	17.2
	Crude petroleum	16.3	Crude petroleum	11.4
	Cobalt	11.1	Coffee	8.8
	Coffee	10.7	Copper	7.9
	Transport	1.4		
Djibouti	..		Sea transport	3.7
			Business services	3.7
			Live animals	3.2
			Air transport	2.5
			Travel	2.5
Equatorial Guinea	Cocoa	61.8	Petroleum	43.3
	Timber	21.1	Wood	40.6
	Coffee	2.5	Cocoa	5.6
Ethiopia	Coffee	38.9	Coffee	37.3
	Air transport	10.0	Air transport	20.0
	Sea transport	8.6	Hides and skins	7.8
	Hides and skins	6.8	Business services	4.9
	Petroleum products	4.8	Communications	2.6

Table 19 (contd.)

Country	1985 Products	1985 Percentage	1997 Products	1997 Percentage
Gambia	Travel	54.9	Travel	64.9
	Transport	17.1	Communications	9.5
	Peanut products	15.9	Groundnuts	8.8
	Fish products	0.6	Transport	7.8
Guinea	Bauxite and alumina	84.2	Bauxite and alumina	50.9
	Transport	0.2	Gold	11.3
	Travel	0.2	Coffee	7.7
			Sea transport	5.3
			Communications	1.3
Guinea-Bissau	Peanuts and cashew nuts	41.6	Cashew nuts	87.5
	Shrimps	14.7	Wood	8.3
	Travel	8.4	Cotton	4.2
	Wood	2.6		
	Transport	1.6		
Haiti	Travel	27.7	Travel	50.1
	Coffee	17.8	Clothing	20.9
	Basic manufactures	16.1	Handicraft	6.8
	Leather products	6.9	Coffee	3.7
	Transport	2.3	Transport	3.1
Kiribati	Copra	33.7	Licence fees and royalties	58.8
	Transport	25.0	Copra	18.1
	Fish products	11.2	Transport	9.0
	Travel	8.7	Travel	4.5
			Fish products	1.8
Lao People's Democratic Rep.	Electricity	48.3	Wood products	29.5
	Transport	7.1	Garments	15.1
			Travel	12.9
			Electricity	6.9
			Coffee	6.0
Lesotho	Diamonds	23.2	Clothing	43.0
	Travel	17.7	Travel	9.4
	Food and live animals	5.7	Furniture	6.1
	Manufactures	4.5	Footwear	5.5
	Mohair	4.5	Business services	5.0
Liberia	Iron ore	59.3	Iron ore	55.1
	Rubber	16.4	Rubber	28.0
	Coffee	5.8	Logs and timber	8.4
	Logs and timber	5.3	Diamonds	2.1
			Gold	1.8
Madagascar	Coffee	29.1	Business services	12.2
	Vanilla	13.1	Coffee	11.5
	Cloves and oil	12.3	Vanilla	10.6
	Transport	11.1	Shrimps	8.4
	Petroleum products	1.8	Travel	8.1
Malawi	Tobacco	38.7	Tobacco	59.5
	Tea	20.4	Tea	6.2
	Sugar	9.4	Sugar	6.2
	Corn	6.2	Transport	3.4
			Travel	1.3
Maldives	Travel	41.0	Travel	68.4
	Transport	24.9	Tuna	8.1
	Tuna	10.8	Canned fish	7.2
	Clothing	9.1	Transport	4.8
	Other fish products	6.7	Clothing	4.5
Mali	Raw cotton and products	30.9	Cotton products	48.5
	Live animals	23.0	Live animals	17.2
	Travel	10.7	Gold	12.9
	Transport	6.7	Travel	4.0
	Fish	0.9	Transport	3.6
Mauritania	Fish	46.9	Fish	53.7
	Iron ore	46.3	Iron ore	40.3
	Transport	2.1	Travel	2.2
	Travel	1.3	Business services	1.2
			Transport	0.4
Mozambique	Transport	27.6	Business services	40.5
	Shrimps	26.1	Shrimps	20.5
	Cashew nuts	11.3	Transport	12.3
	Sugar	5.5	Cotton	5.4
	Petroleum products	2.7	Cashew nuts	2.7
Myanmar	Travel	3.4	Food and live animals	50.7
	Transport	1.7	Crude materials	28.2
			Basic manufactures	4.5

Table 19 (contd.)

Country	1985 Products	1985 Percentage	1997 Products	1997 Percentage
Nepal	Food and live animals	18.3	Business services	46.6
	Travel	14.1	Basic manufactures	27.1
	Basic manufactures	12.0	Travel	11.4
	Machines	10.1	Transport	4.3
	Crude materials	9.0	Food and live animals	2.9
Niger	Uranium	71.9	Uranium	47.3
	Vegetables	6.0	Livestock	12.4
	Transport	5.1	Cow peas	4.7
	Live animals	3.6	Travel	2.2
	Travel	2.1	Business services	1.6
Rwanda	Coffee	64.9	Coffee	45.5
	Transport	10.9	Transport	11.2
	Tin ore	4.8	Travel	11.2
	Travel	4.2	Tea	5.9
	Tea	2.9	Business services	5.3
Samoa	Coconut products	32.7	Travel	47.7
	Travel	25.2	Business services	22.6
	Taro	8.8	Coconut products	11.3
	Transport	8.8	Transport	2.5
	Beverages and tobacco	3.5	Copra	1.9
Sao Tome and Principe	Cocoa	62.2	Cocoa	96.4
	Copra	11.7		
	Travel	7.2		
	Transport	4.2		
	Coffee	1.1		
Sierra Leone	Titanium ore	17.8	Travel	45.3
	Coffee	16.6	Diamonds	16.6
	Diamonds	15.4	Transport	7.7
	Bauxite	14.2	Business services	3.1
	Transport	6.9	Titanium ore	1.9
Solomon Islands	Food products	44.7	Timber products	41.8
	Crude materials	32.3	Business services	22.7
	Animal and vegetable oils	4.2	Fish products	15.0
	Travel	3.1	Palm products	6.7
	Transport	2.5	Copra	3.0
Somalia	Live animals	42.7	Live animals	44.3
	Bananas	5.7	Bananas	6.9
	Hides and skins	0.6		
Sudan	Cotton	23.9	Cotton	17.7
	Gum arabic	8.0	Ovine	13.3
	Travel	7.6	Sesame seeds	12.2
	Sheep and lambs	4.3	Gum arabic	11.0
	Sesame seeds	3.8	Business services	2.6
Togo	Phosphates	37.5	Cotton products	30.5
	Cocoa beans	19.2	Phosphates	24.4
	Transport	6.9	Business services	8.1
	Raw cotton	6.8	Travel	7.5
	Travel	6.8	Coffee	5.6
Uganda	Coffee	86.1	Coffee	53.6
	Transport	1.7	Travel	18.2
			Air transport	1.9
			Cotton	1.8
			Tea	1.6
United Republic of Tanzania	Coffee	29.2	Travel	28.3
	Cotton	9.4	Coffee	12.8
	Transport	8.8	Cotton	10.8
	Cashew nuts	5.7	Cashew nuts	5.8
	Travel	4.6	Transport	4.9
Vanuatu	Travel	38.0	Travel	40.9
	Transport	13.3	Business services	17.3
	Copra	6.8	Transport	10.0
	Cocoa	3.0	Copra	9.1
	Beef	2.0	Beef	3.6
Yemen	Petroleum	15.8	Petroleum	87.4
	Cotton products	3.9	Travel	2.7
	Cereals	3.4	Business services	2.6
	Hides and skins	0.6	Food and live animals	2.3
			Transport	1.4
Zambia	Copper	82.2	Copper	70.6
	Transport	5.5	Cobalt	11.3
	Cobalt	3.9		
	Zinc	1.8		
	Travel	0.9		

Source: Data drawn from UNCTAD, the International Monetary Fund, and national sources (Data not available for Bhutan, Eritrea and Tuvalu).

competition from new producers (e.g. Viet Nam), while others, particularly India and Brazil, have expanded production and raised the standards of quality.

In Sierra Leone too, rebel military action has led to the cessation of production of bauxite and titanium since 1995, and to a substantial decline in the production of diamonds since the early 1990s. The decline in the country's official diamond exports is also partly a result of smuggling, especially by rebels.

In Comoros, Haiti and Nepal, a shortage of cultivable land, largely due to population pressure, has led to fragmentation of plots and cultivation of marginal lands, with deleterious effects on soil fertility and the physical environment in general. In combination with other factors, especially poor methods of cultivation, they have had a negative, and in some cases, a dramatic, impact on farm yields. In Haiti, the yield in cotton declined from an average of 0.54 metric tons per hectare during the period 1986–1989, to 0.25 metric tons per hectare in 1997. Coffee volumes declined from an annual average of 33,250 metric tons in the period 1986–1989 to 27,000 metric tons in 1997. Cocoa output has also been declining. In Nepal, where exports of business and travel services have made some gains, the population explosion has taken its toll on agriculture. Households, on average, now cultivate less than 0.5 ha on the hills, and soil erosion, deforestation and landslides have risen to crisis proportions. It is no wonder, therefore, that the share of agriculture in the total exports of Nepal declined from 60 per cent in 1974/75, to less than 10 per cent in 1995/96. In Comoros, the volume of the major merchandise export, vanilla, declined by 43 per cent in 1997, partly because of the island's inability to compete with synthetic substitutes and low-cost producers in Indonesia. The world market for cloves, also an important product in Comoros, has virtually collapsed. And although the prices for ylang-ylang have been favourable, ageing plantations and inadequate processing equipment have restricted production.

From the foregoing, it is obvious that, for the majority of the seven LDCs, the transition to the status of predominantly service exporting LDCs was largely a function of economic regress. In none of these countries was there a gradual process of structural transformation of the economies from primary commodity producers into manufacturing and finally into service economies. This becomes more apparent when the sectoral distribution of employment is taken into account. In five of the predominantly service-exporting LDCs for which data are available, it is agriculture, not services, which is the main employer of labour. As a proportion of the total workforce, employment in agriculture in 1997, ranged from 64 per cent in Haiti and Sierra Leone, to 93 per cent in Nepal. In fact, among the 12 predominantly service exporting LDCs, only in Cape Verde and Maldives are services the main employers of labour.[5] The service activities for export, therefore, are, to all intents and purposes, economic enclaves where growth is not related to a sectoral redistribution of employment as a result of a rise in the productivity of agriculture. This point is underscored by the structure of employment in Bangladesh where, in 1997, garment and jute manufactures alone accounted for almost 60 per cent of total export earnings, but agriculture, which made a very marginal contribution to export earnings, employed 59 per cent of the workforce. For the most part, agricultural production in LDCs is dominated by small-scale peasants, who produce both subsistence and export crops, employing poor production methods. This is not conducive to improvements in productivity in agriculture and therefore militates against the development of economic specialization. As such, it perpetuates the dualistic structure of LDC economies.

In terms of export diversification, only Bangladesh, Lesotho, Benin and, to a lesser extent, Haiti and Lao People's Democratic Republic, managed to achieve substantial increases in the share of manufactured or processed goods in their total exports between 1985 and 1997. The major export items were garments in the case of Bangladesh, Haiti, Lesotho and Lao People's Democratic Republic, and cotton yarn in the case of Benin. In Uganda, the decrease in the value of merchandise exports compared with the value of service exports took place when the two categories of exports grew simultaneously with service exports growing faster. Tourism, in particular, made remarkable progress (table 19). For LDCs as a group, export concentration seems to have intensified. In 31 LDCs for which data are available, the number of countries in which the two leading export items accounted for more than 50 per cent of total export earnings rose from 21 in 1985 to 25 in the period 1995–1997.

In terms of export diversification, only Bangladesh, Lesotho, Benin and, to a lesser extent, Haiti and Lao People's Democratic Republic, managed to achieve substantial increases in the share of manufactured or processed goods in their total exports between 1985 and 1997.

The above observations clearly show that production of tradeables in LDCs continues to be characterized by generally high export concentration in the context of a low-productivity agricultural sector, a relatively insignificant manufacturing sector, and disarticulated economic structures. The next section draws on output and productivity data on the leading exports of LDCs to shed more light on these observations.

B. Trends in productivity and output for major LDC exports

This section examines the output and productivity trends during the 1980s and 1990s of a selection of LDC exports. Although the selection has been largely dictated by availability of data, care has been taken to ensure that the leading LDC exports are included in the analysis. It therefore covers all the major agricultural commodities (tables 20, 21 and 22), oil and the leading mineral exports (table 25), processed products (table 26) as well as tourism (chart 5). The limitation of the analysis is that adequate production data, apart from the agricultural and oil/mining sectors, have been difficult to obtain and remain to be collected through detailed country-level surveys.

Production of tradeables in LDCs continues to be characterized by generally high export concentration in the context of a low-productivity agricultural sector, a relatively insignificant manufacturing sector, and disarticulated economic structures.

Productivity and output trends for agricultural commodities

Output and yield data for seven major LDC agricultural exports are presented in tables 20 and 21 respectively, and charts 4 (A to G) provide graphic representations of comparative productivity trends in LDCs and other developing countries. Although there are variations between countries, the general trend shows that during the 1980s, only cocoa experienced a steady rise in productivity during most of the decade. Tobacco experienced only a modest improvement. Productivity in respect of coffee, jute, and sugar cane improved only in the first half of the decade and that of tea during the second half. Productivity in cotton stagnated during most of the decade. For the period 1990–1997, only cocoa recorded modest improvements in yield. Productivity in respect of coffee, jute, cotton, tobacco and tea remained stagnant, although tea began to experience considerable gains from late 1996. Yields in sugar cane have actually declined over the decade, although volumes have generally risen.

Table 22 provides a good indication of the performance of individual LDCs in productivity and output, from 1980–1997, in respect of the seven major agricultural commodities, plus rice paddy and maize — the two standard food

TABLE 20: PRODUCTION INDICES FOR MAJOR LDC AGRICULTURAL COMMODITIES, 1980–1997

		Production (in 1000 tons)	Production indices (base year 1980=100)				
		1980	1985	1990	1995	1996	1997
Cocoa							
All LDCs		60	114.9	115.9	91.7	90.1	86.8
of which:	Africa	55	110.4	106.9	78.5	83.9	80.3
	Haiti	3	166.7	166.7	233.3	133.3	133.3
	Pacific	2	150.0	246.2	207.7	169.2	169.2
Coffee							
All LDCs		745	98.9	106.9	107.0	118.4	108.0
of which:	Africa	693	99.3	107.7	108.1	120.2	109.1
	Asia	43	133.3	144.4	211.1	244.4	244.4
	Haiti	9	86.0	86.0	67.4	62.8	62.8
Cotton							
All LDCs		1 281	144.6	147.3	171.7	211.6	222.4
of which:	Africa	1 132	144.5	152.1	172.1	206.2	207.6
	Asia	145	145.9	111.4	171.6	259.8	345.2
	Haiti	4	150.0	75.0	50.0	25.0	25.0
Jute							
All LDCs		1 077	137.6	85.2	73.9	88.3	88.6
of which:	Africa	8	102.4	114.3	107.1	119.1	119.1
	Asia	1 069	137.9	84.9	73.6	88.1	88.4
Maize							
All LDCs		9 903	115.5	135.4	153.2	172.0	157.1
of which:	Africa	7 803	119.1	142.0	165.0	188.0	168.6
	Asia	1 921	101.5	112.5	109.7	112.1	114.6
	Haiti	179	109.5	91.1	106.1	114.0	114.0
Rice							
All LDCs		44 425	108.4	122	129.6	133.5	140.2
of which:	Africa	4 447	106.6	127.7	133.3	141.1	140.8
	Asia	39 844	108.6	121.5	129.4	132.9	140.4
	Haiti	120	107.5	108.3	83.3	80.0	80.0
Sugar cane							
All LDCs		24 850	119.1	118.9	124.2	130.0	133.1
of which:	Africa	13 194	120.7	129.1	137.1	143.3	140.6
	Asia	8 656	131.2	127.3	133.7	140.9	153.9
	Haiti	3 000	176.7	50.0	40.0	40.0	40.0
Tea							
All LDCs		136	107.7	107.7	118.7	116.5	127.6
of which:	Africa	82	104.9	108.5	110.0	108.5	120.7
	Asia	54	112.1	106.5	132.5	128.7	138.1
Tobacco							
All LDCs		220	119.1	115.9	137.2	150.3	152.6
of which:	Africa	106	116.7	139.9	186.8	205.4	211.9
	Asia	114	121.1	93.0	90.4	98.3	96.5

Source: Calculations based on FAO AGROSTAT database.

TABLE 21: YIELD INDICES FOR MAJOR LDC AGRICULTURAL COMMODITIES, 1980–1997

		Yield in tons/ha 1980	Yield indices (base year 1980=100) 1985	1990	1995	1996	1997
Cocoa							
All LDCs		0.35	143.3	175.9	178.6	177.0	175.4
of which:	Africa	0.37	144.4	172.8	184.9	188.2	185.8
	Haiti	0.16	83.3	83.3	83.3	74.1	74.1
	Pacific	0.18	166.4	224.6	203.9	191.8	191.8
Coffee							
All LDCs		0.48	117.7	113.3	108.7	112.9	109.6
of which:	Africa	0.47	126.5	123.1	116.2	120.9	115.1
	Asia	0.52	69.3	57.7	65.8	67.7	79.4
	Haiti	0.51	98.8	98.8	98.8	98.8	98.8
Cotton							
All LDCs		0.78	107.1	110.4	114.0	112.0	112.1
Of which:	Africa	0.77	113.7	106.4	107.7	107.2	108.3
	Asia	0.9	89.4	119.5	131.0	128.9	126.3
	Haiti	0.4	115.4	150.0	125.0	62.5	62.5
Jute							
All LDCs		0.61	114.4	108.2	104.9	108.7	105.9
of which:	Africa	0.41	105.9	101.9	104.2	105.5	105.5
	Asia	0.91	120.4	118.7	110.6	116.8	111.4
Maize							
All LDCs		0.96	111.6	124.7	123.5	123.8	120.3
of which:	Africa	0.88	116.3	129.1	132.6	129.9	124.3
	Asia	1.2	102.3	118.7	104.5	113.3	114.4
	Haiti	0.86	89.4	88.8	89.6	88.7	88.7
Rice							
All LDCs		1.6	112.1	110	103.3	109.2	107.8
of which:	Africa	1.41	116.7	121.6	110.6	118.3	116
	Asia	1.95	109.1	111	113.8	117.3	117.7
	Haiti	2.4	97.7	87.4	83.3	83.3	83.3
Sugarcane							
All LDCs		43.13	101.1	109.2	96.8	98.2	94.9
of which:	Africa	47.97	97.4	105.9	92.5	93.2	89.0
	Asia	26.33	121.8	127.8	118.8	125.7	129.4
	Haiti	37.5	95.8	95.2	106.7	106.7	106.7
Tea							
All LDCs		0.6	113.1	137.7	108.3	127.0	132.6
of which:	Africa	0.76	124.2	107.9	98.8	98.9	105.8
	Asia	0.29	93.3	198.3	127.6	184.0	187.0
Tobacco							
All LDCs		0.67	118.1	112.6	118.9	121.6	119.0
of which:	Africa	0.66	120.5	111.8	116.9	115.3	116.2
	Asia	0.72	115.4	117.4	129.3	145.1	131.5

Source: Calculations based on FAO AGROSTAT database.

Table 22: Output and productivity in LDC's agriculture by country and crop, 1980–1997

Product	Countries with increasing output and increasing productivity	Countries with increasing output and decreasing or stagnant productivity	Countries with increasing productivity and decreasing or stagnant output	Countries with decreasing or stagnant productivity and decreasing or stagnant output
Cocoa	Dem. Rep. of the Congo, Guinea, Madagascar, United Rep. of Tanzania, Uganda, Vanuatu	Haiti, Solomon Islands	Sierra Leone	Equatorial Guinea, Liberia, Sao Tome and Principe, Samoa, Togo
Coffee	Ethiopia, Guinea, Malawi, Sierra Leone, Togo, Uganda, Zambia	Lao People's Dem.Rep. Myanmar, Yemen	Central African Rep.	Angola, Benin, Burundi, Dem. Rep. of the Congo, Equatorial Guinea, Haiti, Liberia, Madagascar, Mozambique, Rwanda, United Rep. of Tanzania
Jute	Ethiopia, Madagascar, Mozambique	Mali	Bangladesh, Cambodia, Nepal	Angola, Cambodia, Myanmar
Seed cotton	Afghanistan, Angola, Bangladesh, Benin, Chad, Gambia, Guinea, Lao People's Democratic Republic, Malawi, Mozambique, Myanmar, Somalia, United Rep. of Tanzania, Togo, Uganda	Burkina Faso, Mali	Central African Rep., Dem. Rep. of the Congo, Sudan, Yemen	Burundi, Cambodia, Ethiopia Guinea-Bissau, Haiti, Madagascar, Niger
Sugar cane	Benin, Burkina Faso, Burundi, Cambodia, Cape Verde, Chad, Dem. Rep. of the Congo, Guinea, Lao PDR, Madagascar, Mali, Nepal, Sudan, United Rep. of Tanzania, Uganda	Bangladesh, Liberia, Malawi, Myanmar, Niger, Zambia	Angola, Haiti	Afghanistan, Ethiopia, Mozambique, Rwanda, Sierra Leone, Somalia
Tea	Bangladesh, Burundi, Ethiopia, Lao People's Democratic Rep., Nepal, Rwanda, Uganda	Malawi, Myanmar, United Rep. of Tanzania		Dem.Rep. of the Congo, Mozambique
Tobacco	Angola, Cambodia, Ethiopia, Malawi, United Rep. of Tanzania, Uganda,	Congo, Lao People's Dem. Rep. Madagascar, Rwanda, Zambia	Bangladesh, Myanmar, Nepal	Burkina Faso, Burundi, Central African Republic, Guinea, Haiti, Mozambique, Niger, Sierra Leone, Togo
Rice paddy	Angola, Benin, Burkina Faso, Burundi, Chad, Comoros, Guinea, Guinea Bissau, Madagascar, Malawi, Mali, Niger, United Rep. of Tanzania, Togo, Uganda, Zambia	Dem. Rep. of the Congo, Mauritania, Mozambique	Central African Republic	Afghanistan, Bhutan, Gambia, Haiti, Liberia, Rwanda, Sierra Leone, Somalia, Sudan
Maize	Benin, Burkina Faso, Burundi, Central African Republic, Chad, Eritrea, Ethiopia, Guinea Bissau, Lesotho, Mali, Mauritania, Mozambique, Sao Tome, Sudan, United Rep. of Tanzania, Togo, Uganda, Bangladesh, Lao People's Dem. Rep., Nepal	Angola, Cape Verde, Dem. Rep. of the Congo, Gambia, Madagascar, Malawi, Zambia, Haiti,Yemen	Comoros, Niger, Rwanda, Cambodia	Afghanistan, Bhutan, Guinea, Myanmar, Sierra Leone, Somalia, Vanuatu

Source: Based on FAO AGROSTAT database.

staples in most LDCs. Of the seven export crops, only cotton, sugar cane and tea showed rising trends in both yield and output in more than 50 per cent of the producing LDCs. The poorest performance was in tobacco, where rising trends in both yield and output were achieved in only 29 per cent of the tobacco-growing LDCs. A considerable proportion of countries experienced declines in both productivity and output over the period for all the crops, except tea. The worst performance was in coffee, where 50 per cent of the producing countries experienced declines in both productivity and output for reasons that will be explored below.

Performance in the production of rice and maize is somewhat different from the general trend in commodities, though the data suggest that food production in LDCs is subject to similar constraints as those pertaining to the production of export commodities. In the case of the two food products, more than half of the producing countries recorded rising trends in both productivity and output. Almost invariably, the countries that recorded declining trends in both yield and output, are either those plagued by internal conflict and war or small States with a poor agricultural base. Since producers of export and food crops in most LDCs are smallholder cultivators, the data in table 22 suggest that the latter tend to divert their productive resources from unprofitable commodities — in response to frequent downward price fluctuations — to the production of food crops, both for their own subsistence and for the lucrative expanding urban markets.

A closer look at the relationship between output and productivity trends in respect of a number of commodities on the one hand, and between these trends and price trends on the other, reveals a number of characteristics pertaining to LDC agriculture. A comparative analysis of productivity trends between Asian and African LDCs also reveals a specific pattern.

Trends in the production of cotton, sugar cane and tobacco, especially during the 1990s, are generally characterized by falling productivity and rising output. This disparity between yield and output suggests extensive, rather than intensive, methods of cultivation of these commodities, usually in the form of allocation of additional land and labour time to their production. Expansion of acreage in the LDC context usually occurs as a result of a decline in soil fertility on occupied land because of poor farming methods, and it usually means moving into marginal lands. The long-term effect of this process is a progressive environmental degradation and consequent declines in yield.

Where expansion of acreage is rendered impossible by land scarcity, declines will occur in both yield and output, unless there are improvements in farming methods. Haiti provides a dramatic illustration of this phenomenon. Cotton yield in Haiti dropped drastically in 1991, and by 1997, it was only 62 per cent of the 1980 yield. And, while volumes in other LDCs tended to rise, Haiti's cotton output dropped dramatically after 1986, so that by 1997, it was only 25 per cent of what it had been in 1980. The case of Haiti's declining soil fertility due to erosion, poor farming methods and population pressure is well documented (Chamberlain, 1999).

Over the 1980–1997 period as a whole, Asian LDCs achieved higher productivity levels than African LDCs in respect of all crops (including rice and maize) except coffee and cocoa, the latter of which is not reflected in production data on Asian LDCs. The explanation seems to lie in the general diffusion and employment in Asia of "green revolution" technologies, including the use of high yield varieties and irrigation. Such technologies have yet to be generally adopted in African LDCs.

TABLE 23: PRODUCTIVITY GAP, AVERAGE FOR 1980–1997

	Yield in (tons/ha)			Productivity gap (%)	
	LDCs (a)	Other developing countries (b)	Average for three most advanced producers (c)	(b)-(a)/(a)	(c)-(a)/(a)
Cocoa	0.61	0.46	0.93	-25	52
Coffee	0.60	0.66	1.48	10	147
Cotton	0.91	1.45	2.90	59	219
Jute	0.83	1.36	2.15	64	159
Maize	1.11	1.92	5.96	73	437
Tea	1.00	1.39	2.49	39	149
Tobacco	0.88	1.31	2.64	49	200
Rice	1.72	3.24	6.11	88	255
Sugar	49.09	58.41	106.37	19	117

Source: Calculations based on FAO AGROSTAT database.

The magnitude of the problem of low factor productivity in LDC agriculture is better appreciated if viewed from a comparative perspective. Table 23 shows how productivity in LDCs in respect of the seven commodities, as well as rice and maize, (column 2) compares with productivity in other developing countries (column 3), and in three countries with the highest yield levels among the developing countries (column 4). The productivity gap[6] in respect of every crop is shown in columns 5 and 6 of the table, and is based on average yield for the period 1980–1997. Charts 4(A–I) show a graphic representation of the productivity gap between LDCs and other developing countries.

Cocoa was the only product in which LDCs recorded higher productivity than other developing countries, with a productivity gap of nearly 25 per cent. As for the other crops, LDC productivity was invariably lower, with the productivity gap ranging from 10 per cent for coffee to 88 per cent for rice. When average yield levels for LDCs are compared with those of three developing countries with the highest yield for each crop, the productivity gap becomes much wider, ranging from 52 per cent in respect of cocoa to 437 per cent in the case of maize. Since all producing countries compete in the same markets, these figures indicate a serious competitive disadvantage on the part of LDCs, especially vis-à-vis the most advanced producers of these commodities. This disadvantage is aggravated by the critical transportation bottlenecks in LDCs, which constitute a major setback in the speed with which products can be delivered to the markets (see part two, chapter 3).

Price data suggest that the general stagnation in yields for most LDC agricultural exports during the 1990s is, in large measure, attributable to the low commodity prices, the levels of which, except for tobacco, remained (in nominal terms) below those of 1980 (Table 24). The pricing policies of many LDC Governments — which tend to lower farm-gate prices — as well as the inefficiencies of crop marketing authorities, have tended to intensify the negative effects of low international commodity prices.[7] Low commodity prices not only constitute a disincentive for producers to expand output or invest in better production methods, but also reduce levels of resources at the disposal of producers to invest in superior technology and other inputs. However, statistics on volume in respect of cotton, tobacco, sugar cane, and to some extent coffee, suggest a price inelasticity of supply. Two factors may have contributed to such a supply response. First, factor mobility is limited, in the case of coffee, because of

TABLE 24: PRICE INDICES FOR MAJOR AGRICULTURAL COMMODITIES IN LDCS, 1980–1997
(base year 1980=100)

Product	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Cocoa	79.8	67.0	81.5	92.0	86.5	79.5	76.8	61.3	47.8	48.8	46.0	42.0	43.0	53.8	55.0	56.0	62.0
Coffee	89.3	69.0	68.5	71.8	72.5	110.5	51.0	58.5	47.3	39.5	35.0	27.3	31.8	68.8	70.0	57.5	79.8
Cotton	89.8	77.5	89.8	86.5	64.0	51.0	79.8	67.5	81.0	88.0	82.0	61.8	62.0	85.0	106.0	86.0	84.8
Jute	97.0	90.3	95.0	178.0	181.5	72.0	94.8	98.8	109.8	131.0	110.0	89.0	86.5	94.3	117.0	145.0	96.0
Sugar cane	59.0	29.5	29.5	18.3	14.3	21.0	23.5	35.8	44.8	43.5	31.3	31.8	35.0	41.8	46.5	41.5	39.8
Tea	90.5	86.8	104.5	155.3	88.8	86.5	76.8	79.3	90.3	91.5	83.3	90.0	85.5	81.5	73.5	79.8	100.0
Tobacco	112.8	128.0	130.8	130.3	130.0	115.0	110.3	112.0	120.0	123.0	130.0	130.0	128.0	132.0	131.0	129.0	129.0

Source: Calculations based on FAO AGROSTAT database.

TABLE 25: OUTPUT INDICES FOR OIL AND SELECT MINERALS IN LDCS, 1986–1997

Product	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Crude oil	100.0	125.9	214.3	221.1	227.6	236.7	241.2	249.0	295.7	334.6	357.3	385.5
Copper	100.0	105.3	98.5	98.7	92.8	74.3	61.2	51.2	44.9	40.2	39.8	39.3
Diamonds	..	..	..	..	100.0	92.3	73.3	79.8	69.4	79.8	88.6	70.4
Gold	..	100.0	132.3	132.3	1 170.9	1 083.8	1 038.0	1 166.0	1 551.1	1 607.2	1 554.5	1 551.2

Sources: US Energy Management Service, Web site; IHS Energy (formerly Petroconsultants), US Minerals Management Service, Financial Times International Yearbooks.

the perennial nature of the crop and, in the case of sugar cane, because of fixed investment in processing technology on plantations. Second, in keeping with Chayonov's theory of the peasant economy, small-holder cultivators in the case of cotton, tobacco and coffee,[8] generally operating on the margins of subsistence, have tended to continue, or even increase, production when prices have fallen, in order to try and maintain their income levels.

Apart from price incentives, the generally stagnant or falling agricultural productivity in LDCs during the 1990s is also a function of a lack of requisite investments in rural transport infrastructure, technical support services (including research and the marketing of inputs and outputs), as well as inadequate provision of credit, environmental management and extension services to farmers (Cornia et al, 1992:193–209). In those LDCs for which data are available, falling yield in export crops has been shown to be a major cause of their increasing unprofitability to farmers. As discussed above, the latter have tended to respond by shifting resources into the production of more profitable food crops, for which domestic markets are expanding as a result of rapid urbanization.[9] While it makes economic sense for individual farmers to shift resources away from less profitable export crops into more profitable staples, for LDCs that are not net food-importers, this might be counter-productive if sufficient export income is not generated elsewhere to sustain basic imports to keep the economy working. It cannot be over-emphasized that sustainable transformation of LDC agriculture, which employs the majority of the working population, has to be based on improvements in total factor productivity.

As agriculture is the leading sector in most LDCs, improved productivity in this sector should enable it to generate adequate surpluses for investment in industrial and other sectors.

Given the fact that agriculture is the leading sector in most LDCs, low productivity in this sector means that it cannot play its traditional role of generating adequate surpluses for investment in industrial and other sectors.

CHART 4(A TO I): PRODUCTIVITY TRENDS: LDCS AND OTHER DEVELOPING COUNTRIES

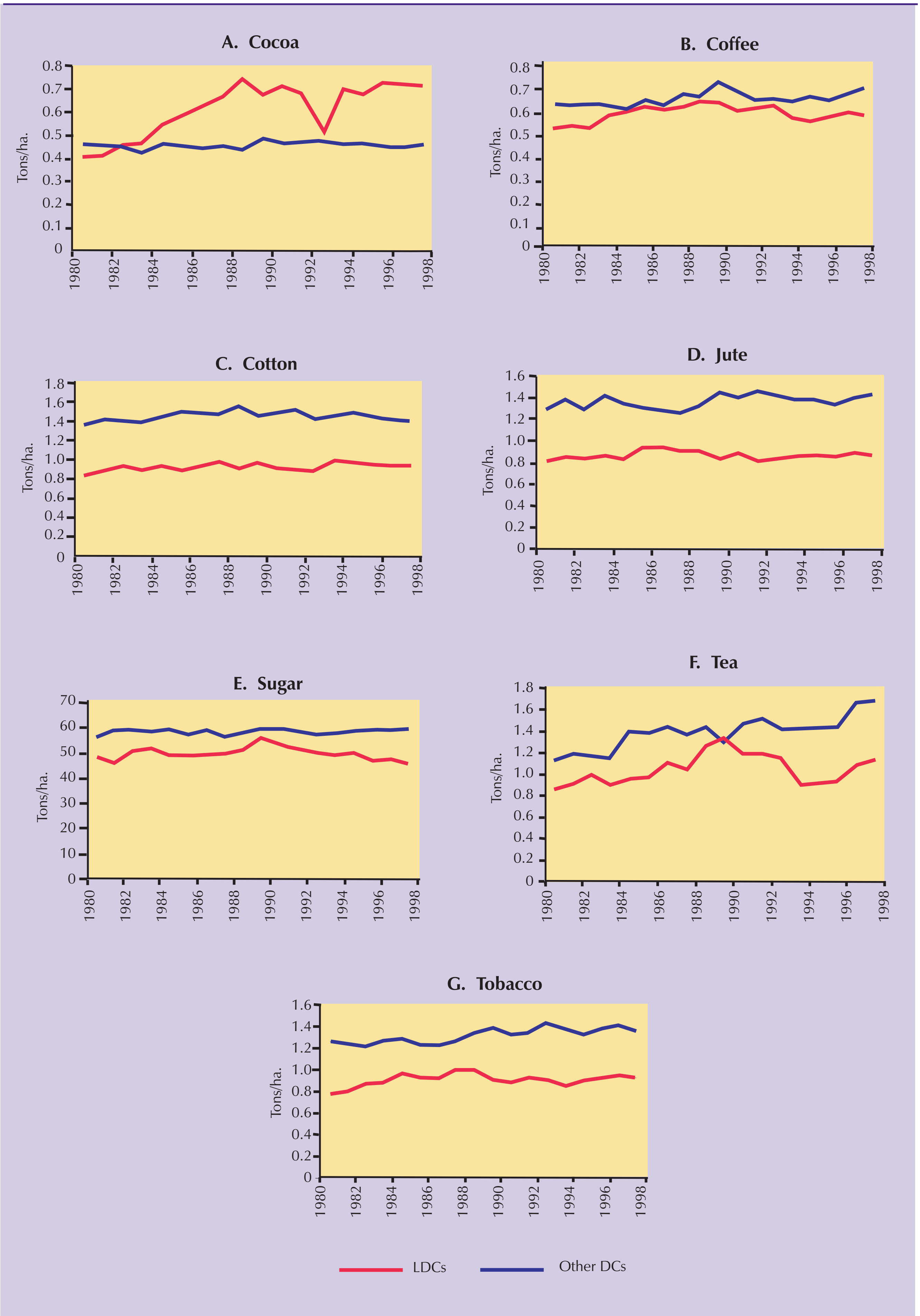
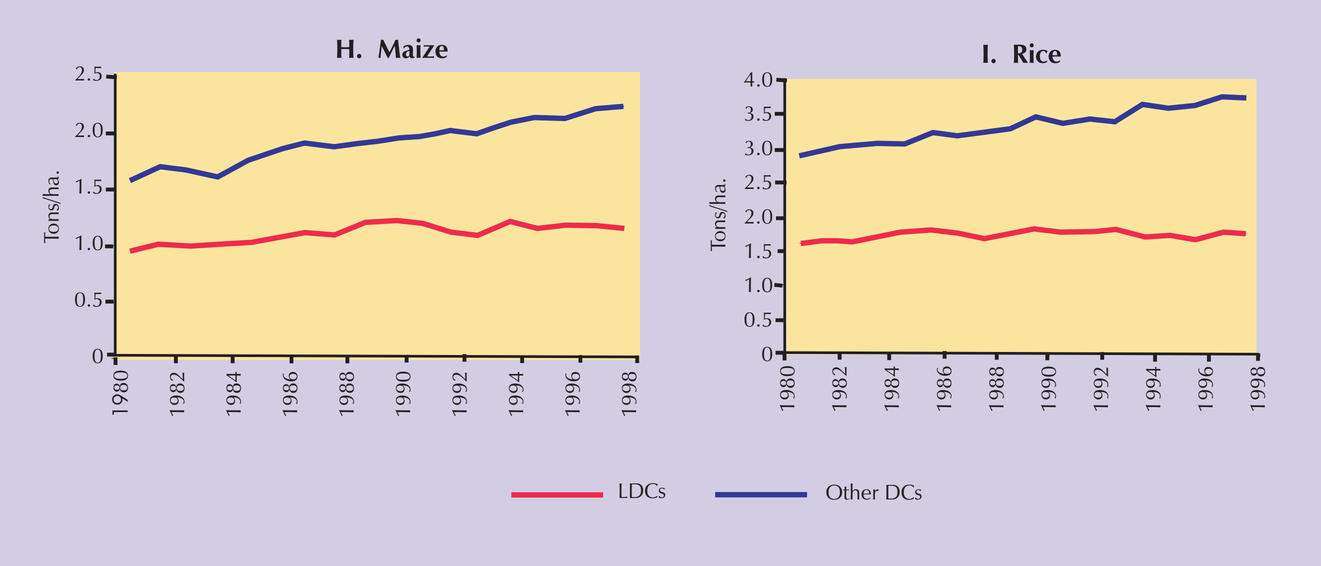


Chart 4 (contd.)



Source: FAO, AGROSTAT database.

This is necessary for diversification of exports, creation of employment and for the transformation of the economies from the status of primary producers.

Output trends in the LDC oil and mining sectors

Information on productivity trends in the oil and mining sectors, which play a significant role in the export economies of 25 LDCs, is not available. However, output trends are available for the period 1986–1997 and, for all their limitations, they might serve as a reasonable, albeit somewhat crude, proxy for productivity trends in these sectors.

The overall trend in the production of crude oil and associated products in five African and two Asian LDCs showed a steady rise throughout the period 1986–1998 (table 25). The total volume produced in 1998 was three times the output of 1986. Due to a more than tenfold increase in production in Yemen in 1988, output rose dramatically, rising twofold for the whole group in that year. Before the steep rise in production in Yemen in 1988, more than 90 per cent of the LDC oil output was produced in Angola. Subsequently, Angola's share ranged between 60 and 68 per cent. Oil output in Angola seems to have been little affected by the country's civil war, which has been raging for more than 20 years, because most of the operations are offshore. Since 1996, there has been a notable increase in output in Equatorial Guinea where oil production began only in 1991, and the field of a major investor, Mobil, came on-stream as late as 1995. As discussed in part one, chapter 2, the oil sector has absorbed a substantial share of the FDI to African LDCs. The only country showing a declining trend in output is Benin, where production dropped by half in 1995, and has never recovered despite efforts to revive the industry.[10] Because Benin's only field is regarded as marginal, investors have tended to shy away from it. Production actually ceased in 1998 because, at 1,200 barrels a day, the undertaking was no longer regarded as viable. It is only towards the end of 1999, that a new company, specializing in "marginal oil fields", signed a contract to resume production.[11]

With the exception of gold, the annual output of which increased about fifteenfold between 1986 and 1997, output of other major minerals for which data are available, was marked by declining trends during the same period (table 25). Between 1987 and 1997, the general production trend for gold in 19 African LDCs, indicated a slight rise in 1988–1989, stagnation between 1990 and 1993, followed by a 33 per cent rise in 1994, after which the volumes have been maintained at more or less constant levels. A country-level analysis of volume trends is difficult because of a large element of cross-border smuggling in response to differential pricing.

Copper is produced in one Asian and three African LDCs but the main producers are Zambia and the Democratic Republic of the Congo. These two countries produced 95–99 per cent of the group's total output between 1986 and 1991; Mozambique began to make a modest contribution to the group's output in 1991. Output was somewhat static between 1986 and 1989, but thereafter, volumes declined progressively for the rest of the period, i.e. up to 1997, the decline being rapid from 1991. It was dramatic in the Democratic Republic of the Congo where production in 1997 was down to only 13 per cent of the 1991 output, while in Zambia it was down to 80 per cent. It is clear that in the Democratic Republic of the Congo, civil strife and political instability have not only deterred investment in the industry but have actually interfered with the utilization of installed capacity in the production of copper. In the case of Zambia, the decline in copper output is largely a function of the volatility of copper prices and its impact on production bottlenecks within the Zambian economy, as well as to problems encountered with recapitalization of the rundown nationalized copper industry (see box 14, part two, chapter 3).

Data on LDCs that have ventured into new areas of production, as a deliberate move to diversify exports and take advantage of emerging opportunities in the global economy, suggest that there has been tangible growth in output as well as export earnings.

Output data for diamonds in six African LDCs is available for the period between 1990 and 1997. Production in this period was characterized by fluctuation, but the volumes attained in 1990 and 1991 were never equalled in the subsequent period. Output was at its lowest in 1994 and 1997 (table 25). As in the case of gold, output data for diamonds are unreliable as indicators of production at country-level because of smuggling. This applies, for example, to diamonds produced in Angola in the areas controlled by the rebel movement, UNITA.

During the 1990s, the declines in the production of minerals for which data are available, reflect, in large measure, inadequate investments in the LDC mining sector due to a combination of factors including: the impact of present and past policies on investors' perception of business prospects; conditions relating to security and political stability; and the volatility of mineral prices. However, as we have seen in part one, chapter 2, because of positive changes in the investment climate, investors have recently shown increasing interest in the LDC mining sector, and mineral output is likely to rise from the end of the gestation period of recent investments.

Opportunities for raising output and diversifying exports

The limited data available on LDCs that have ventured into new areas of production, as a deliberate move to diversify exports and take advantage of emerging opportunities in the global economy, suggest that there has been tangible growth in output as well as export earnings. Such LDCs have usually sought to take advantage of their endowments of unique natural resources, the economic exploitation of which could boost non-traditional exports, or they have taken positive measures to promote an export industry with good market prospects and a potential to raise the manufacturing value-added content of exports. Promotion of investment in such activities is a crucial component of the development strategy along these lines. The readymade garments industry in Bangladesh, and fish processing and horticulture in East Africa, provide good examples in this regard.

The garments industry in Bangladesh

Twenty years ago, Bangladesh had barely 20 production units for readymade garments contributing an insignificant share to the country's export earnings. Today, the readymade garments sector consists of over 3,000 production units, accounting for 73 per cent of the country's total foreign exchange earnings, and employing about 1.5 million workers. During the period 1989/1990 to 1997/1998, the foreign exchange earnings of all merchandise exports grew at an annual average rate of 16.9 per cent, while those attributable to readymade garments grew at a phenomenal annual average rate of 26.6 per cent.

The Government of Bangladesh has pursued a series of policy measures to promote the development of the readymade garments industry and take advantage of its allotted quotas in the markets of the United States, the European Union and Canada.

The Government of Bangladesh has pursued a series of policy measures to promote the development of the readymade garments industry and take advantage of its allotted quotas in the niche markets of the United States, the European Union and Canada. The relevant policies include: investment promotion initiatives; establishment of special export processing zones, with all the necessary infrastructure and labour laws that favour employers; tax incentives and credit guarantee facilities for producing firms; low- or zero-rate duties on imports of capital and intermediate goods; establishment of mechanisms to deal with barriers to external markets; and liberalization of the industry's foreign exchange transactions, including profit repatriation (see box 5).

The success story of the Bangladesh garments industry, however, has a few downsides, which need to be addressed. These include: high administrative costs of the export promotion scheme, a retrograde labour policy that denies workers in the export processing zones the right to collective bargaining, and inadequate backward economic linkages with the rest of the economy. Although Bangladesh has a sizeable textile industry, its readymade garments industry imports 90 per cent of its textile inputs because products from the domestic textile industry are not competitive. Perhaps a major paradox in the success of the Bangladeshi garments industry is that its high contribution to the country's export income has all the makings of export concentration. In this regard, the industry, and indeed the Bangladeshi economy as a whole, could be rendered extremely vulnerable by the eventual phasing out of the Multi-Fibre Arrangement (MFA) when Bangladesh's garments will face full-fledged competition in the global market (UNCTAD, 1998:7, box 4). Despite these flaws, the industry has enabled Bangladesh to make a major breakthrough in terms of vastly increasing the manufacturing value-added content of its exports.

Perhaps a major paradox in the success of the Bangladeshi garments industry is that its high contribution to the country's export income has all the makings of export concentration.

Fish processing and horticulture in East Africa

The setting up of fish factories on the shores of Lake Victoria to process the Nile perch for export markets in the developed countries started in the early 1990s in Uganda, the United Republic of Tanzania and Kenya (a non-LDC). In these countries, there are currently 31 fish processing plants with a processing capacity of 379,600 metric tons a year. As shown in table 26, in Uganda, the industry expanded from three factories in 1990, which together exported 1,590 metric tons, worth $1.4 million, to 11 factories in 1998, which together

Box 5: Developing the export-oriented garments industry in Bangladesh

The 1980s and 1990s have witnessed a dramatic growth in the readymade garments (RMG) industry in Bangladesh, which has become the foremost source of export revenue. The rapid growth of the industry is a direct consequence of Bangladesh's shift in policy emphasis in the 1980s, to encourage greater export orientation and increased participation of the private sector in the economy. Data indicating the growth of the industry from 1989/90 to 1997/98 are shown in the table below:

Box table: Growth of readymade garments exports and total export in Bangladesh, 1989/90–1997/98
($ millions)

Financial year*	Total merchandise exports *($ millions)*	RMG exports *($ millions)*	Growth rate of total exports *(%)*	Growth rate of RMG exports *(%)*	RMG exports as a percentage of total exports *(%)*	Ratio of total merchandise exports to imports *(%)*
1989/90	1 523.30	609.00	18.0	29.3	40.0	40.2
1990/91	1 717.55	866.82	12.7	42.3	50.5	48.9
1991/92	1 993.92	1 182.57	16.1	36.4	59.7	56.5
1992/93	2 382.89	1 445.02	19.5	22.2	60.6	58.5
1993/94	2 533.90	1 555.79	6.3	7.7	61.4	60.5
1994/95	3 472.56	2 228.35	37.0	43.2	64.2	59.5
1995/96	3 882.42	2 547.13	11.8	14.3	65.6	56.4
1996/97	4 418.28	3 001.25	13.8	17.8	67.9	61.8
1997/98	5 172.00	3 783.60	17.0	26.1	73.1	68.7

* The financial year is from July to June.

Apart from government policy measures, the export-oriented garments industry also benefited from other factors including:

(a) A locational shift of investments in the industry from Hong Kong (China), Sri Lanka and the Republic of Korea;

(b) The MFA quotas allotted to Bangladesh, which assured it guaranteed access to the markets of the countries that maintained the quotas; and

(c) The relatively low wage-levels in Bangladesh which ensure the industry's competitiveness in the world market.

Under the Government's leadership, at least five categories of measures have been, or are being pursued to promote an export-oriented garments industry. These include:

1. General export promotion measures

- Extending free-trade status to exporters as far as practicable through (i) bonded warehouse facilities for duty-free imports of inputs; (ii) extending the Duty Drawback System[1] to at least 500 product areas in the medium-term, and eventually, to all eligible export product areas; and (iii) a zero-duty rate on imports of capital goods for 100 per cent export-oriented units.
- Facilitating availability of export financing through (i) an improved bank-client relationship within the banking system, (ii) an export credit guarantee scheme, (iii) the establishment of two financing windows — an Export Development Fund (EDF), which provides bridge financing for import of raw materials and machinery; and an Export Promotion Fund (EPF), which extends financial support to exporters for product development and market promotion.
- Establishing a mechanism to identify tariff and non-tariff barriers set up by importing countries against Bangladesh exports and raising the issue bilaterally or before international forums for dismantling or pruning these barriers.
- Promoting investment in the export sector.

2. Improved service delivery

- Improving the functional efficiency of the Ministry of Commerce, the Export Promotion Bureau (EPB) and other related organizations, to make them more effective in promoting exports and channelling investments into export-oriented industries.
- Establishing Export Processing Zones (EPZs) in areas equipped with all the necessary infrastructural facilities. Producers in EPZs import raw materials, supplies and capital goods free of duty, retain foreign currency earnings, operate in a labour market free of unions, and are exempt from income tax for 10 years after starting operations.
- Granting of autonomy to the EPB so as to make it more promotion-oriented and more effective in responding to the changing needs of an evolving market.
- Promoting greater private sector representation on the Boards of the EPB and other relevant organizations.

Box 5 (contd.)

- Encouraging the private sector to: (a) establish subsector or commodity-specific trade associations, as well as a national apex body, to act as conduits for disseminating information; and (b) form working groups for identifying specific export related problems for the attention of the Export Promotion Council and other forums of the Government.
- Assigning to the Bangladesh missions abroad a much greater responsibility and role in promoting exports from Bangladesh to the accredited countries and, to this end, further strengthening the Missions' commercial units.

3. Infrastructural support

- According most favoured treatment for the supply of utilities to the export-oriented industries.
- Allocating adequate resources to establish modern warehouses, cargo handling facilities, inland container terminals, etc.

4. Targeted export development programme

Under a specific and targeted export development programme, individual export firms or entrepreneurs engaged in export activities are provided technical and financial assistance in such areas as:

- Product design or redesign
- Product engineering and development
- Market research
- Advertising and sales promotion campaigns
- Overseas investment in marketing activities
- Participation in trade fairs and contacts with foreign buyers.

5. Liberalization of the foreign exchange regime

- Import licences are not required for most goods ordered by exporters;
- Merchandise exporters may retain up to 40 per cent of the realized FOB value of their exports in foreign currency accounts to meeting bona fide business accounts;
- Foreign firms are free to repatriate post-tax profits;
- Companies and their employees (where this applies) can, without prior Central Bank approval, effect payments in foreign exchange in respect of technical fees, training and consultancy fees, evaluation fees, membership fees for professional organizations, and salaries and savings by expatriate staff.

[1] The Duty Drawback System applies to enterprises outside the EPZs. Under the scheme, duties and taxes on imports for export production are paid first and then reclaimed by the entrepreneur.

Table 26: Trends in fish exports in Uganda and United Republic of Tanzania, 1990–1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Uganda									
No. of operational factories	3	6	7	9	9	12	13	9	11
Established processing capacity (tons/day)	90	190	200	270	270	350	370	295	350
Export (tons)	1 590	4 751	7 831	6 037	6 564	12 971	16 396	9 839	13 755
Value ($ millions)	1.4	5.3	6.5	8.8	14.8	25.9	39.8	28.8	46.9
United Republic of Tanzania									
No. of operational factories	2	3	5	7	7	7	8	9	9
Export (tons)	-	-	-	-	8 454	12 520	20 201	23 000	38 487
Value ($ millions)	-	-	-	-	8.6	13.0	52.1	54.6	70.9

Sources: Government of United Republic of Tanzania, Fisheries Department, Ministry of National Resources and Tourism;Government of Uganda, Office of the President, Economic Monitoring; Field surveys, United Republic of Tanzania and Uganda, 1999.

exported 13,755 metric tons, worth $46.9 million. In the United Republic of Tanzania, production units grew from two in 1990 to 11 in 1998, and exports increased from 8, 454 metric tons, worth $8.6 million in 1994, to 38,487 tons, worth $70.9 million in 1998 (table 26).

The rapid growth of the East African fisheries industry around Lake Victoria is the result of deliberate efforts to attract foreign and local investments. In a number of cases, foreign investors have entered into joint ventures with local investors. In Uganda, three factories are locally owned, seven are owned by foreign investors, and one is jointly owned by local and foreign investors. In the United Republic of Tanzania, local investors own three establishments, foreign investors own four, and the remaining four are jointly owned by local and foreign investors. This pattern of investment indicates, therefore, that foreign direct investment can play a catalytic role in encouraging local entrepreneurs to invest in the domestic economy.

Data from neighbouring Kenya, a low-income developing country, gives a clear idea of the growth potential of horticulture in some African LDCs (box 6). The data show how, within a short period of time, the Kenyan horticultural industry has become the fourth largest foreign exchange earner. It is instructive to note that smallholder farmers account for 70 per cent of the marketed horticultural products in Kenya. Therefore, production of tradeable horticultural products in African and other LDCs, is an activity with considerable potential to boost not only export earnings, but also rural employment, when requisite production and marketing services and infrastructure are in place.

By any standard, the figures relating to exports of Lake Victoria Nile perch represent a phenomenal development. However, the fisheries industry has suffered setbacks due to recurrent import bans in the EU markets, imposed on grounds of sanitary and phytosanitary rules.

By any standard, the figures relating to exports of Lake Victoria Nile perch and Kenya's horticultural products represent a phenomenal development of both industries. However, as discussed in part two, chapter 3, the fish industry has suffered setbacks due to recurrent import bans in the EU markets, imposed on grounds of sanitary and phytosanitary rules. The EU, which is the largest market, absorbing about 60 per cent of the product, has imposed three bans since 1996. Based on the experience of both the garments industry in Bangladesh and the fish-processing industry in Uganda and the United Republic of Tanzania, the obverse side of developing productive capacity in LDCs is, or should be, taking appropriate measures to achieve stable market access.

As seen in the previous section, the value-based export data indicate that more than half the LDCs that depended predominantly on exporting services for earning foreign exchange in 1997, had derived a greater part of their export income from merchandise exports 12 years earlier. The data presented in this chapter suggest that declines in the production of some commodities and slow growth or stagnation of output in respect of many others, combined with declines in commodity prices during the period in question to bring about such a situation. Needless to say, these factors are inextricably intertwined as cause and effect. Available data further suggest that whereas tourism, the most important LDC service export, grew more than threefold in the period 1980–1997 (chart 5), the major agricultural commodities — the hub of the LDC merchandise trade – grew, on average, by slightly less than a third during the same period. Available data on the LDCs' mining and manufacturing sectors suggest limited growth, except in the case of some establishments producing for niche markets.

It is evident, therefore, that in designing policies and measures to improve productive capacity and competitiveness in LDCs, there is a need to pay special attention to problems that underlie the poor productive capacities of their goods

Box 6: Export diversification: the horticultural industry in Kenya

In addition to making significant contributions to food needs and employment, the Kenyan horticultural industry has grown in the last decade to become the fourth largest foreign exchange earner, surpassed only by tea, tourism and coffee, in that order. In 1998, it contributed 12.3 per cent to total export earnings. Export and price data over the last five years (1994–1998) are shown in the accompanying table. Noticeable is the rapid 84 per cent rise in production between 1994 and 1996, followed by a dramatic decline in 1997 to 16 points above the base year, most probably due to a delayed response to falling prices in the previous year.

Box table: Kenyan horticulture industry: export and price data, 1994-1998

	1994	*1995*	*1996*	*1997*	*1998*
Production (thousand metric tons)	165.5	228.6	304.5	192.6	232.2
Export index	100.0	138.0	184.0	116.0	140.0
Price (dollars/metric ton)	900.0	904.0	784.0	1 215.0	1 065.0
Price index	100.0	100.4	87.7	135.0	118.3
Share in exports (per cent)	9.7	10.9	11.5	11.5	12.3

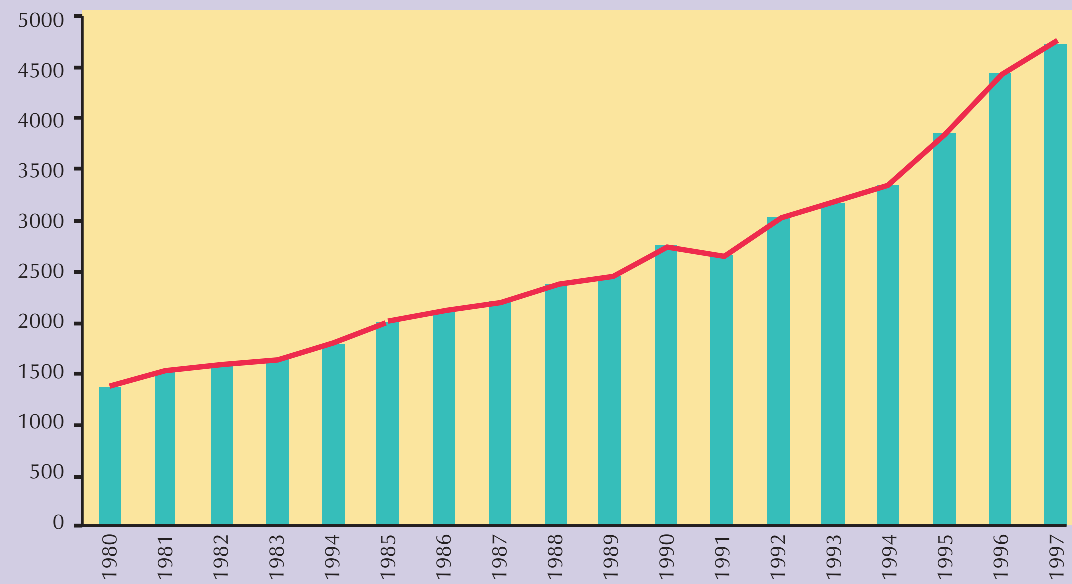
Source: Economic Survey (Kenya), various issues.

The Kenyan horticultural sector is mainly private-sector driven with the Government and its agencies playing only a facilitating role. Smallholder farmers account for 70 per cent of marketed output, while large estates account for the balance (30 per cent). As smallholders dominate this sector, exporters are also numerous. Efficient rural collection and marketing systems involving the private sector as well as local authorities have been established and the produce is exported through the Jomo Kenyatta International Airport.

The major horticultural exports are fruits, vegetables and flowers. A small portion which is processed is undertaken by 16 processing companies based mainly in Nairobi and Nakuru. The European Union is the main market followed by the Middle East. Since 1996, exports to South Africa have been increasing. Measures taken to promote export development in horticulture include: encouraging foreign investment in the sector, facilitating availability of credit to growers, training of farmers, exemption of duty on packaging materials to improve the competitive edge of the products, and ensuring appropriate use of pesticides to protect the environment and to meet the established sanitary and phytosanitary standards, especially of the EU market.

Among the problems confronting the Kenyan horticultural industry are post-harvest losses due to inadequate rural transport infrastructure and facilities, as well as stiff competition in the EU market, which absorbs 92 per cent of Kenya's produce. Reduction of freight costs and the introduction of new varieties, in keeping with market trends, are some of the ways Kenya can compete against exporters from different African countries, the Mediterranean region, Latin America and Thailand.

Chart 5: Tourist Arrivals in LDCs, 1980–1997
(in thousands)



Source: World Bank, *World Development Indicators, 1999* (CD-ROM).

sectors, especially agriculture. Also, given their demonstrated potential, service exports could help raise incomes and enhance opportunities for diversification of LDC exports, provided that these countries are able to identify areas in which they have, or are likely to develop, a comparative advantage. Opportunities also exist in respect of niche products.

C. Conclusion

Although LDCs constituted about 13 per cent of the world's population in 1997, their share in world imports was only 0.6 per cent, and in world exports, a minuscule 0.4 per cent. These shares represent a decline of more than 40 per cent since 1980 and testify to the increasing marginalization of LDCs. The analysis in this chapter has identified two interrelated problems concerning the export trade of LDCs. First, LDC exports tend to be highly concentrated — most countries largely depend, for their export earnings, on a single product, or a very narrow range of low-value products, mostly agricultural commodities or minerals. This situation militates against the development of intersectoral linkages within LDC economies, renders these economies quite vulnerable to external shocks associated with world market conditions for the products in question, and diminishes opportunities for them to raise their incomes to significant levels. Second, most productive sectors, especially in the merchandise trade, are characterized by low productivity. The huge productivity gap between LDCs and other producers seriously undermines the competitiveness of the former. In the case of agricultural commodities for which figures are available, LDCs seem to have had a remarkably poor productivity record during the 1990s, compared with the 1980s. This was due to low commodity prices as well as to a host of supply-side constraints, some of which have been highlighted in this chapter.[12]

In order to overcome the threat of perpetual marginalization in the global economy, LDCs need a two-pronged approach to their problems relating to productive capacity and competitiveness. First, LDCs must assess their productive potential as well as their comparative advantages, on the basis of which they should be able to determine which of their existing activities need to be retained and improved, and to identify new export products in order to expand the productive base, diversify exports and establish a more secure and stable source of export income. Second, in collaboration with their international development partners, LDCs need to work out policies and strategies to address the numerous supply-side constraints that impede the enhancement of productivity in the different sectors and undermine their competitiveness in the global market. Such policies and strategies constitute the subject matter of chapter 3 below.

Efforts at export diversification by LDCs need to proceed both vertically and horizontally. Vertical diversification will involve processing at least part of their mineral and agricultural products in order to raise their pre-export value. In this respect, LDCs would do well to emulate a number of developing countries that have successfully raised the value of their exports by embarking on materials and food processing.

Horizontal diversification will involve taking up new productive activities and exploring new markets for such activities. LDCs should seek to invest in improving productivity in both traditional and new export activities, which is discussed in chapter 3 below, and in developing exports for both global and niche markets. In targeting global as well as niche markets, LDCs need to exploit and even enhance their comparative advantages. Further issues regarding the interplay between global and niche trade relations in respect of LDCs are discussed in the next chapter.

Notes

1. It is important to note that, among the 59 developing countries (other than LDCs) that were predominantly merchandise exporters during the 1995–1997 period, 22 had an export structure dominated by manufactured products (such products accounted for more than 50 per cent of the total value of merchandise exports in 20 of these 22 countries), 19 countries were predominantly exporters of agricultural products (with these products accounting for more than 50 per cent of exports in 17 countries), and 18 countries were primarily mineral exporters (with fuels or metals accounting for more than 50 per cent of the export receipts in 13 countries).
2. The four LDCs that were recommended in 1997 by the Committee for Development Planning for graduation from the list of LDCs on the basis of the criteria adopted in 1991 for the definition of LDCs (per capita income, quality of life, economic diversification), are all Type 2 countries (predominantly service exporters) and small island States, with specialization in international tourism: Cape Verde, Maldives, Samoa, Vanuatu.
3. External rental income can be considered as part of what Kakazu (1994:61) refers to as "rent-seeking" activities — those based on "economic and non-economic resources and advantages, such as political ties, strategic location, international security, and goodwill", and infers that rent-seeking can be conducive to economic growth as "an alternative strategy making use of foreign economic resources".
4. An overview of the economics of "rental" income in small island developing States is provided by Bernard Poirine (1995: 156–222), who analysed the merits of various explanatory models, in particular, the "MIRAB" model (Migrations, Remittances, Aid, Bureaucracy) of Geoffrey Bertram.
5. See UNCTAD (1999). Statistical Synopsis of the Least Developed Countries: United Nations publication (UNCTAD/LDC/Misc.42), New York and Geneva.
6. Defined as the difference in average yield between LDCs and the other categories, and expressed as a percentage of average yield in LDCs.
7. Although agricultural marketing reforms have been instituted in many LDCs to deal with such problems, some of the old marketing structures have yet to be dismantled.
8. Unlike the situation in Latin America where coffee is grown on plantations, most LDC coffee is produced by smallholder cultivators.
9. This point is implicit in the study by Boratav (1998) of the relative terms of trade for food and export crops.
10. Successive efforts to help boost the industry are documented in Hodgkinson (1999).
11. This information is available in a recent publication, Africa Oil and Gas Bulletin (1999) I (10): p.11, October 1999.
12. Further constraints are discussed in part two, chapter 3.

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Globalization and options for developing niche exports in LDCs

Chapter 2

Introduction

In the context of trade liberalization and globalization, new trading opportunities are expected to arise for the benefit of all countries. Yet many poor countries face difficulties in identifying such opportunities and taking advantage of them. The risk of increased marginalization from the global economy is generally high for LDCs, because they often have weak supply capacities and a limited ability to utilize new economic opportunities and enhance their export potential. Indeed, the most serious economic consequences of the structural handicaps suffered by LDCs in general are the difficulties these countries face in achieving economic progress through viable specialization, or diversification, in response to new trading opportunities. The few LDCs that have enjoyed relatively stable growth as a result of successful specialization are a number of small States with prosperous tourism activities, and some larger countries that have developed manufacturing supply capacities and have become fairly competitive in niche markets.

Efforts to enhance a country's export potential imply a choice of options that range between two theoretically distinct types of activities: (a) those of a globally competitive nature, involving a competitive advantage in the producing country and the attraction of foreign economic actors involved in the global economy; and (b) activities based on goods or services with a degree of uniqueness, generally involving a trade relationship between the producing country and a small number of outside partners. The latter type of activity may face a degree of competition abroad, but not in a context of wide competition in foreign markets. In this sense, such activities represent a non-global economic relationship. This approach to export production is commonly referred to as the niche market approach, which is mainly characterized by little exposure to international competition by virtue of the relatively unique nature of the product.

In general, few LDCs have been able to sustain prosperity by focusing on globally competitive activities. Moreover, some globally induced activities in merchandise trade, notably in mining and other forms of industrial processing, have had undesirable environmental effects. Meanwhile, niche export opportunities have often been difficult to identify, and when they materialize, they often have a limited impact on domestic employment and foreign exchange earnings. Following from this, questions arise as to which of the two approaches is more desirable for LDCs, and whether sound economic development can involve both avenues concurrently.

This chapter seeks to answer these questions by examining the nature of the interplay between global and niche trade relations. Evidence from the experience of the 48 LDCs as well as the only former LDC (Botswana), suggests that: (a) there are merits to each approach, and the two are not incompatible: they can, in fact, reinforce each other from the perspective of sustainable economic development; and (b) the respective merits closely relate to the size, development level and patterns of production of tradeable goods and services in the countries concerned.

A. Export production exposed to global competition

Many of the development problems in LDCs are explained by structural characteristics that affect the patterns of production of tradeable goods and services in these countries. Some of the constraints can be overcome with policies that seek to strengthen a country's capacity to cope with the external economic environment and, in some respects, take advantage of it. In the context of globalization, such policies should take account of the country's competitive advantage, which is the basis for success in exporting goods and services that face global competition.

Two questions arise with regard to export production by LDCs in the context of globalization: why should these countries engage in export activities that are exposed to global competition, and what are the main conditions for the successful pursuit of such activities?

Evidence from LDCs suggests that export activities for global markets and those for niche markets complement each other.

Global activities relate to the export of goods or services that face wide ("global") international competition, either by entering several national or regional markets, or by meeting competition from many sellers in a given market. Often the desire to focus on globally competitive export activities emanates from the perception of comparative advantage. However, sometimes a country's perception of a special competitive advantage may be illusory if there is no enabling environment to stimulate investment, including the ability to attract foreign partners. In developing countries that have in the past encouraged industrial development through the free-zone schemes, the "global" perception was already present among decision-makers: incentives to attract foreign investors with a view to competing in global markets were regarded as an avenue to viable diversification.

A primary condition for the successful pursuit of export activities facing global competition is either an endowment in natural assets or resources, and/or appropriate human capital (either at low cost, or sufficiently skilled) that will constitute a comparative advantage on a regional or international scale. For this advantage to justify investment and production and be competitive, additional conditions should be met. In particular, socio-political stability should prevail; the physical infrastructure, particularly for international transport, should be conducive to trade efficiency; the trade-related investment regime should be attractive to foreign investors; and the economy should have a base of effective domestic services. These issues are discussed further in the next chapter.

The two factors that would in theory be regarded as the sine qua non for attracting investors, – labour cost competitiveness and investment incentives – can be effective only in combination with the other factors. Labour costs remain an important factor of profitability for investors in labour-intensive manufacturing activities, but are less critically important for international services, which require higher proportions of skilled personnel. Investment incentives, which include not only tax holidays and related privileges but also facilitated authorization and company formation procedures, remain vital to LDCs, as they are to other developing countries. Yet the universality of these incentives among countries competing for investment has diminished their relative significance. If an LDC in a given region offers the same incentives as its neighbours, such incentives may no longer be perceived as determinants of a competitive advantage. Other factors (particularly trade efficiency factors) assume greater importance if the country is seeking a competitive edge to attract foreign investors.

B. Specialization of LDCs in niche activities

In the case of some landlock or smal countries, where comparative advantages are few and economies of scale difficult to attain in production, marketing or transport, competitiveness at the global level may be difficult, and the economies may face the danger of remaining perpetually marginalized. Such LDCs nonetheless retain chances of success through alternative development options that better match their disadvantages and are commonly referred to as pertaining to the niche market approach to export production.

The notion of "niche", in ordinary language, implies a position or a situation for which one is particularly suited. In international trade, the concept connotes a trading relation that involves the export of goods or services with a degree of uniqueness and a more or less exclusive market abroad. Niche trade therefore involves generally narrow trading opportunities in which limited or no competition constitutes a natural form of market protection. Although any country could take advantage of niche opportunities, the concept bears special significance for small or vulnerable nations that have limited competitive trading opportunities as a result of their intrinsic handicaps. A niche trading opportunity generally involves a small number of economic actors along the trading chain. These actors will often, but not always, be small: exclusive or narrow trade links can also be promoted by large enterprises, in particular, on the basis of side products derived from, or associated with, a more global activity.

The concept of niche trade can involve a variety of situations, and its definition is not rigidly confined to the notion of product uniqueness. Table 1 offers a framework of export production scenarios based on product and market types and highlighting the circumstances that may surround the existence or the formation of a niche relation. It envisages: (a) products (goods or services) that are of a global nature, i.e., pertaining to an international demand that more or less disregards the origin of the products and is met by a fairly homogeneous supply from many producing countries; and (b) products that are LDC-specific. The latter notion does not designate goods or services that can be produced in LDCs only, but rather refers to products with a degree of LDC-uniqueness (e.g., specific raw materials, a specific natural environment, or a specific culture), or in which LDCs have a special competitive advantage, even if other countries have a comparable advantage. Such products may have relatively unique ecological or exotic features, and will be completely unique only in rare cases. The table also distinguishes "global" markets from "exclusive" markets, thereby establishing a range of market sizes, from wide competition to specific client targets.

Cell I of table 27 represents the scenario of "pure" niche trade, involving an LDC-specific product and an exclusive market segment. This case is the most remote from the context of globalization. It involves a small number of economic actors, which will often (but not necessarily) be small or medium-sized enterprises (SMEs). Typically, a bilateral partnership between one producer or a few producers in an LDC and a foreign importer who controls a "captive"

TABLE 27: EXPORT PRODUCTION SCENARIOS ACCORDING TO PRODUCT AND MARKET TYPES

Product/market types	"Global" market	Exclusive market
"Global products"	**IV** "Globally competitive" trade relation (opposite from pure niche)	**III** Fragile niche trade relation (risk of rapid evolution toward IV)
LDC-specific products	**II** Widening (or "globalizing") niche trade relation (desirable evolution, subject to continued competitiveness)	**I** Pure niche trade relation

market will illustrate this scenario (e.g., aquarium fish from Cape Verde for a local market in Italy).

Cell II encapsulates a desirable scenario that can be a source of economic prosperity: that of an LDC-specific product facing a global market. This scenario may result either from a successful evolution, with a broadening of the export market, from an initial niche relation, or from a context of achieved competitiveness in a wider market also targeted by other countries. In this broadened ("globalized") niche market, export opportunities increase for the producing country. An important question will then be about the capacity of the country to meet the increased demand steadily and competitively. This scenario is typical of the context of tourism development in some LDCs. For example, in Maldives and Cape Verde, marine sports such as diving and sports fishing have developed from an early stage in which niche services were known by few tour operators and travellers into a relatively advanced stage of globally competitive tourism, in which these countries have become meccas of marine sports.

In cell III, the product is not LDC-specific, although the market segment is more or less exclusive. This may resemble a niche scenario at the market end, but the niche relation is likely to be fragile if larger countries are among the competitors and enjoy a greater comparative advantage. In the context of trade liberalization and globalization, this fragility may be compounded by preference erosion. Products such as garments in Bangladesh fall into this category: preferential treatment once helped the exporters, but competition has intensified under reduced preferences, and the erstwhile protection from which the LDC products benefited as a result of a niche market may be fading away rapidly.

Finally, cell IV represents the global product-market nexus, in which non-LDC-specific products meet a potentially wide demand. This scenario is in theory the opposite of the pure niche scenario depicted in cell I, and the nearest to the essence of globalization. Typically, it will involve a foreign investor who has identified an LDC as a competitive site, fitting into its global production and marketing strategy. Some LDCs offer a fairly good environment to accommodate globally competitive commodity production or manufacturing activities. This scenario is also valid for traditional tourism, a sector in which some LDCs (e.g. Uganda) have developed a competitive advantage, including over non-LDCs.

The sustainability of all these scenarios of production for external markets is likely to attract foreign direct investors and/or foreign trading partners who are likely to control the market. Often, the marketing and distribution functions vis-à-vis the niche market would not be efficiently carried out by an LDC producer, considering the impediments and transaction costs that this producer's enterprise would face. The success of a niche market venture will therefore depend on the ability of the foreign partner to enable the LDC-based producer to benefit from the former's know-how, and probably to transfer this knowledge and related technology to the LDC. Particularly important to the success of the operation will be the importer's intimate knowledge of the "captive" market, in which the goods or services can be efficiently promoted and distributed.

The interest of LDC entrepreneurs or their foreign partners in the niche market approach is naturally explained by the relevance of many LDC-specific goods or services to the definition of niche activities. Of special interest are the trading opportunities for nature-based ("green") products or environment-based services (e.g., in Madagascar), to which natural features such as an unspoiled nature or environmental beauty are generally conducive. "Bungalow tourism" in Vanuatu provides a good example of an environment-based service (box 7).

Of special interest are the trading opportunities in niche markets for nature-based ("green") products or environment-based services which depend on natural features such as unspoiled nature or environmental beauty.

An identified group of niche products of relevance to African LDCs is referred to as "Afrocentric merchandise". "Afrocentric" products include garments, home accessories, sculpture and other works of African art that are in great demand among African-American consumers in the United States. It has been argued that the development of this niche market is a function of a rising cultural awareness of authentic African products among African- Americans. The income levels of this population group has risen considerably in the last 40 years, during which the proportion of African-Americans living in poverty has declined from 62.5 per cent to 31 per cent (Biggs et al, 1994:13-20). Similar products with historico-cultural value are also found in Haiti, which benefits from its proximity to the American market.

Not all LDC economies can be clearly recognized in the above framework, with scenarios distributed between niche trade and global competition. It is therefore important to understand the interrelations and complementarities that necessarily arise among the different theoretical definitions.

C. Global markets vs. niche markets: a range of options for LDCs

Few LDCs provide pure examples of export activities in either a globally competitive or a niche market form. Most of these countries have developed mixed trade patterns involving features that pertain to several theoretical scenarios. While situations in which pure niche activities account for a sizeable part of the economy are rare among LDCs, mixed or evolving situations such as those covered by cells II (globalizing niche trade) and III (fragile niche trade) in table 27 are relatively common. Three types of evolution can be highlighted in this regard.

Few LDCs provide pure examples of export activities in either a globally competitive or a niche market form. Most of these countries have developed mixed trade patterns involving features that pertain to several theoretical scenarios.

From pure niche trade to globalizing niche trade

Patterns of export production may evolve from a pure niche scenario (I) to a scenario of exportation to a wider market if the product eventually meets a more global demand (II). Such evolution will normally imply an expansion of trading opportunities for LDC exporters, but competition from third countries will naturally arise, and LDC exporters will need to maintain or enhance their competitiveness, including vis-à-vis other developing countries. This

Box 7: Niche services in Vanuatu: bungalow tourism and offshore finance

The economy of Vanuatu, while based on subsistence agriculture for a large proportion of the population, is dominated by service exports, whose value was twice that of merchandise exports in 1997. In that year, international tourism, exported business services and international transport services represented 41 per cent, 17 per cent and 10 per cent, respectively, of the country's total foreign exchange earnings, while copra and beef, the two main merchandise export products, accounted for only 13 per cent of total exports of goods and services. Two niche sectors have thus emerged as important segments of Vanuatu's economy and have very different implications for the populations involved.

Bungalow tourism: "our stars are coconuts"

International tourism, though employing a small proportion of the labour force (less than 5 per cent), is the dominant sector of the formal economy, accounting for an estimated 32 per cent of the gross domestic product. With 52,000 tourist arrivals in 1998 (a performance equivalent to only 14 per cent of that observed in Fiji, the main regional competitor), Vanuatu's tourism has been experiencing steady growth (from 44,000 in 1993) through the development of its supply capacity under a dual model of specialization. This comprises: (a) the continued expansion of a hotel infrastructure consisting of 11 resorts which measure up to international standards, and 80 per cent of which are concentrated in the area of Port Vila, the capital, and (b) the emergence of a local form of tourism service, based on bungalow accommodation, which caters to a promising niche market originating in developed countries.

"Bungalow tourism", which involves economical accommodation in some 12 island groups of the country, is a sphere of tourism services based on locally owned properties that are basic by modern international standards ("our stars are just coconuts"), but sufficient to facilitate ecotourism and related forms of "alternative" tourism for visitors who are interested in discovering the exceptional cultural and physical features of the country. Island bungalow accommodation is conducive to the discovery of village life, with cultural features such as ceremonial kava drinking or traditional dances. It also opens avenues to such remote and unique sites as active volcanoes, rivers and cascades, and cultural traditions such as dancing, wood carving, land diving (the unique Nagol jump of Pentecost Island), cliff jumping or dugong fishing. The bungalow operators are organized in a Vanuatu Island Bungalows Association, which promotes its members' properties and services.

The income multiplier effect of the bungalow tourist expenditure is significant at the local community level, because once visitors have been transported to the sites, a large part of the goods and services that make up these activities are produced within the prevailing subsistence economy, which benefits from the injection of extra cash income. Bungalow tourism involves a new entrepreneurial class on the peripheral islands as well as on the main islands of the country, thereby contributing to more equitable income generation and regional development. Though on a modest scale, this activity, which attracts a narrow but steadily growing tourist market, effectively complements the indigenous open economy, traditionally based on exports of copra and a few other products that are insufficient to guarantee economic prosperity. It is expected that this niche market-related activity will continue to grow, as a demonstration or emulation effect among relevant entrepreneurs is already deemed to have taken place on the islands.

Offshore services: an islet of prosperity in a dual economy

In contrast to the bungalow tourism model, which principally involves an indigenous population, Vanuatu's offshore services industry is almost entirely operated by expatriates, and as such, is at the heart of the urban segment of Vanuatu's dual economy. It is estimated that the sector accounts for more than 10 per cent of the gross domestic product while employing only 0.25 per cent of the population. Like most offshore jurisdictions, Vanuatu offers offshore legal domiciliation for international business companies and other legal or financial entities, under competitive modalities comparable with those of well-established offshore jurisdictions in the Caribbean, the Indian Ocean and the Pacific (the only sizeable competitor in the latter region is the Cook Islands). Vanuatu's International Companies Act of 1993 is seen as competitive offshore legislation by international standards, as it offers same-day company formation, minimal filing requirements, protection for shareholders, and competitive registration fees. Since 1998, offshore banks have been under tight scrutiny by Vanuatu's supervision authorities, who ensure that prudential standards are maintained in order to prevent money laundering.

It is expected that Vanuatu's offshore financial centre will develop rapidly, on the basis of new offshore legislation, in a business environment that is geared towards encouraging foreign private investment. Vanuatu is the only LDC that has achieved this stage of advancement in a modern service sector in which some of the main players are island States and territories with relatively high standards of living. The demand for Vanuatu offshore services emerged slowly, nearly three decades ago, from a niche market in Europe and the Pacific. It is now broadening into a more global trade relationship in which Vanuatu seeks to be able to respond to a widening international demand, in a global business environment facilitated by modern information and communications technology. The most significant economic benefits that Vanuatu finds in the development of its offshore services industry are: (a) the generation of government revenue derived from the registration fees paid by offshore clients, and (b) the employment of a few hundred ni-Vanuatu in non-managerial positions in the relevant private sector (registered agents of international clients).

In this context, Vanuatu can enhance its supply capacity and widen the socio-economic benefits derived by its population from the globalizing offshore industry, as long as it (a) maintains its relevant legislation on a competitive edge, (b) secures state-of-the-art (and economically competitive) telecommunications infrastructure, and (c) achieves the development of an indigenous class of professionals (lawyers, accountants, managers, etc.) who will be able to increase the local labour input to the growing supply of this service industry.

phenomenon of transformation of a niche situation into a wider (more global) trade context can result simply from the emergence of competitors in response to the increasing demand.

Such conditions can enhance the chances of success of niche market activities, as the latter would not last without drawing on competitive experience. There could be circumstances whereby a viable niche trade relation involving a narrow export market evolved, through a widening of this market, into a context of inter-country competition, particularly at regional levels. This widening of the trade relation could encourage an expansion of the production base in the pioneer LDC, and emulation elsewhere, particularly in neighbouring countries. The initial niche relationship, in this scenario, could be taken over by more and even larger producers and traders.

Although few examples of this type of evolution have been observed among LDCs, opportunities can be foreseen in the area of organic products in the context of "green consumerism" (e.g., bananas, coffee) and in tourism. For example, such a process is already under way in respect of international business services in Vanuatu and of "Afrocentric" merchandise from several African LDCs. Offshore business services in Vanuatu have evolved from a niche market in Europe and the Pacific three decades ago into a more global trade relationship reflecting a growing international demand (box 7). The market for Afrocentric merchandise is no longer confined to the African-American population. An increasing number of African LDCs and non-LDCs are exporting products to a growing market in the West where African art and crafts are becoming popular due to the new multicultural consciousness of mainstream populations. The growing emphasis on home decoration and the quest for clean technology in the West have also added to the demand for these products (Biggs et al, 1994:20).

Patterns of export production may evolve from a pure niche scenario to a scenario of exportation to a wider market if the product eventually meets a more global demand.

Among activities of niche trade in LDCs, one finds specialized forms of tourism involving water sports, or ecotourism activities offered by service suppliers that have neither the capacity nor the desire to accommodate a large foreign demand and instead concentrate their promotional efforts on small market segments. Nepal started deriving benefits from a type of niche tourism involving an international, "anti-establishment" (hippie) youth, and now attracts a wider, more global tourist market that seeks environmental beauty. The Nepalese tourism product is still relatively unique, but its market has widened from that of a pure niche. In this sense, Nepal has evolved from scenario I to scenario II, to become a "globalizing" tourist destination.[1]

Sometimes, the context in which these tendencies in export production have developed, and the way in which the activities are carried out, relate to a global demand. Indeed, a possible scenario is that of a niche sector that would have developed as a result of micro-initiatives that originally arose in the margins of successful, globally competitive activities. This scenario will be categorized as either a move from II (globalizing niche) to a mix of II and I (pure niche), or a move from IV (global competition) to a mix of IV and I.

From globally competitive trade to globalized niche trade

An LDC that has been more or less successful in exporting to a global market may enhance its trading opportunities by developing more local products for the same market or a segment of this market. This will be a desirable situation if the long-term competitiveness of the initial set of products cannot be guaranteed.

The country could enhance its trade potential by coming up with a product or set of products that bear specific features while retaining the marketing potential which has been developed in the previous trade relation. By giving a country-specific dimension to a product that should otherwise be normally competitive by global standards, or by developing a more unique form of product on the basis of a special local feature, an LDC may enhance its competitive capacity. This approach can provide a model for enhancing the competitiveness of a clothing industry that would be faced with the problem of adjusting to the global liberalization of the textiles and clothing sector and the consequent erosion of trade preferences. Such an industry, as in Bangladesh or Nepal, could increase or preserve its viability by creating a greater degree of product uniqueness (or "un-globalizing" the product), thereby reducing the international competition vis-à-vis the product in question. In the tourism sector, more locally specific forms of specialization (such as yacht chartering in archipelagic waters or sports fishing) could be successful and at the same time protect the country from the full force of global competition, as experienced by Maldives in the field of water sports. These evolutions involve moves towards the niche scenario: a globalized niche product (II) develops from a wider context of global competition (IV).

From globally competitive trade to pure niche trade

A variant of the previous evolution (from IV to II) is the move from globally competitive trade (IV) to pure niche trade (I). The development of a pure niche position may involve products that derive from those originally existing in IV, if the niche trade context has been facilitated by success in a globally competitive trade relation. In this case, naturally, the pure niche trade relation (I) may develop in addition to, and not in lieu of, the globally competitive trade scenario (IV). Indeed, even though niche trade relations are apparently on the periphery of the global economy, they nevertheless cannot be dissociated from the context of globalization: niches pertain to global trade.

Combinations of scenarios within table 27 are not only theoretically possible, they are common among LDCs. Many narrow trade relations closely relate to global trade situations, and pure niche relations based on a high degree of product uniqueness and/or market exclusiveness are very exceptional. Empirical analysis of the patterns of export production in LDCs could indicate which mixed scenarios of niche and global trade relations have been successful, and which are the most desirable for improving or maintaining the competitiveness of an export sector.

D. Conclusions

It is clear from the foregoing discussion that the interplay between global and niche trade relations is complex singly or in combination, each representing a range of potential economic opportunities for LDCs. The nature of the mix between global and niche trade relations will depend on the configuration of competitive advantages in any given LDC, and on the extent to which the country in question will exploit such advantages.

Although niche trade relations could be especially valuable to small and vulnerable countries for which economic development or survival may lie only in marketing relatively unique assets, other LDCs stand to benefit from such relations as well. Apart from the immediate opportunities they offer, niche markets can also serve as entry points that will enable LDC producers and exporters to learn new production skills and develop marketing expertise and other capabilities that they could deploy to develop new exports, or improve on old exports, for more mainstream, or global, markets. Niche trade, in this case, would enable LDC producers or exporters to build up a competitive capacity and be able to graduate from the niche to the global market, or successfully to combine both features. It is also possible that the learning effects of, as well as the foreign exchange earned from, low-technology niche activities (for example, tourism or exports of "green" natural-resource-based products) could be used to develop high-technology niche products, such as software or Internet-related services. Measures required for LDCs to achieve adequate competitive strength in both global and niche markets comprise the subject of the next chapter.

Note

1. The downside of Nepalese tourism is its adverse impact on the environment, especially the problem of waste disposal.

Reference

Biggs T, Moody GR, van Leeuwen JH and White ED (1994). Africa can compete! Export opportunities and challenges for garments and home products in the U.S. market. World Bank Discussion Papers, Africa Technical Department Series, No. 242, Washington, D.C.

Productive capacities and competitiveness in LDCs

Problems, and policies for improvement

Chapter

3

Introduction

A major challenge facing LDCs is how to integrate successfully into a globalizing world economy. There is growing concern over the steady fall in LDCs' share in global trade over the past two decades. Various attempts (for example, the Generalized System of Trade Preferences (GSP), to guarantee improved market access for LDCs' exports in developed country markets have met with limited success for a variety of reasons, including the administration and complexity of such schemes. Recent developments, such as tariff reductions achieved during the Uruguay Round of trade negotiations, have also entailed erosion of trade preferences for many exports of LDCs. However, the main constraint on the full and active participation of LDCs in the global economy remains their supply-side weaknesses. Attention is, therefore, focused at present on the problems associated with the productive capacities of LDCs and the policies needed for their improvement.

Within the LDC context, enhancement of competitiveness applies with almost equal relevance to firms, industries and countries, and therefore, it is necessary to adopt a multipronged approach to designing policies for improving competitiveness. There is a need for a thorough review of policies at the micro, sectoral and macro levels.

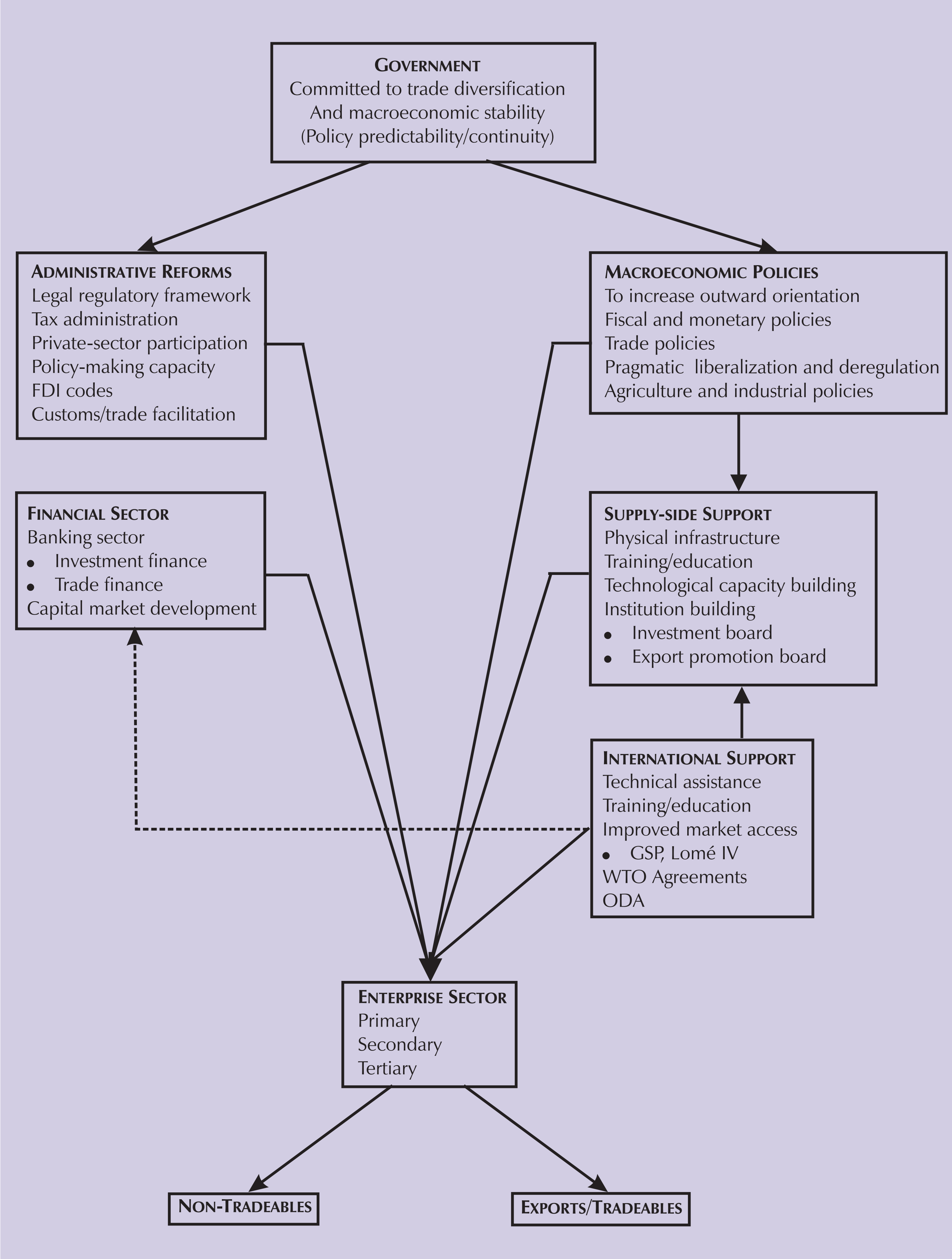
This chapter discusses the problems of productive capacity and competitiveness in LDCs, and examines those policies that are necessary for addressing them effectively focusing mainly on macro and sectoral policies (figure 1). Case studies from specific sectors are used to illustrate the problems of LDCs in developing their productive capacities and the potential for improving their supply capacity and competitiveness.

The next section discusses macroeconomic and other cross-sectoral policies that would help LDCs to develop and improve their productive capacities and competitiveness. Country-specific sectoral case studies are presented in section two, which also addresses policies that could stimulate and develop the static and dynamic comparative advantages of specific sectors in LDCs. Section three presents concluding remarks.

A. Macroeconomic policy issues

Macroeconomic policies have to be defined with a long-term focus on securing a market-oriented economy aimed at increasing overall economic efficiency. These would include policies to consolidate reforms of the monetary and fiscal regimes in order to reduce government debt obligations and pare down fiscal deficits; and financial sector reforms to attain positive real interest rates with a view to improving the efficiency of financial intermediation, including a more efficient allocation of scarce financial resources.

FIGURE 1: POLICY AND INSTITUTIONAL FRAMEWORK FOR ENHANCING PRODUCTIVE CAPACITY AND COMPETITIVENESS



Source: Patel, Gayi and van der Geest, 1997, p.12.

An essential component of a macroeconomic policy package would be trade policy reforms designed to enhance the external orientation of the economy. The main element of such reforms is trade liberalization, which entails a shift in relative domestic prices of traded goods towards international price levels by reducing controls on trade; for example, through devaluation to attain competitive real exchange rates, reductions in tariffs, and cancellation or reductions of quantitative restrictions. Trade policy reforms would also include export incentives and institutional reforms in support of exports to the extent permitted by WTO disciplines for those LDCs that are WTO members.

While macroeconomic stability and a more open and deregulated economy are necessary for growth, they are insufficient in themselves, for generating an autonomous process of self-sustaining growth which necessitates changing production patterns in favour of diversifying exports, especially into non-traditional exports and high value-added processed agricultural products. Thus additional policies may be required to address specific weaknesses of each country.

While, macroeconomic stability and a more open and deregulated economy are necessary for growth, they are insufficient in themselves, for generating an autonomous process of self-sustaining growth.

A complementary policy package would be necessary to boost export diversification. This will include policies targeted at more efficient and effective regulatory mechanisms and some degree of State involvement to correct market imperfections so pervasive in LDC economies. Governments would also need to pursue agricultural and industrial development policies conducive to broadening and upgrading the production base, improving the quality of physical infrastructure, launching various institutions to promote investment, and facilitating the acquisition and adaptation of technological innovations.

In a globalizing world economy, *static* comparative advantage is no longer the basis for international competition. Even from a neo-liberal economic perspective, competitiveness and development are dynamic issues, and are unlikely to be attained exclusively through static instruments of macroeconomic stabilization and trade liberalization. The competitiveness of an economy, or a firm, in the present global context, is dependent less on low-wage costs and natural resource endowments than on skills, technological capacity, competitive strategies, efficient transportation and communication systems, well-functioning institutions, efficient conduct of trade, and efficient and reliable sources of energy.

The competitiveness of an economy, in the present global context, is dependent on skills, technological capacity, competitive strategies, efficient transportation and communication systems, well-functioning institutions, efficient conduct of trade, and efficient and reliable sources of energy.

LDCs are vulnerable to different types of shocks, which adversely affect their productive capacities and competitiveness. These need to be addressed not only in relation to changes in macroeconomic policies, but also to other cross-sectoral issues that affect, directly and indirectly, the effectiveness of the productive capacities of LDCs and the competitiveness of their enterprises. This section examines the vulnerability of LDC economies to shocks and the policies and institutions necessary for the competitive production and distribution of goods and services.

Vulnerability to shocks

Although the causes for the vulnerability of LDCs are many, in this section only two types of shocks are examined: shocks associated with natural disasters and those emanating from changes in terms of trade and financial market instability.

Natural disaster-related shocks

From an economic perspective, natural disasters can have three different but related types of impact on economies: "direct" and "indirect" costs and secondary effects (table 28). This distinction is very important for policy purposes as it focuses attention on the characteristics of the kinds of policy necessary for addressing stock losses attributable to direct costs, and arguably the more important, flow losses, due to indirect and secondary impacts — for the purposes of post-disaster rehabilitation.

Major natural disaster-related shocks could create balance of payments difficulties, as they may reduce the availability of tradeables and increase the need for imports to meet domestic shortages, food deficits, and to repair damaged infrastructure. If foreign exchange reserves are low, as is so often the case in LDCs, this could increase a country's external debt stock with severe implications for future debt service obligations, and the LDC's international competitiveness, if, as is likely to be the case, the exchange rate comes under pressure (see, Benson, 1997:48).

The distinction between "direct" and "indirect" costs and secondary effects of natural disasters is very important for policy purposes.

Natural disasters could also have implications for the public finances of afflicted Governments, as government-financed relief and rehabilitation programmes cause an increase in public expenditure or a partial redeployment of planned expenditure.[1] Tropical cyclones (hurricanes or typhoons), volcanic eruptions, earthquakes, landslides and floods have often resulted in direct costs, such as loss of lives, and considerable damage to physical infrastructure, agricultural land, and production capacity in LDCs. Prolonged droughts have also had devastating social and economic effects.[2] While natural disasters are by no means limited to LDCs, they have, in several instances, caused more widespread damage there — especially in the particularly prone small island LDCs — than in non-LDCs.[3] Thus, natural disasters can impose huge indirect costs on LDC economies as they are least able to anticipate and cope with them.[4]

Programmes aimed at disaster prevention, mitigation, and preparedness would, no doubt, benefit from a rigorous analysis of the direct, indirect, and secondary impacts of natural disasters. For policy purposes, an analysis of flow losses from indirect and secondary impacts are particularly important as these losses alert Governments to the nature and scale of natural disasters faced by their economies and to the role of various underlying factors in either exacerbating or minimizing the economic impact of disasters (e.g. relative

TABLE 28: CATEGORIZATION OF ECONOMIC COSTS OF NATURAL DISASTERS

Economic costs		
Direct impacts	***Indirect impacts***	***Secondary impacts***
• Physical damage to capital assets, including: (i) Buildings; (ii) Infrastructure; (iii) Industrial plants; (iv) Inventory of stocks of: Finished products ; Intermediate and raw materials; (vi) Crops.	• Reduced output of goods and services from damaged/destroyed assets and infrastructure; • Loss of earnings due to damage to marketing infrastructure, and to lower effective demand; • Costs associated with the use of more expensive inputs (as cheaper sources of supply are destroyed); • Medical expenses; • Lost productivity (arising from increased incidence of disease, injury and death).	• Short & long term impacts on: (i) overall economic performance, e.g.: deterioration in trade and government fiscal position; (ii) Income distribution & incidence of poverty; • Increased indebtedness; • Changes in govt monetary and fiscal policy to contain effects of disaster-induced inflation, and to finance additional government expenditure.

Source: Adapted from, Benson, 1997, p. 3.

importance of various sectors, and inter-sectoral and forward and backward linkages). Current analyses of disasters, with their emphasis on direct costs (i.e., stock losses), underestimate their true impact, and may therefore lead to less economically-optimal levels of budgetary allocations for disaster prevention and mitigation measures (see Benson, 1997:3–4).

Shocks emanating from changes in terms of trade and financial market instability

Unfavourable movements in the terms of trade of an LDC, in particular if accompanied by sudden changes in exchange rates, could lead to financial shocks through losses in export earnings. For example, the world market price for refined copper, which accounts for over 90 per cent of Zambia's total export earnings, collapsed, at the onset of the Asian crisis, by more than 44 per cent, with grave fiscal consequences for the country. In spite of a slight recovery in the first quarter of 1999, the average world market price for copper for the year is projected to be 40 per cent lower than in 1997 (EIU: various issues).

Financial market instability, which leads to an unanticipated increase in international interest rates, raises associated external debt-servicing costs. The larger the ratio of external debt to GNP, and the larger the share of total debt contracted at variable interest rates, the more exposed a country is to interest-rate shocks emanating from financial market instability. However, as most of the debt of severely indebted low-income countries has been contracted at fixed and concessional interest rates, LDCs are generally less vulnerable to the adverse impact of interest-rate fluctuations.

Current analyses of disasters, with their emphasis on direct costs (i.e., stock losses), underestimate their true impact, and may therefore lead to less economically-optimal levels of budgetary allocations for disaster prevention and mitigation measures.

Financial flows, especially short-term flows, are volatile, as recent developments in Asia and Latin America have demonstrated. Despite the benefits that private flows can bring to recipient countries, exposure to short-term flows can be a source of vulnerability. Private capital flows react in part to economic conditions and policies of host countries. Most LDCs, especially African ones, have attracted only negligible amounts of private capital flows (other than worker remittances), and are therefore not significantly exposed to the volatility of private capital flows and its associated shocks. As noted in part one, chapter 2, however, Asian LDCs are vulnerable to shocks emanating from capital markets as they have received significant amounts of private capital from the Asian region.

LDCs, on the other hand, are highly dependent on ODA, which accounted for about 90 per cent of total resource flows to these countries in 1997. However, the steady decline in such flows since the early 1990s — the result of economic recession and associated austerity budgets in developed market economies (see part one, chapter 2) — has meant less donor assistance to LDCs for the provision of public goods (e.g. physical infrastructure), which are necessary for attracting FDI inflows.

A better understanding of the functioning of international commodity and financial markets, coupled with enhanced commodity risk management capacity, and better regulation and supervision of domestic financial systems would lessen significantly the shocks and risks that LDCs are exposed to in these markets. In the medium to long term, diversification of exports and export markets would limit the impact of the volatility of commodity markets on LDCs' foreign exchange earnings.

Institutional framework

Attention has been focused recently on creating, or improving the efficiency of existing financial, legal, marketing and agricultural extension institutions.[5] This is crucial to enhancing productive capacities and competitiveness, and therefore in promoting economic growth and development. A development-oriented government would not only discourage rent-seeking activities, but would also ensure that its administrative and regulatory systems are transparent and geared towards efficient utilization of scarce resources. Respect for property rights and the rule of law are an integral part of such an institutional and administrative framework, especially for attracting foreign direct investment as well as stimulating domestic investment.

Nowhere is this administrative and institutional framework more important than in LDCs, which lack institutional capacities and adequate administrative and managerial expertise.[6] The practical costs of bad governance and inefficient and weak (and in some cases, non-existent) institutions are manifested in economic and social regress in several LDCs, especially those afflicted by civil conflicts and wars (UNCTAD, 1997: Part III, pp. 125–148). This underscores the need for a stable political and macroeconomic framework that would provide a congenial context for stability and predictability of policy.

A serious constraint on the development of productive capacities and structural transformation in LDCs is their poorly developed financial systems and weak financial institutions.

In several cases, some LDCs' institutions (e.g. those relating to the implementation of WTO agreements) may have to be built from scratch. The legal framework would need strengthening, and appropriate regulatory bodies set up (or strengthened) for promoting competitiveness and regulating the behaviour of economic actors and markets, especially those in which there is limited competition. Respective government ministries need to strengthen their capacities for policy analysis and formulation, in particular for macroeconomic and trade policies, and for implementation, monitoring and evaluation of such policies. LDCs would also need to develop an appropriate institutional framework that supports technological innovation, competitiveness and industrial upgrading. An important aspect of this would be the promotion of closer cooperation between the public and private sectors in the conception, articulation, and implementation of industrial policy. An integral part of this should be the setting up of mechanisms for upgrading small and informal sector enterprises, an area in which industrial associations could play a key role (UNIDO, 1997:56).

There is also a need for an effective marketing strategy and for creating institutions and institutional capacity for promoting and marketing products in export markets as an integral part of this strategy.[7]

A serious constraint on the development of productive capacities and structural transformation in LDCs is their poorly developed financial systems and weak financial institutions. The financial systems are undiversified, financial institutions are often too inefficient and their financial status too precarious — generally because of huge non-performing loans — to enable them to perform efficiently the task of financial intermediation. As part of their ongoing structural adjustment programmes, most LDCs have implemented financial sector reforms with the objective of making this sector more efficient and competitive so that it can support the growth of a dynamic private entrepreneurial sector. Reforms have produced some positive results, but these have fallen short of the original objectives.[8] LDCs would need to deepen financial sector reforms with the long-term objectives of establishing an efficient and solvent financial system capable of efficient financial intermediation, including, *inter alia*, providing short- and long-term business finance — especially for SMEs — efficient payment mechanisms, and urban and rural retail banking services. This would involve a major restructuring of the financial system, including, not just an enactment or review of legislation on new financial services (as has been the case to date), but effective implementation of such legislation, accompanied by effective prudential regulatory and supervisory systems.

Human resources development

There are various dimensions to human resources development. In addition to education and training, health and gender issues are central to programmes to develop human capital in LDCs. Raising the level of education of the general population, especially of farmers and women would contribute towards raising productivity in various rural economic activities, especially agriculture (see, UNCTAD, 1997(a): 101-119). In addition, a concerted educational policy, which addresses the gender bias in education by focusing on the female population, would contribute significantly towards developing an educated labour force.

Human resource development in LDCs must incorporate improved health care delivery, particularly primary health care. A healthy population is crucial for maintaining and increasing the productive potential of the workforce, and for reducing the number of days lost through ill-health, especially that attributable to preventable diseases. Addressing the health aspects of human resource development would necessarily involve adjusting health budgets towards preventive or primary health programmes rather than curative medicine. HIV/AIDS control programmes are necessary, especially in those LDCs with high HIV infection rates, in view of the loss of scarce qualified personnel to this epidemic.

The ability of LDCs to compete in a liberal trade environment depends on a skilled, educated and flexible labour force capable of adapting and integrating new technologies into the production process.

In the new global economy, production and competitiveness have become increasingly knowledge-based. The transfer of knowledge through learning, both at the firm and industry level, is critical in developing dynamic comparative advantages. As such, the ability of LDCs to compete in a liberal trade environment depends on a skilled, educated and flexible labour force capable of adapting and integrating new technologies into the production process. There is, therefore, a need to address human resources, or human capital development within a more systematic framework through increased investment in education, especially, at the technical and vocational levels. This strategy has been used to great effect by Japan and the newly industrializing economies (NIEs) of South-East Asia.[9]

The strong economic performance of the late industrializers has been attributed to high investment in education. For instance, budgetary allocation to education in the Republic of Korea rose from 2.5 per cent in 1951 to 22 per cent in the 1980s with about *two thirds* of educational expenditures borne privately. The Republic of Korea and Taiwan Province of China sought to emulate Japan by concentrating on the training of engineers to the extent that by 1980 Taiwan Province of China had 50 per cent more qualified engineers per head of population than the United States. There was a more or less equal emphasis on technical education and formal education. Similarly, Japanese education was designed to "… produce not only a diverse labour force with the necessary knowledge and skills to handle various levels of technical work but a core of scientists and engineers who could actually perfect and advance the current state of technology" (Amsden, 1989. These late-industrializers such as Japan, the Republic of Korea and Taiwan Province of China were seen as cases in which a high level of general education for society, and specific and exceptional training of engineers and scientists, became the main catalyst for rapid technological progress and economic development. As it is firms that manage production, generate wealth and productive capacity, and are engaged in competition, learning at the firm level has also been an essential ingredient in all these countries.

In the case of LDCs, a variety of skills are needed in the areas of shop floor supervision, financial, engineering, procurement, marketing, and general management. Skill formation is a consequence of industrial education and training acquired within educational institutions and within firms (UNIDO, 1997:45). Thus, linking education, training and work in an integrated framework of regular on-the-job-training schemes would be particularly beneficial as it would expose trainees to new technologies and best practices in industry, and could help in updating skills of the workforce to enable them to cope with technological innovations. Governments should also work within a tripartite framework (with business and workers' organizations) to improve training programmes, by harmonizing supply and demand for various skills, and regulating content, quality and relevance of training activities or programmes.

Linking education, training and work in an integrated framework of regular on-the-job-training schemes would be particularly beneficial to LDCs as it would expose trainees to new technologies and best practices in industry, and could help in updating skills of the workforce to enable them to cope with technological innovations.

The skill requirements of LDCs are overwhelming relative to their meagre financial resources. It would therefore be advisable to expand on-the-job-training schemes of the existing labour force through an incentive system, which would induce major firms to invest in training. This could take many forms: instituting training levies on payrolls and operating skill development funds; or inducing subsidiaries of major multinational corporations (MNCs) operating in LDCs to transfer some R&D activity to these countries, and to participate in the development of a national training infrastructure. Greater integration between large and small firms, based on using the large firms as a conduit for the transmission of training and embodied technology could also be beneficial (UNIDO, 1997:47).

Training schemes oriented towards computer literacy and the provision of labour-intensive, long-distance services (e.g. data entry, software programming, and "back-office" services such as product design and customer services) should enable LDCs to utilize their comparative advantage in the services sector, which is one of the fastest growing components of trade and foreign direct investment (UNCTAD, 1996b). The World Bank (1995: 3) estimates this alone could potentially double developing countries' commercial service exports, estimated at about $180 billion in 1995.

Technology

Technological weaknesses in LDCs relate to the low level of technology deployed in productive activities, lack of local technological capability, including the inability to adapt and utilize new technologies, and a lack of resources to acquire new technologies.

It is possible for LDCs to improve productive capacities and make significant gains in productivity and competitiveness through technological upgrading, particularly as many of their productive activities utilize sub-optimal technologies at present. Also, considering LDCs' abundant natural resources, there is considerable scope for productivity increases by moving these activities closer to the international technology frontier. For instance, the provision of modern telecommunications infrastructure would not only give a significant boost to realizing LDCs' comparative advantage in the services sector (as discussed above), but would also improve competitiveness in the goods sector.

The implementation of a successful technology policy, however, depends on a skilled and educated workforce (see sub-section on institutional framework above) to deal with the many issues pertinent to acquisition, utilization, absorption and generation of technology. It also depends on LDCs' capacity to invest in R&D in particular to promote locally developed technologies that have a bearing on productivity growth, and to establish a link between R&D and production units. In addition, new policy initiatives may be required to strengthen technology absorption and diffusion, and innovation in technological alternatives (such as those utilizing local resources) that will make women, the poor and the landless beneficiaries, rather than victims, of technical change. These may be technologies that utilize local resources and facilitate inter-sectoral linkages with a view to promoting national economic integration.

Much of the earlier debate, in the 1960s and 1970s, on the choice of technology focused on questions of transfer, in particular the costs and conditions of transfer, and elements of choice between labour- and capital-intensive technology. However, the current debate, inspired by the success of NIEs and technology creation efforts in Latin America, is dominated by technological choice as a central factor in building indigenous technological capabilities, and in ensuring a commitment to technological change. Technology absorption is facilitated when imported products, processes and organizational technologies, are adapted to local factor and consumer markets. In this regard, it is important to note the source of the factors that have had serious repercussions for the cost-competitiveness of firms in LDCs, including the following:

- Poor maintenance, leading to lower volumes and poorer quality of output;
- Underutilized capacity resulting from inappropriate product and process choices, which in turn lead to a lack of specialization and unduly high import content (for material as well as non-material inputs, such as design and management capabilities); and
- A series of failures in engineering (incorrect choice of machinery, poor plant layout), management (unduly high gearing ratios, unadapted management and labour control systems) or marketing (errors in the choice of market segments).

In promoting export manufacturing initiatives, more attention needs to be paid to improving traditional techniques of production in terms of costs per unit, productivity per unit of factor inputs, and quantity and quality of output, and to linking these productive activities to markets, including user industries (forward processing, subcontracting relationships). In several cases, this would require a reallocation of resources towards the smaller, micro-enterprise sector.

New technologies can, and must, complement efforts to develop the microenterprise sector. This is a vital component of a strategy of production based on close ties between clients and suppliers and subcontracting relationships. In microelectronics, such technologies may also offer interesting possibilities for strengthening the skill base through distance learning, and for improving products and making processes more efficient through distance diagnosis.

With regard to new technologies, such as biotechnology or microelectronics, which involve a more complex mix of skills, knowledge and productive

Box 8: Improving Investment Promotion in LDCs

Foreign investment is one of the most important potential sources of capital as well as managerial, technical and marketing know-how needed for the development of new and viable manufacturing, services and resource-based industries in developing countries. With investment policy regimes becoming increasingly open and similar, many countries, in particular, the least developed, have found that they need to focus on a more proactive approach to promoting FDI in order to fully develop and market their countries' competitive advantages.

National strategies focus both on the institutional framework for investment promotion in the country as well as on innovative programmes of investment promotion activities. Investment promotion agencies play a major role in implementing these strategies. Experiences of successful investment promotion agencies show that coordinated efforts are needed involving all the stakeholders, including national and local governments as well as the private sector, with the national investment promotion agency playing a key role.

This effort starts with benchmarking the country and its investment promotion against its competitors, such as neighbouring countries or countries located in the same region. Benchmarking allows the country to improve its own competitiveness and clearly define its competitive advantages compared to its main competitors for investment — in short to improve the product which needs to be marketed.

For further focusing of investment promotion, a small number of target sectors need to be selected and sectoral programmes developed. Considering that sectoral programmes require several years of implementation to have a significant impact, selection of programmes should be strategic. For each sectoral programme a coalition of key players should be established who are interested in the development of the sector, and ready to finance the sectoral programme. A proactive marketing strategy, in which the investment promotion agency plays an active part, needs to be implemented for each sectoral programme, targeted at individual firms and their key officials, in order to influence the location decision of investors in favour of the country. In some countries, special industry zones have been established to promote cluster-building, including the attraction of a "flagship" investment, which would be followed by a number of related investments.

Strong links with the local private sector and with the private sector in selected target countries need to be established. They would play a major role in targeting markets and building up networks of business representatives. Local and foreign investors successfully operating investment projects in the country are the best ambassadors for promoting the country as an investment site and for developing a favourable image of the country. Effective after-investment services implemented by the investment promotion agency will contribute significantly to enhancing the satisfaction of investors.

capabilities than established technologies, there is a need for selectivity to ensure a degree of consistency, with the objective of building indigenous technological capabilities. In addition, the ability to assess the opportunities and constraints posed by technological change is crucial to the design of new investment programmes and to the rehabilitation of projects in LDCs (UNCTAD, 1990).

Technology policy should aim at creating an environment conducive to innovation and to the development of local technological capability.

Overall, technology policy should aim at creating an environment conducive to innovation and to the development of local technological capability. Technological mastery is an essential condition for industrial upgrading, sustaining competitiveness and entering markets for high value-added products. This could be achieved through a special incentives scheme to promote exports having a high technology content such, as engineering services and design-intensive manufactures. In addition, research and development centres could be established to disseminate new technology to various sectors, and to promote quality, design and management techniques in firms. Several firms must grow rapidly through technological learning if international competitiveness is to be attained. Buyers who are anxious to ensure product quality could be an invaluable source of technology. Governments could also play a catalytic role in technological upgrading by setting targets, and linking the provision of support to the achievement of these targets, as well as encouraging the growth of venture capital initiatives (UNIDO, 1997:45).

Investment

There is a growing recognition that FDI can be an important factor in economic development, and instrumental in the integration of countries into the global economy. LDCs have taken steps to enhance their capacity to attract FDI, for example, by creating a better policy and regulatory environment, and by establishing investment promotion agencies. The role of international organizations in these efforts has been critical (see box 8). Despite this, however, they have made limited progress in attracting FDI flows. (UNCTAD, 1998a, part one, chapter 2).

Investment decisions are influenced by a variety of factors. From the perspective of transnational corporations (TNCs), some of the important factors include, the firm's global strategy, the main object of its locational search (e.g. natural resources or production efficiencies), and its assessment of the relative advantages of supplying its products through cross-border investment, as against cross-border trade. Other factors relate to the characteristics of the host country, more specifically, to the investment policy framework, general investment conditions (e.g. infrastructure), transparency of the decision-making process, the regulatory framework, licensing procedures and the extent to which its locational advantages are accurately known to potential investors.

A recent analysis of FDI in Africa (UNCTAD, 1998b) reveals, for example, that a stable and predictable policy and macroeconomic environment, progress in privatization programmes, participation in regional integration processes, efforts to improve the educational system — particularly at the primary and secondary levels — reduction of corruption, and deregulation measures, paired with intense investment promotion activities, have been among the key factors influencing FDI inflow into Africa in recent years.

LDCs would, however, need to think beyond FDI on the issue of investment. Considering the low levels of gross domestic savings and investment as a proportion of GDP (see part one, chapter 2), there is great scope for designing policies that stimulate domestic savings and channelling these into investments in priority sectors to replace old capital stock, and/or augment it. The fiscal and monetary policy stance, in particular, interest rate policy, should be supportive of domestic savings mobilization by guaranteeing positive real interest rates, and by sustaining levels of public investment that "crowd in" private investments. These policies would, however, need to be coordinated with reform of the financial system (as discussed under 'institutional framework' above), and possibly, with informal savings institutions or mechanisms, if expected results are to be achieved. Also, the incentive framework for promoting both domestic investment and FDI has to be in consonance with WTO disciplines, especially the Agreements on trade-related investment measures (TRIMs) and the trade-related aspects of intellectual property rights (TRIPS).

Policies to promote trade efficiency

Policies to promote trade efficiency should involve interaction between the three main players who are closely engaged in the trade and transport sectors of the country:

(a) The Government (e.g. ministries of transport, trade, and finance, including customs, and related institutions), in designing and implementing national laws and regulations regarding trade and transport;

(b) Services providers (carriers, freight forwarders, multi-modal transport operators, banking institutions, insurance companies, etc.), by offering market-oriented trade and transport solutions within the framework of national, regional and international trade and transport practices; and

(c) Traders (i.e. importers and exporters), who can benefit from greater efficiency in their international trade transactions.

It is essential to rationalize and coordinate the policies, be they related to trade, transport or fiscal measures, by forging a closer relationship between the three groups of players.

An important aspect of promoting trade efficiency is trade facilitation, the main objective of which is to reduce trade barriers, physical and non-physical. Trade facilitation would generally involve the following components:

- Reform of trade formalities and procedures through simplification and harmonization;
- Creation of a sound legal and institutional framework, coupled with commercially viable reforms and instruments, which will facilitate the development of efficient trade; and
- Establishment of training programmes in international trade.

The most important prerequisite for the successful implementation of such a trade facilitation programme is high-level commitment from the Government (including ministries of finance, trade and transport) and support from the trading community (i.e. users and providers of transport services). Strong political support, as well as managerial dedication at the administrative level (e.g. customs departments), is indispensable to the successful introduction of the required changes in procedures, formalities, documentation and business practices.

To ensure cooperation and to provide synergy between the public and private sectors, it may be useful to establish a consultative body, such as a national facilitation committee (NFC). This would ensure regular meetings of all interested parties to discuss existing shortcomings and propose means for improving the trading environment as a whole.

Transport/physical infrastructure

The transport and communication systems in LDCs are inadequate both in terms of their physical infrastructure, such as roads and railways, and in terms of their mobile equipment, including vehicles and rolling stock. Most feeder roads, linking the rural areas — where much of the economic activity in LDCs takes place — to urban markets and (sea) ports, are of poor quality and are impassable during the rainy season. Motor vehicle fleets are limited, especially with regard to special vehicles, such as, refrigerated trucks and container carrying vehicles. The combined effects of these problems are fragmented and inefficient internal markets, and high transport costs — factors that undermine competitiveness in both domestic and, especially, international markets. In some LDCs, a substantial share of transport services are still provided by high-cost and inefficient State-owned transport enterprises. In sub-Saharan Africa, where the majority of LDCs are located, international air transport links are particularly weak and this undermines the development of such important niche exports as horticulture and fish products (UNCTAD, 1999d).

Box 9: Transit Transport in LDCs

Transit transport efficiency in LDCs is undermined by a combination of physical and non-physical barriers. The physical constraints include poor road and railway networks, and limited supply of equipment, such as vehicles, and rolling stock. These are aggravated by non-physical constraints, such as institutional, managerial, regulatory and procedural impediments, which interfere with the smooth movement of goods. Complex formalities, multiple documentation requirements, and inter-country variations in procedures and documentation contribute to considerable inefficiency in transit transport in LDCs.[1] Modest resources are required to address these non-physical barriers, compared with the pay off, which could be substantial.

A good starting point for transit trade facilitation measures in LDCs, which are members of WTO, would be to adjust domestic legislation and administrative practices in line with WTO trade facilitation rules. These would need to be complemented by reviewing and updating documentary credit systems, which at present are time-consuming, requiring in some cases, the physical movement of documents between as many as four banking establishments in two different countries. This will bring LDCs in line with the recommendations of the Banking Commission of the International Chamber of Commerce (ICC), which seek to simplify and harmonize credit systems and encourage use of electronic information systems.

In many LDCs, customs authorities in transit countries require the use of their national transit documents and apply their own national controls and procedures, which lead to considerable expense, delays and interference with transit traffic. These often vary from country to country, but they usually include physical inspection of the goods at each national frontier and the imposition of national security arrangements (control document and guarantee) to cover potential duty and taxes in the transit country.[2] Transit traffic is also required to comply with different technical and legal requirements, which subject it to repeated inspections, delays and additional costs. A rationalization, including, harmonization and simplification, of customs procedures and documentation, would greatly improve the efficiency of such transport.[3]

One way of improving transit transport in LDCs would be for their Governments to adopt a management style that facilitates fair competition and promotes efficient transport services, rather than control transport services through restrictive transport and other regulations. There is some evidence that this is already happening: the Abidjan-Ouagadougou-Kaya railway was privatized in 1995, followed by Cameroon railways in 1998 and the Zambian and Mozambican railways are expected to follow suit.

There is also the need for institutional support arrangements for transit transport at both the national and sub-regional levels in recognition of the complexity and cross-sectoral nature of transit issues. This might require regular and inter-ministerial consultations to enhance the ability of Governments to formulate transit transport policies, as well as private sector participation in policy formulation in order to facilitate its cooperation in implementing agreed measures. Institutional changes in this regard are under way in a number of sub-regional economic integration groupings such as the Economic Community of West African States (ECOWAS) and the Southern African Development Community (SADC).[4]

Finally, there is scope for the use of information technologies to increase transit transport efficiency. Efficient information processing and transfer systems can contribute substantially to the efficient management of transport equipment and facilitation of customs and administrative procedures by reducing truck-waiting times and documentation. Various schemes have been initiated by UNCTAD, which illustrate the potential for, and problems in, applying new information technology to improve transit operations. These include UNCTAD's Automated System for Customs Data (ASYCUDA), and the Advance Cargo Information System (ACIS) (UNCTAD 1997). Some 25 LDCs have installed ASYCUDA and another nine have, or are developing, ACIS. Other LDCs, such as Mozambique and Lesotho, have introduced information systems designed elsewhere.

1 A 1996 study in Southern Africa, for example, suggests economic costs of about $50 million to the SADC region in terms of reduced truck productivity (SADC, 1998). In 1991, the financial cost due to immobilization of goods in transit from the Democratic Republic of the Congo amounted to 24 per cent of the total door-to-door transport costs (World Bank, 1991).

2 In Europe, the introduction of simplified and harmonized customs procedures for transit goods under international conventions, such as the Customs Convention on the International Transport of Goods Under Cover of the TIR Carnets (TIR convention, 1975); the Customs Convention on Containers (1972), and the International Convention on the Harmonization of Frontier Control of Goods (1982), have removed major obstacles to trade. In Africa, however, attempts to establish sub-regional customs transit regimes designed to simplify and harmonize transit procedures have met with limited success. Reform in this area appears to be difficult to achieve in Africa because customs duties account for a high proportion of government revenue in several LDCs, for example, about 35 per cent in Zambia and 57 per cent in Lesotho.

3 Several LDCs at present have benefited from regional transit transport cooperation agreements concluded under the auspices of sub-regional organizations, notably, the Economic Community of West African States (ECOWAS); the Common Market for Eastern and Southern Africa (COMESA); the Customs Union of Central African States (UDEAC); the Southern African Development Community (SADC); and the Association of South-East Asian Nations (ASEAN). But these regional transport instruments have not been effectively implemented due to the lack of adequate financial and technical resources and institutional support arrangements

4 For example, ECOWAS member States have agreed to establish National Monitoring Committees to oversee the free movement of goods and persons among member States. In addition, SADC has established elaborate institutional arrangements at the national and sub-regional levels to implement the Protocol on Transport, Communication and Meteorology, for which it is seeking external financial and technical assistance to implement.

The poor rural transport systems militate against specialization in the rural economies and the integration of these economies into the wider market economy. The development of rural credit markets could be adversely affected by the fact that poor and high-cost transport to the rural areas is associated with high surveillance costs to lenders. Poor transport also reduces the efficacy of the price signals as an incentive and resource allocation mechanism. All this results in rural productivity remaining low, and the dual structure of LDC economies, with its inherent supply-side weaknesses,[10] being perpetuated. The under-developed rural transport systems also mean that the often bulky basic staple foodstuffs, especially in sub-Saharan Africa, are non-tradeable internationally (UNCTAD, 1999d).

Poor rural transport systems militate against specialization in the rural economies and the integration of these economies into the wider market economy.

For a third of LDCs, which are landlocked,[11] and for other LDCs whose productive centres are isolated and removed from maritime ports, high international trade costs, which stem from their reliance on inefficient transit transport systems, represents a serious constraint on their international competitiveness. This is particularly so because international transport costs are critical in determining relative prices and international competitiveness. Available global estimates for 1994 indicate, for example, that freight costs were approximately 22 per cent of the cost, insurance and freight (c.i.f.) import values of landlocked developing countries, compared to 4.8 per cent for developed market economies and 7.2 per cent for developing countries (UNCTAD, 1999c). The costs of exporting from a central point of loading within landlocked countries (ex-factory) to free on board (f.o.b.) at the seaport for shipment overseas constitute up to 32 per cent of the value of exports (taxes excluded) and up to 47 per cent of the ex-works value of a range of commodities (UNCTAD, 1993). For 20 (all LDCs) out of a sample of 43 African countries, payment for transport services absorbs between 20 and 50 per cent of total foreign exchange earnings.[12] In goods where exporters are price-takers — which is practically all exports in the case of LDCs — high transport costs reduce the surpluses available to producers for reinvestment and productivity growth (UNCTAD, 1999d). Thus, one way to make a significant impact on the productive capacity and international competitiveness of about a third of LDCs, is to improve the efficiency of their transit and maritime transport services. At present, both of these are undermined by a combination of physical and non-physical barriers, and by the continuing focus of shipping cartels on North-North trade routes.

Complex formalities, multiple documentation requirements, and inter-country variations in procedures and documentation contribute to great inefficiency in transit transport in LDCs.

Poor road and railway networks, and limited supplies of equipment (physical constraints) in LDCs are exacerbated by such factors as institutional, managerial, regulatory and procedural impediments (non-physical constraints), which frustrate the smooth movement of goods. Complex formalities, multiple documentation requirements, and inter-country variations in procedures and documentation contribute to great inefficiency in transit transport in LDCs. The requirement for transit traffic to comply with different country-specific technical and legal requirements necessitates repeated inspections and delays, which add to transport costs and undermine competitiveness of production for export and domestic markets (see box 9).

More efficient and cost-effective maritime transport services would also enhance the competitiveness of production in LDCs, especially given the fact that most LDC exports are low-value and bulky primary commodities, shipped mainly to Europe, North America and Japan, which are also the main sources of LDC imports. Available data indicate that LDCs have a high level of ocean freight costs. On average, the ratio of freight cost to import value is about five and eight per cent for developed and developing countries respectively, but

Box 10: The Corridor Development Paradigm in Southern Africa

In the early 1980s, the Southern African countries and the international community committed considerable resources for the development of the Beira transport corridor with the aim of decreasing dependence on South Africa during the time of apartheid. Ten years after the Beira Corridor Group was established, Southern Africa has witnessed the establishment of two more corridor groups — the Maputo Corridor along the Maputo-Rassano Garcial railway, which connects South Africa with Mozambique, and the Mtwara Corridor Group, which seeks to develop the port of Mtwara in the United Republic of Tanzania for the country's southern provinces and for the transit trade from Malawi and Zambia. The Beira Corridor Group was established largely as a private-sector lobby group working with Governments to ensure that basic transit facilities along the Beira transport corridor were maintained.

However, since the political change in South Africa, and its involvement in the economy of the subregion, corridor development groups in Southern Africa have redefined their role by developing and investing in commercially viable business ventures along transport corridors. The Beira Corridor Group, which has been in operation for more than 10 years, illustrates the activities of the corridor development groups in general.

The Beira Corridor Group, recently reconstituted as Corridor Development Limited (CDL), is a profit-making company, with seven corporate shareholders in Zimbabwe and Mozambique. Its objective is to develop and invest in commercially viable business ventures within the Beira development corridor. The focus is to earn a return for its shareholders while, at the same time, participating in the development of the corridor for the wider economic and social benefit of its inhabitants.

Although project interrelationship is an important criterion for project selection, each project is viewed as a separate financial entity to ensure its viability. CDL's portfolio of investments, which generates dividends, is diverse and its principal partners vary according to the projects. Its investments are structured to allow partners to assume majority shares in the long term. For some projects, CDL participation is limited to providing background information or consultancy services for which it charges fees.

Current CDL projects include: the Beira Grain Terminal, Beira Citrus Terminal, Mutare Export Processing Zone and Mutare Bypass as well as consultancy services. The Beira Grain Terminal has a bulk cargo handling company in Mozambique with the grain terminal being its major asset. The project has improved the system of grain transportation to and from the region resulting in decreased costs and improved efficiency of the port and rail network. Also, it has improved food security during times of drought, and it generates a profitable rate of return to investors. Shareholders of the Sociedade de Terminais de Graneis de Mocambique (STGM) include: Mozambique Ports and Railways, Nectar Shipping and Projects Ltd, a British company, which will initially manage operations and Port Investments, a Zimbabwean company representing interests primarily from the grain sector and CDL.

The Beira Citrus Terminal (1995) promoted the formation of a joint venture in Mozambique called Beira Citrus Cold Stores. The equity in Beira Citrus Cold is owned by Mozambique Ports and Railways, Watertight Investments and Oceanic Fruits & Trading Gmbh which is the largest exporter of citrus from Zimbabwe. CDL owns 11.4 per cent of Watertight Investments.

CDL has been assisting Mutare Export Processing Zone (Pvt) Ltd to develop an export processing zone (EPZ) in Mutare. Interest in factory development is increasing and work on developing the EPZ itself was scheduled to start in late 1999. Included in the EPZ is a container terminal which will be developed in conjunction with the owners of an existing small depot.

Future CDL projects include agricultural development in Manica Province, Mozambique and tourist development in both Zimbabwe and Mozambique. The agricultural potential of central Mozambique, particularly of Manica Province could be developed rapidly by combining Mozambican and Zimbabwean resources through joint ventures. The crop potential includes cotton, barley tobacco, grains, horticulture, timber, coffee and tea. Perennial crops could originally remain restricted to large-scale commercial farming due to the high capital input and long term payback period. The area of good agricultural land is large and can readily be utilized for cash crops by forming clusters of commercial farms with adjoining communal farms.

The tourist potential within the Corridor is vast and should be easily stimulated. The areas of focus are: (i) developing tourist potential along Mozambique's coast and game parks on Lake Cahora Bassa, and; (ii) promoting the tourist potential of Mozambique and Zimbabwe jointly to take advantage of the unique tourist assets of both countries. So far each country has been promoting its tourist industry separately, but an integrated approach is considered more advantageous. The business side of investments would be handled by CDL while the two countries would play an important role in providing market support services.

The major strength of CDL lies in bringing potential investors together so that viable projects become realities. Because its resources are limited and it does not have the expertise to manage certain businesses, it is prepared to help start up projects and then reduce its role, allowing other shareholders to acquire majority shares and/or assume responsibility for operations. However, since the aim of CDL is to mobilize investments along the corridor, it will ensure that as its role in one project diminishes, it will turn its attention to the promotion of new projects.

(Personal communication from the Managing Director, Corridor Development/Beira Corridor Group (Pvt. Ltd)).

more than ten per cent for most LDCs (UNCTAD, 1998b). Major providers of maritime transport services to developing countries operate on the main North-South trade routes linking ports of the developed countries with selected major ports in developing and least developed countries. This low priority for South-South cargoes has resulted in unreliable services, which are charged at premium freight rates. Also, international shipping freight costs are structured in a way which works against local processing of domestically produced commodities[13] (UNTAD, 1999d).

South-South maritime transport services would therefore enhance the reliability of South-South trade, significantly reduce freight rates and enhance competitiveness of LDC exports as well as diversify their export trade. To date South-South maritime transport services have not proved feasible because the limited volumes of cargo have not generated enough investor interest in them.

In the short-term, the options for solving the transport problems facing LDCs are limited considering their acute budgetary constraints and the continuing declines in ODA. As such, they would need to commit more resources for the rehabilitation and maintenance of their existing infrastructure and equipment, improving transit facilities at transhipment points, and introducing effective measures to control vehicle overloading, which causes accelerated vehicle depreciation and road damage.

In economies where there are congestion costs and capacity constraints, and therefore expectation of a reliable stream of future profits, private capital participation in the development of infrastructure is a distinct possibility.

In the medium to long term, LDCs require large-scale investments to upgrade their transport and telecommunications systems in order to meet the requirements of modern trade and technology. This entails upgrading road and rail networks to be able to carry heavier loads at improved speeds, and construction of new roads and railways to open up potentially productive areas, foster national integration of LDC economies and improve regional and intra-regional transport networks. They also need to purchase new rolling stock and vehicles, in particular, different types of transport vehicles, such as flat trucks for carrying containers, and refrigerated vehicles.

In the long term, the modernization of LDCs' infrastructure requires mobilization of a large amount of both domestic and external resources. For example, in pursuing its strategy for developing a road network among its members, the nascent East African Economic Co-operation group (comprising Kenya, the United Republic of Tanzania and Uganda), at a recent conference in Arusha, the United Republic of Tanzania, estimated that it would need to mobilize about $ 4.7 billion to fund the proposed project.[14]

The public sector, with the support of multilateral financial institutions and bilateral donors, has played a leading role in providing finance for the development of infrastructure, but the private sector could play a greater role, particularly in view of declining public investment (UNCTAD, 1998a, part one, chapter 2). In Southern Africa, for example, private sector participation in transport corridor development appears to be an effective way of mobilizing financial and managerial support for infrastructure and related investment programmes (see, box 3). In economies where there are congestion costs and capacity constraints, and therefore expectation of a reliable stream of future profits, private capital participation is a distinct possibility. However, the poor credit rating of LDCs, due to their high indebtedness and the uncertainties regarding future repatriation of profits as a result of instability of foreign exchange earnings, could limit private sector involvement. While everything must be done to encourage private sector participation in the development of transport infrastructure, a substantial injection of ODA to complement whatever public investment can be mustered is critical (see part two, chapter 4). At the same time, provision of services at full cost by the State-owned transport sector would help to make more investment resources available.

There is also room for a regional and sub-regional approach to transport network development and rehabilitation, and economies of scale can be gained through joint operations including: planning of and tendering for projects; procurement of rolling stock, locomotives and spares; and setting up regional airlines and aircraft maintenance facilities. A regional approach to donor funding of infrastructural projects could also improve prospects for securing the necessary financial resources.

Enterprise development

Although the problems of enterprise development are common to most developing countries, they are particularly severe in LDCs. Most enterprises in LDCs are still in the rudimentary stages of development, as are their factor and product markets, because of their weaker structural features. More than other developing countries, LDCs lack the resources, infrastructure, institutions, skills and organizational and innovative capabilities necessary for developing their enterprise sector.

Available evidence on enterprise development suggests that LDCs' enterprises, especially those in the manufacturing sector, are ill-equipped to take advantage of the opportunities arising from a more liberal domestic and international economic environment. They would, therefore, be unable to cope with the challenges to competitiveness and development associated with globalization (UNCTAD, 1990).

The characteristics of the enterprise sector in LDCs are influenced by the pattern of industrialization in these countries. First, most enterprises are in the traditional sectors, engaged mainly in the production of food products, beverages, textiles and leather products. Very few are engaged in the production of intermediate and capital goods.

Second, the enterprise sector in LDCs manifests a dual structure. At one extreme are a few foreign- or public sector-owned large-scale, modern, capital-intensive, import-dependent and assembly-oriented enterprises, with the ability to produce to international standards, though not necessarily at competitive prices. Several of these are in the extractive sectors of mining and forestry. These firms rely heavily on foreign technology, design and skills, and have maintained operations almost devoid of technological change and innovation. At the other extreme, there are locally-owned small/micro- and informal-sector enterprises, which utilize very simple and traditional technologies, and suffer from a lack standardization, quality control, and modern management techniques. These constitute the bulk of the private enterprise sector in LDCs, and are geared towards meeting local demands for simple, low-cost products, which require unsophisticated equipment and simple skills. With the decline of the modern sector in recent years, this latter group of enterprises has acquired greater importance as suppliers of basic goods and services and generators of employment and income.

Finally, in many LDCs, there are few, if any, enterprises in the middle range, because very few small/microenterprises ever graduate into the formal sector. This "missing middle" has implications for the growth opportunities, potential, and competitiveness of small and informal sector enterprises in LDCs. Several

Box 11: Globalization and the economic empowerment of women entrepreneurs in LDCs

In the context of liberalization and globalization, women entrepreneurship in LDCs is essentially about household survival strategies and income-generating activities. Below we examine the record.

1. Dislocation of women from traditional sources of livelihood and employment

The reallocation of productive resources resulting from structural adjustment programmes (SAPs) has dislocated many women from land and other traditional sources of livelihoods, led to the retrenchment of many from the public sector, and increased the proportion of woman-headed and woman-managed households. In order to cope with this situation, more women have become self-employed and established small/micro- and medium-sized enterprises (SMEs). Less successful attempts at entrepreneurship have resulted in women begging on streets with their children, grinding stones, vending food, etc. (ILO, 1995).

2. Stiff competition faced by women's SMEs from cheap imports

There are accounts of stiff competition from imported cheap commodities, including foods, which erode the competitiveness of local products thereby slowing down the growth of SMEs[1] and threatening food security in many LDCs. Unless LDC Governments provide an adequate economic infrastructure and promote trade efficiency, local industries and businesses will not be able to take on international competitors. At a time when LDCs lack sufficient foreign exchange to import food, local food habits risk being changed irreversibly by the importation of cheap foods thereby threatening food security in these countries (COASAD, 1999).

3. Continued discrimination against women in factor markets and in the control of household incomes

Many LDCs have not yet implemented the recommendations of the Fourth United Nations Conference on Women, held in Beijing in 1995, which, among other things, called for the economic empowerment of women. They need to grant women rights to own and inherit factors of production, such as land and other productive assets, and to give them direct control over the products of their labour. In several LDCs, women are paid less than men and sometimes denied the right to organize themselves into trade unions, particularly in export processing zones. The world continues to thrive on cheap labour provided by women (Kwa, 1998).

4. Diminished access to social incomes in the form of public education, health, water and sanitation

Economic reforms and liberalization have given rise to reduced social spending on education, health and water when such services are already grossly inadequate. Women, as the most intensive users of these services, have had to pay for these basic needs directly by diverting incomes from SMEs thus jeopardizing the growth of their enterprises for a necessary cause (Radhakishun, forthcoming).

5. Increasing global trafficking in women

Studies on HIV/AIDS in a number of LDCs have concluded that, as long as women are discriminated against in factor markets by being denied access to land, credit, education and employment, voluntary or forced prostitution might remain their only survival strategy, even though this exposes them to the risk of being infected with HIV (Tibaijuka, 1996).

6. Globalization and the privatization of women's knowledge

Under the Trade-Related Intellectual Property Rights Agreement (TRIPS) of the WTO biodiversity, knowledge and centuries of innovation in the countries of the South are threatened as traditional knowledge and folklore — mostly the knowledge of women — are being patented by large corporations, which use their patents on plant varieties, seeds and pharmaceutical products to dominate markets (Kwa, op cit.).

What needs to be done

A multipronged approach is necessary to develop women entrepreneurs and increase their productive capacity and competitiveness in a globalizing world economy including:

- Enacting special measures, such as entrepreneurship development programmes, to assist women to adjust to dislocations caused by economic reforms and liberalization;
- Creating an enabling environment for the growth of women's SMEs by investing in socio-economic infrastructure, trade facilitation and business development services, including facilitating networks and identifying markets for women's SME products nationally, regionally and internationally;
- Ensuring that food imports are kept to levels which are consistent with the promotion of productivity gains in domestic food production;
- Granting women full property and inheritance rights as elaborated in the Beijing Platform of Action, including full labour rights and rights to quality education;
- Facilitating and increasing access for women entrepreneurs to finance and technology through appropriate channels;
- Enacting national and international laws to stop trading and trafficking in women; and
- Assisting LDCs with technical assistance to take the necessary steps to implement and benefit from the TRIPS Agreement, including clarification, under its review of article 27.3, that naturally occurring plants, animals, and parts of plants and animals, including gene sequencing, must not be patented (UNCTAD, 1999d).

[1] About half of women's income-generating activities in most LDCs are in agriculture, mostly food production.

issues militate against the graduation of existing small/microenterprises into the "missing middle" position and eventually into the formal sector. These include a lack of, or weak, technical and management capability, weak financial infrastructure, and limited access to market information.[15]

Because of weak technical and management capabilities in LDCs, exporters cannot adhere to the increasingly complex and detailed specifications demanded by importers from developed countries in terms of quality, size, delivery time, and packaging, among others. Considering the new intensive competitiveness in global markets, LDC exporters need a better understanding of elements of their production costs to be able to undertake realistic and crucial price negotiations with buyers. Their present lack of such capacities is exacerbated by differences in "business culture". The business culture in the global market place revolves around quick and timely deliveries, with minimal room for flexibility in fulfilling contracts, as manifested in the United States retail industry's "Quick Response Inventory Management". On the other hand, contract arrangements with LDCs' suppliers tend to lack reliability and often incorporate flexibility to ensure each party against delays attributable to weak infrastructure, such as poor telephone service, labour disputes and social obligations.

LDC exporters also have limited access to vital market information, such as foreign retail systems, intricacies of shipping, or air cargo and the shipment of exports, as complete packages to meet all buyer specifications in terms of labelling, and packaging and printed materials.

Because of weak technical and management capabilities in LDCs, exporters cannot adhere to the increasingly complex and detailed specifications demanded by importers from developed countries in terms of quality, size, delivery time, and packaging, among others.

A weak financial infrastructure in LDCs includes inefficient banking systems, which very often limit the access of enterprises to working capital, export credit guarantees, and other export-financing schemes. Most entrepreneurs are also unfamiliar with the use of financial instruments, such as letters of credit, to finance exports.

A coherent programme, which supports the growth of enterprises — from micro- to small, and from small to medium-sized — is required in order to develop a critical mass of domestic enterprises in the middle range. Such a programme would need to include the provision of infrastructure, information, finance, training and other business support services, particularly targeted at the micro- or informal sector enterprises, and taking into account the needs of women entrepreneurs in the context of globalization and liberalization (box 11).

The UNCTAD Commission on Enterprise, Business Facilitation and Development, which examined various issues relating to enterprise development in developing countries (including LDCs), underlined the need for an integrated approach to enterprise development, particularly in LDCs. This approach is expected to encourage, *inter alia*, supportive policies and instruments, innovation, inter-firm co-operation, government-business dialogue and the mobilization of financial resources, notably for small- and medium-scale enterprises. In the Commission's view, enterprise development programmes, particularly in LDCs, should encompass efforts by Governments and the international community, including international financial institutions, aimed at creating an enabling macroeconomic environment. This should be complemented with an appropriate legal and regulatory framework, basic infrastructure and services — including education — effective mechanisms for public-private sector dialogue and building capacity among representative associations of micro- small- and medium-sized enterprises. Other elements of this would include:

Box 12: Problems affecting the supply capacity and competitiveness of the Angolan oil industry

The Angolan oil industry is key to the economy of the country. In particular, due to the country's promising geology, a good record of exploration successes, low operating costs ($2.00 per barrel compared with $5.00 per barrel in the North Sea) and relatively attractive fiscal terms, the upstream oil industry makes a significant contribution to Angola's economy. Between 1960 and 1995, the share of oil in GDP rocketed from less than 8 per cent to 40 per cent, while that of agriculture plummeted from 50 per cent to 17 per cent. At present, crude oil accounts for about 90 per cent of total exports, more than 80 per cent of government revenues and 42 per cent of the country's GDP.

The country's known recoverable reserves are currently estimated to total almost 10 billion barrels, but continuing exploration finds new reserves at the same rate as oil companies deplete old ones. Foreign companies active in the upstream sector have invested more than $8 billion in Angola, which is the second major oil producer in sub-Saharan Africa after Nigeria. At the continental level, the country controls about 10 per cent of total oil production. It had a total production of 700,000 barrels per day (b/d) in 1998, forecast to reach one million b/d by the beginning of the twenty-first century and contributing about $ 11 billion to government coffers by the year 2005–2006, on the assumption of a price of $15.00 per barrel.

In sharp contrast to Angola's promising upstream prospects, which have guaranteed interest and substantial investment from foreign oil companies, its downstream sector is rundown and struggling to recover from 20 years of devastating civil war. Due to non-existent, or dilapidated, infrastructure, the downstream sector is non-competitive and its supply capacity is low, resulting in much of the oil being exported in crude form. The Petrangol oil refinery at Luanda is a topping and reforming refinery with a nominal distillation capacity of 1,750 kilotons per annum (35,000 b/d), but currently refines around 1,600 kilotons per annum. Fina Petroleos de Angola operates the only refinery, which is the sole source of supply of oil products in Angola at present. The refinery processes local Angolan crudes - mainly Kwanza and Palanca - for the domestic market. It also produces surpluses of fuel oil, gas oil and jet oil for export to neighbouring countries. The plant, originally built in the late 1950s, is in poor condition, as a result of which it is economically not viable. Funds are therefore required to upgrade and address the shortcomings of the plant. The state oil company, Sonangol, dominates the Angolan oil industry, both upstream and downstream, and has plans to build a second refinery to be based in Lobito or Namibe. Also, the Government is studying ways to utilize the 700,000 standard cubic feet of gas per day that is flared to produce liquefied natural gas (LNG), methanol or liquefied petroleum gas (LPG).

Sources: Sigam, 1997, *Economist Intelligence Unit* (several issues).

(i) Identifying who does what best, and at what level, in terms of designing and providing services for micro- small- and medium sized enterprises;

(ii) Providing support for inter-firm cooperation clustering and networking including with TNCs and developing and supporting specific programmes and initiatives to build and maintain private-sector lending capacity to micro- small- and medium-sized enterprises. SMEs could meet some of their credit needs by leasing machinery.

Energy sector-related activities

The hydrocarbons industry is both a cross-sectoral and a sectoral issue. Inefficiency in this industry reverberates through the entire economies of LDCs because of its strategic importance to power generation and industrial energy, government revenues, trade and transportation, among others. The efficiency of the hydrocarbons industry thus has significant consequences for the competitiveness of LDC economies,[16] which, with the exception of Angola (see box 12), are highly dependent on imports of oil products. This is despite ongoing oil exploration and related activities, including production of crude oil/gas (upstream sector), in six LDCs.[17] Second, in other LDCs endowed with hydrocarbon resources, oil refineries, storage and distribution facilities (downstream sector) are not efficiently designed, or properly managed.

Hydrocarbon imports consume a huge proportion of the export earnings of most LDCs. In the United Republic of Tanzania for instance, they absorb on average 55 per cent of export earnings. The figures for Afghanistan and Burkina Faso are 50 per cent and 45 per cent respectively. At the same time, hydrocarbon taxes form a significant proportion of government revenues. The economies of both exporting and importing countries of hydrocarbon products can be deeply affected by price fluctuations, which characterize international oil markets. In Angola for instance, a decrease of $1.00 in the price of a barrel of crude oil would translate into a daily loss of about $357,000, or more than $130 million a year (equivalent to about 1.7 per cent of GDP) for the country. For an importing country such as the United Republic of Tanzania, a $1.00 per barrel increase in the price of oil would add more than $ 8 million per annum to the oil import bill (i.e. about 0.1 per cent of GDP). Indeed, as a result of the hike in the price of oil attributable to the 1990 Gulf crisis, in Mozambique, for example, oil imports in 1990 represented 12 per cent of total imports, equivalent to 81 per cent of the value of total exports. In Zambia, there was almost a threefold increase in the import bill for oil in 1991, which translated into a more than 350 per cent increase in domestic prices, with serious adverse implications for the whole economy.

Inefficiency in the downstream hydrocarbons sector causes massive load shedding, which in turn, adversely affects the competitiveness of production for domestic and global markets.

The downstream hydrocarbons sector is an important part of the hydrocarbons industry in many LDCs, but it is non-competitive because of inefficient management. The current nominal capacity of refineries located in 11 LDCs is 403,200 b/d which is less than the capacity of South Africa alone (445,000 b/d). With the exception of Yemen, the size of these topping and reforming plants in LDCs is often below the minimum size required for a viable refinery (20,000 b/d), which results in internal diseconomies of scale. The smaller the capacity of the refinery, the higher the long-run average production costs per barrel - about $4.00 per barrel for a refinery with a capacity of 20,000 b/d compared with about $2.00 for refineries with 120,000 b/d capacity (international standards). Furthermore, refineries in LDCs are operating at below capacity (on average below 50 per cent of installed capacity) due, *inter alia*, to supply shortages and poor maintenance, which result in huge losses. A World Bank-sponsored study (Cuneo e Associati, 1992) estimates that refinery costs in the United Republic of Tanzania and the Sudan could be cut by $100 million and $20 million per annum respectively. Since the fuel produced is used for power generation, this inefficiency causes massive load shedding, which in turn, adversely affects the competitiveness of production for domestic and global markets.

Additional problems in the downstream hydrocarbon sector of LDCs are the lack of storage capacity in most countries, and inefficient transport facilities for landlocked countries. In Rwanda and Burundi, for example, transport costs account for a third of the total cost of oil imports. A more efficient mode of transport for oil products and gas is through the pipeline, but pipes have to be laid in a very safe and politically stable environment. This is lacking in several LDCs, due largely to internal conflicts, with insurgents controlling a sizeable proportion of the rural areas suitable for pipelines.[18] Railway transportation is the second best mode for moving products at a low cost, but most LDCs have obsolete and inefficient railway networks.

Pricing structures are another source of inefficiency for the downstream sector. Prices for domestic oil products are fixed by the Government on a cost-plus basis, which gives fixed, guaranteed profits to refiners and/or distributors, but this pricing system is not flexible enough to adjust domestic prices in line with changes in international prices. This creates distortions throughout the downstream energy sector, leading to large financial losses, which in turn, have made it difficult to raise the necessary investment funds to improve the sector's efficiency.[19] Pump prices are not aligned with changes in world market prices, leaving Governments (or donors) to absorb losses when the world price increases. For example, in the Sudan, which currently imports about $400 million worth of oil a year, prices of all petroleum products are regulated and subsidized. In 1993, subsidies on petroleum products were increased by 19 per cent, amounting to a total subsidy of $70 million (about 0.7 per cent of GDP) for the whole year. Previous attempts to reduce or remove subsidies have all resulted in popular uprisings.

These numerous constraints have frustrated the competitive development especially of the downstream sector of the hydrocarbons industry in LDCs, and explain why hydrocarbons are often exported by LDCs in a crude form — without any value added — to OECD countries and the Commonwealth of Independent States (CIS). For example, Equatorial Guinea exports 100 per cent of its crude oil, and two-thirds of Angola's crude oil is exported to the United States.[20]

Excessively optimistic oil price expectations often result in over ambitious investment programmes, which, during years of depressed oil prices, create fiscal problems for LDC Governments.

LDC Governments have had serious difficulties in macroeconomic management, in particular, in times of high prices for their major export earnings. This is because they find it politically difficult to utilize windfall revenues judiciously, especially those from oil exports. Excessively optimistic oil price expectations often result in over ambitious investment programmes, which, during years of depressed oil prices, create fiscal problems for LDC Governments. For example, the collapse in oil prices to less than $10.00 per barrel in 1998/1999 created severe financial shocks for LDC exporters, but windfall savings for LDC importers. Furthermore, oil revenues increase foreign currency earnings and consequently lead to a ADutch disease", that is, they cause a revaluation of local currency, which makes the tradeable sector less competitive.

Inefficiency and lack of competitiveness of the hydrocarbons industry in both exporting and importing LDCs undermine the competitiveness of these economies to a great extent. In the case of exporters, revenues from hydrocarbons fall far short of the optimum, as these are exported in crude form. For importing countries, higher prices, especially of petroleum products, create severe economic distortions, because of the negative impact on power generation and industrial fuel. This in turn adversely affects transportation, production, trade, and official business.

The significance of improving the competitiveness of the hydrocarbons industry for enhancing the overall competitiveness of LDC economies cannot, therefore, be denied. For both groups of LDCs, especially for importing LDCs, there is a need for improved management practices and market-oriented strategies in the procurement and distribution of hydrocarbon products. Unreliability of supplies, especially for landlocked LDCs, would be eased by improving of infrastructure for transporting the products. There is also a need to consider regional cooperation in the setting up and operation of oil refineries in order to benefit from economies of scale.

B. Sectoral policies

The broad policy framework discussed in the previous section provides an appropriate context in LDCs for the development of productive capacities and competitiveness. However, complementary sectoral policies would be critical if the static and dynamic comparative advantages of the various sectors are to be translated into a diversified export base and increased production and exports of value-added goods and services. This section discusses such sectoral policies, illustrated by case studies where possible.

Agriculture is the most important export sector in LDCs in terms of employment and contribution to GDP, but a significant minority of LDCs depend, to varying degrees, on minerals and service exports, while the potential for the export of manufactures has yet to be fully exploited in all these countries.

Agriculture, forestry and fisheries

The lack of advances in productive capacity and competitiveness in the agricultural sector is partly due to policy neglect, the reasons for which are complex, and to some extent remain contested (UNCTAD, 1997: pp. 39–48). Wide-ranging efforts by LDCs Governments would be required to correct the situation.

There are strong arguments for concentrating resources on raising production of certain types of agricultural exports which demonstrate a greater potential for foreign exchange earnings and linkages to domestic processing. This category of commodities may include both traditional and non-traditional exports. Specific policies are required to effect productivity improvements, changes in resource allocations, and the development of cost, quality and other competitive advantages for international trade.

The growth of horticultural exports from sub-Saharan Africa in recent years — including from LDCs, such as the United Republic of Tanzania, Uganda, Zambia and Ethiopia — in some "niche markets" shows the strong potential for investment in export capacity in these products.

The dominant approach to treating the problem of weak productive capacity and poor competitiveness during the 1980s and early 1990s was built on expectations of a strong supply response to market liberalization and deregulation (i.e. the Washington Consensus). However, it is fairly widely accepted that the economic and institutional stimuli for creating a greater supply response from agriculture in low-income economies are more complex than what is assumed in the theory underlying liberalization. What remains contentious is how to develop a more subtle mix of policies to support improvements in agricultural productivity and competitiveness.

First, given the constraints on successful and rapid diversification, away from an economic structure rooted in primary commodity production, it is imperative to exploit what gains can be made from such production. Despite the well-known disadvantages of primary commodity production, discussed below, foreign exchange earnings could be improved through productivity improvements (Spraos, 1980).

Second, while traditional primary commodities have suffered from slow growth in world import demand and secular declines in real prices, there is strong world demand for some non-traditional commodities (UNCTAD, 1997a: 51–55). These include, meat and meat products, fish and fish products, dairy goods, some fresh and processed fruits, vegetables and nuts, oilseeds, vegetable and animal oils, and spices. The growth of horticultural exports from sub-Saharan Africa in recent years — including from LDCs, such as the United Republic of Tanzania, Uganda, Zambia and Ethiopia — in some "niche markets" shows the strong potential for investment in export capacity in these products.[21] The ability of LDCs to expand exports to these markets would depend on their being able to meet the requirements of WTO Agreements on Sanitary and

Phytosanitary Measures and Technical Barriers to Trade, and on a transparent and consistent application of these rules by developed countries (UNCTAD, 1997: 56–57).[22]

Third, there are mutually reinforcing linkages between some agricultural products and the development of domestic processing industries. The record of developing countries reveals that it is possible to add value to products by shifting from exports of raw primary commodities to processed commodities. The advantages of this include greater price stability, the absorption of labour, and industrial and organizational "learning". While the skills requirement of domestic processing may be beyond the reach of LDCs, this constraint varies in intensity, and may not necessarily be a binding one. Indeed, one of the major reasons why LDCs need to enhance productive capacity and raise productivity in agriculture is precisely because of the significance of agricultural output to their industrial base. Therefore, industry will become more competitive internationally if agricultural inputs are improved in terms of cost, quality and supply regularity. Between one thirds of manufacturing value-added in sub-Saharan Africa, for example, depends on agricultural raw materials.[23] Thus, the main challenge for LDCs continues to be how to attain increased productivity and greater competitiveness in agriculture.

To increase their competitiveness in agriculture, LDCs will need, among other things, to address the gender bias, which has resulted in considerable allocative inefficiency, especially in terms of access to land, financial resources, agricultural inputs, and extension services for women farmers.

To achieve these, LDCs would need to pursue a multipronged agricultural development strategy directed at policies such as technology, infrastructure, institutions and agricultural incentives. These policies are interdependent and relate synergistically to each other.

LDCs would also need to intensify efforts to diversify their agricultural production within the context of existing opportunities and long-term comparative costs. This may call for appropriate irrigation technologies to complement mainly rain-fed agriculture, mostly in arid, semi-arid and sub-humid regions, and intensified research into soil and water resources. Several measures, such as pricing policies for agricultural inputs and outputs and institutional reforms, will help improve both efficiency of production and the environment. To increase their competitiveness in agriculture, LDCs will need to find innovative ways of extending credit to farmers, especially smallholders, to enable them to exploit new technology and market opportunities; improve marketing and distribution infrastructure; improve rural facilities for health, education, and water; and address the gender bias, which has resulted in considerable allocative inefficiency, especially in terms of access to land, financial resources, agricultural inputs, and extension services for women farmers.

Details of these policy reforms in LDCs derived from the lessons of successful agricultural development strategies in developing countries were presented in UNCTAD's 1997 Least Developed Countries Report and need not be repeated here (UNCTAD, 1997a:101–119;Cornia, van der Hoeven and Lall, 1992: 204–209).

Forestry

Timber is the most important forestry product for export in LDCs. In 1995, timber accounted for about 40 per cent of the Solomon Island's total export earnings; and in 1998, wood products were the largest source of export earnings for the Lao People's Democratic Republic. Extraction of timber for exports in LDCs has given rise to environmental concerns, especially its effects on biodiversity, climatic stability, and catchment areas for water resources. Fears have been expressed, for example, over a possible depletion of the Solomon

Islands' wood stocks in less than 10 years, if logging is not properly controlled. It is, therefore, important for LDC Governments, where timber is an important export, to institute and strictly enforce a system of licensed logging, and to design and implement afforestation plans.

Promoting fisheries

The current experience of the Lake Victoria fisheries industry in the United Republic of Tanzania and Uganda typifies problems that LDCs face in their endeavour to establish a viable competitive industry in world fish trade (box 13). Other fish exporting LDCs have encountered similar problems (UNCTAD, 1998a: 142–143), which suggests a need for a robust fisheries policy response.

LDC Governments wishing to promote fish exports need to institute mechanisms for monitoring fish volumes as a precaution against possible depletion of stocks due to either over-fishing or ecological stress. Where the problem is due to fishing practices, it may be necessary to design, implement and enforce regulations regarding production quotas or use of certain types of fishing gear, preferably with the involvement (or in consultation with) fishing establishments. With regard to environmental degradation, there is a need to institute fisheries-related environmental studies that should inform policy-making and environmental protection measures. This is a type of activity that would benefit from technical support from development partners.

Advocacy and marketing in the importing countries would also help to promote LDC fishery products abroad, and elicit a fair, consistent and transparent application of sanitary and phytosanitary measures by these countries.

Governments as well as exporters have a role to play, preferably by collaborating, in ensuring sanitary standards at all establishments where fish is handled prior to export, especially at fish landing sites, in transit and within processing plants. It is important to harmonize local with international, or importing country, sanitary and hygiene standards. Once that is done, Governments should then institute a mechanism for information dissemination among exporters, as well as a system of sanitary inspection of facilities. Exporters and Governments could collaborate to set up quality assurance laboratories. Part of the taxes or levies accruing from fish exports could be spent on improving sanitary conditions at fish landing sites. To further minimize contamination of fish, Governments should collaborate with exporters to provide adequate infrastructure for speedy transportation of fish from landing sites. Since exporters have a stake in the reputation of their product, which has a bearing on price levels, they might be encouraged, for example, through a voluntary association, to institute mechanisms for collective self-regulation. Advocacy and marketing in the importing countries would also help to promote LDC fishery products abroad, and elicit a fair, consistent and transparent application of sanitary and phytosanitary (SPS) measures by these countries.

MINING

Mining is a very important sector in seven LDCs for which the share of mining in total merchandise exports ranged from 51 per cent to 95 per cent in the period 1995–1997. In addition, there is great potential for mining activities in LDCs such as the Central African Republic, the Democratic Republic of the Congo, Mauritania, the United Republic of Tanzania, and Uganda. The need to adopt appropriate policies to enhance productive capacities and competitiveness is particularly urgent because the global mining industry, over the past decade or so, has undergone drastic changes, with significant implications not only for the competitiveness of the industry, but also for worldwide competition for investments. Globalization and the concomitant development of complex financing mechanisms have increased the pool of risk

Box 13: The Plight of the Lake Victoria Fish Industry

Lake Victoria is the second largest freshwater lake in the world, with an annual fish harvest estimated at 400,000–500,000 metric tons, worth $300–400 million. The lake is shared by Uganda, the United Republic of Tanzania and Kenya, the first two of which are LDCs. Fishing is mainly carried out by individual fishermen and small-scale establishments, supplying both local consumers and exporters. These three East African countries operate more than 30 factories that process Nile perch for export mainly to the European Union (EU) — which absorbs about 60 per cent — Canada, Japan, Israel and the United States.

A recent study of the industry has brought to light two sets of problems that suggest a need for policy interventions. First, fish stocks in the lake are threatened with depletion due to a combination of ecological stress and inappropriate fishing practices. Second, East African fish exporters have been adversely affected by frequent bans in the EU markets. Between 1994 and 1999, a total of four bans have been imposed on fish exports from the three countries over SPS standards.

Fish stocks and the biodiversity of the lake in general are threatened by changes in settlement patterns, urbanization, industrialization, land-based agriculture and other ecology-related developments. Algae blooms are frequent; turbidity, which reduces water transparency, continues to increase due to increased eutrophication; and water hyacinth are gradually spreading over the lake adversely affecting light penetration, oxygen supply, fish breeding sites, landing beaches and the lake ecosystem as a whole. The alleged use of pesticides to catch fish could introduce an additional hazard. Sanitary conditions at many fish landing sites, in some fish processing plants and in other establishments where fish is handled prior to export, have been judged to be unsatisfactory by European Commission (EC) quality control inspectors. Because of the ban, capacity utilization at fish processing plants is barely 50 per cent and, in the case of the United Republic of Tanzania, the workforce in the fish processing plants has been reduced by about 40 per cent. Similar problems, especially with regard to the export ban, have occasionally been encountered in such fish/sea food exporting countries as Bangladesh, Madagascar, and Mozambique (UNCTAD, 1998a). Policy options need to be considered to protect this potentially lucrative trade.

The issue of frequent bans by the EU needs to be addressed as a matter of urgency, because of the severe adverse social and economic effects that these entail for the three countries. The bans have led to unemployment, depressed prices and the loss of export earnings, which Uganda and the United Republic of Tanzania can least afford. With regard to public health concerns, in particular cholera outbreaks, which triggered some of the bans, the WHO Director-General has stressed "the almost non-existent risk to countries importing food from cholera-affected countries". In fact, WHO does not consider an import ban, especially for fish products not consumed in a raw form in Europe, as warranted (WTO, 1998a).

The controversy over such bans is illustrated by the ban imposed on 16 January 1998 by the EC Commission on the importation of fresh, frozen and processed fishery products from the United Republic of Tanzania, Kenya, Uganda and Mozambique, on grounds of public health concerns. It has been reported that over 2,000 tests and EC inspection of the United Republic of Tanzania's fish processing establishments before 6 January 1998 had produced no positive tests of any of the alleged bacteria. Also, the EC notification, G/SPS/N/EEC/4, circulated on 4 March 1998 claimed that no international standard, guideline, or recommendation existed on the subject, although there are specific recommendations by both WHO and FAO on the subject. Indeed, the United Republic of Tanzania, in its complaints to WTO regarding the ban, questioned its consistency with Articles 2.2 and 5.7 of the SPS Agreement.[1] Also, it considered recommendations by Codex and the International Commission on Microbiological Specifications for Food (ICMSF), none of which recommended import prohibition as an appropriate response to alleged public health concern, as most relevant to the case (WTO, 1998b:). Thus, while it is important that the three LDCs maintain sanitary conditions that meet international standards at fish landing sites, in fish processing plants and in other areas where fish is handled prior to export, and even in the lake itself, it is equally important that SPS measures are applied in a transparent and consistent manner by major fish importers.

1 Article 2.2 states Members shall ensure any SPS measure "is applied only to the extent necessary to protect human, animal or plant life or health, is based on scientific principles…." among other things, and Article 5.7 states, that where the relevant scientific evidence is insufficient, provisional SPS measures could be adopted by a Member "…on the basis of available pertinent information, including that from the relevant international organizations…".

capital available for exploration and development of new mines. Advances in mining technology have also made viable low-grade deposits as well as deep-seated deposits that could not be mined economically by old technology.

Mining policy in LDCs has to be pursued at two different but interrelated levels. At one level, should be policy relating to large-scale, capital-intensive mining operations, mostly State- or foreign-owned. The second set of policies should relate to small-scale mining operations. This should address a range of problems, in particular social and environmental problems, afflicting artisanal mining activities that have persisted in several LDCs with mining potential. These have to be addressed in order to enhance the social and economic benefits accruing to LDCs from such activities.

Structural adjustment programmes implemented by most LDCs since the early 1980s have emphasized private sector participation in most economic activities, including mining operations. This has resulted in the privatization of a number of previously State-owned mining concerns. While the process of privatizing mines has run into problems in a few LDCs, for example in Zambia (Box 14), there appears to be a consensus that mining operations, particularly the development of new mines, in LDCs are best left to private-sector interests. In this regard, the role of government has to be redefined as providing clear policy guidelines, supported by necessary legislation and services to stimulate private-sector interest in mining. Aspects of this would include, *inter alia,* developing the State capacity to implement regulatory and promotional functions, undertaking geological mapping and maintaining an updated data base on mineral resources, and providing adequate physical infrastructure to facilitate the development of the mining sector. An important role of Governments would also be to ensure that the negative environmental impact of mining is contained, and proper marketing structures are in place.

The legal and regulatory framework must be internationally competitive in order to attract and sustain FDI and local investment in the development of the minerals sector. In particular, it should ensure transparency in licensing procedures to guarantee exclusivity of licensed areas (or concessions); protect contractual rights and obligations; and provide for a timely settlement of disputes through a credible judicial system or by international arbitration.

Government support services and facilities would also go a long way to enhance the productive capacity and competitiveness of the sector. Linked to the overall policy of developing technological capability, the Government could facilitate access to simple modern and environmentally sensitive technologies, provide mineral laboratories as well as promote the establishment and development of professional and industrial mining associations.

The second set of policies, directed at the artisanal and small-scale mining sub-sector, should aim to enhance its productive capacity, and competitiveness, as well as protect the livelihoods of those nationals dependent on activities in this sector. The main objective of this set of policies should be to upgrade artisanal mining to modern and organized small-scale mining units. This would require a more transparent licensing procedure for artisanal miners and mineral dealers, accompanied by a strict enforcement of a new code of conduct in mining and mineral processing designed to eliminate fraudulent practices and limit environmental degradation.

One way of introducing artisanal miners to modern methods of mining which cause less damage to the environment is to facilitate their access to tools and equipment. Financial institutions could be encouraged to support small-

Box 14: Issues in the privatization of State-owned enterprises in LDCs: The case of Zambia Consolidated Copper Mines (ZCCM)

Notwithstanding the problems in the process of privatizing ZCCM, it is important to note that this privatization has made significant progress since all but the two largest packages now remain to be divested. As of mid-1998, a total of five asset packages were sold, or awarded, namely, Kansanshi Mine, Luanshya/Baluba Mines, Chibuluma Mine, Chambeshi Mine, and Power Division. Also, a large number of subsidiary companies has been sold along with all the subsidiaries of Mulungushi Investments Limited, a wholly-owned subsidiary of ZCCM.

So the main issue is why have the two largest ZCCM packages of the original seven proved so difficult to divest? At the close of the bid for ZCCM on 28 February 1997, the only bid that was received for the purchase of the largest operating packages, Nkana and Nchanga Divisions, was from the Kafue Consortium.[1] After negotiations had been concluded between the Zambian Government and the Consortium on the commercial terms of the deal, in particular with regard to cash consideration, debt assumption and investment commitment, the latter unexpectedly opted to make a different offer on 10 March 1998. The new offer solicited for wide-ranging tax concessions that the Government felt would be disruptive of its fiscal plans. The reasons for the new offer were not made public, but it appears that a major factor was the declining world copper price during and after the deal had been agreed.

In January 1999, Anglo-American Corporation (AAC), which is already a minority shareholder in ZCCM, registered its interest in buying the remaining unsold ZCCM assets on condition that a major mining partner was found. AAC has so far held several rounds of talks with the Chilean State-owned corporation, Nacional del Cobre de Chile (COLDECO) regarding possible partnership.[2]

In the event of a successful purchase under the current unbinding Memorandum of Understating between the Government and the AAC, the latter will assume ownership of the mines for a cash offer of $90 million. Apart from this, ACC has agreed to a $300 million investment commitment (excluding the Konkola Deep Mining Project).[3]

The frequent breakdown in talks between the bidders and the Zambian Government, and the failure to reach agreement on the conditions of the sale of ZCCM, should be seen as symptomatic of a much more complex phenomenon. This is especially so because the Government has reaffirmed its commitment on the privatization of all the assets of ZCCM. In addition to the withdrawal of Kafue Consortium from the agreement reached with the Government, the main explanations for the slowness in the completion of the privatisation of ZCCM, would appear to be the poor performance of the Zambian economy; the weak state of Zambia's copper mining industry and depressed world copper prices; the complexity of ZCCM's assets; and finally, the country's weak negotiating capacity.

The poor performance of the Zambian economy

The poor performance of the Zambian economy for much of the post-independence period has created an unstable macroeconomic environment, which has been exacerbated by frequent policy shifts over the 1983–1991 period. The combined impact of this has been a political and economic environment which is unattractive to large scale foreign investors, despite the more consistent policy stance of the present Government, and the promulgation of the 1991 Investment Code, which offers more incentives to potential investors than the previous one. The continuing poor performance of the Zambian economy, especially in recent years, has also strained further the ability of the major ZCCM shareholder (the Government) to recapitalize the mines to levels that would make them an attractive package to potential private investors. Paradoxically, it costs the Government/ZCCM about $ 20–25 million per month to keep the loss-making mines afloat, with huge fiscal implications for macroeconomic management.

The weak state of Zambia's copper mining industry and depressed world copper prices

In recent years, advanced technology has lowered significantly the production costs of copper, but Zambia remains one of the highest-cost producers, largely as a result of the use of obsolete equipment/outdated technology, but also because of huge indirect costs and high debt-service payments.

Zambia's copper output has registered a downward trend for several years now, with output declining to about 300,000 tons in 1998, and projected to decline further to between 250–260,000 tons in 1999.

The collapse of world copper prices has compounded the problems of Zambia's copper industry. Since the onset of the Asian economic crisis in mid-1997, copper prices have declined by as much as 44 per cent. Although the first quarter of 1999 registered a slight price recovery, projections are that the 1999 average price would be 40 percent lower than the 1997 price, a phenomenon that is explained principally by the Western commercial stocks which have doubled over the 1997–1998 period to 1.2 million tonnes.

Box 14 (contd.)

The complexity of Zambia's mining sector/ZCCM's assets

In terms of equity shareholding in the Zambian mining sector, the Government, in 1969, acquired 51 per cent controlling interest as part of the nationalization programme at the time. In 1978 and 1979, there were further changes in the shareholding of the two mining companies that ultimately constituted the present ZCCM (i.e. Nchanga Consolidated Copper Mines Limited — NCCM — and Roan Consolidated Mines Limited - RCM). The Zambian Government expanded its share in NCCM from 51 per cent to 60.026 per cent and in RCM from 51 per cent to 60.62 percent. This was as a result of the conversion into equity of government loans extended to the two companies at the time because of operational problems emanating from poor world copper prices. Although the minority shareholders were given the offer of maintaining their equity shareholding percentage by contributing additional capital, they declined to take up that offer. In 1982, the Government decided to merge NCCM with RCM to form what it now ZCCM. At the time of its formation, ZCCM became the second largest copper mining company in the world. It is presently the largest mining firm in Zambia — as well as the largest company in the country and accounts for all of Zambia's copper, cobalt, lead, zinc, and pyrites production. The only significant minority holding is the 27 per cent held by Zambia Copper Investment, owned by Anglo-American Corporation and DeBeers, via Minorco, registered in Luxembourg.

Weak national capacity to implement a privatization programme

The lack of expertise in Zambia to undertake the process of privatisation meant that the State has limited capacity to negotiate the privatization of the mining sector, in general, and ZCCM, in particular. Indeed, the agreement between the Government and Kafue Consortium was negotiated with assistance from international consulting firms, namely, Arthur Andersen and the Mineral Resources Development Inc. as well as from Zambia's financial advisers, N. M. Rothschild and Sons Limited.

Although Zambia has been cited by the World Bank as the fastest privatizing country in Africa, the privatization process has been held back because of this lack of appropriate expertise and negotiating capacity. For example, despite the serious commitment of the Government since 1991 to privatize State-owned enterprises, only three companies were actually transferred to private hands by early 1994, although, the momentum has considerably picked up since then.

Product and factor markets are underdeveloped and uncompetitive, and, until recently, at the organizational level there was no realistic framework for privatization. There was a lack of well-staffed, well-equipped and adequately funded agencies that could handle effectively and with sufficient confidence and speed the execution of the privatization policy. This also applied to the Zambian Privatisation Agency and the Investment Centre which were set up to administer the exercise and to facilitate the setting up of business enterprises.

The limited experience in property valuation procedures and the absence of a well functioning stock market, or an efficient and solvent financial system capable of handling complex transactions associated with the privatisation process, also appeared to have delayed the process, especially that of determining the market values of the assets being privatized. Also, the lack of other expertise for privatization, namely, experienced lawyers, merchant bankers and accountants familiar with stock transfers exacerbated the problems.

Efforts have, however, been underway in the past few years to identify and address these constraints. For example, a competition policy was enacted in 1994, three years after the beginning of the privatization programme, and a stock exchange[4] was set up in the same year, and the enforcing authority, the Zambia Competition Commission, was established as recently as 1997.

1 The Consortium consisted of Avmin Limited, Noranda Mining and Exploration Inc., Phelps Dodge Mining Company and the Commonwealth Development Corporation.

2 If concluded, the partnership would involve the two mining giants co-financing $800 million for an investment/recapitalization programme in ZCCM covering the Nkana, Nchanga, Konkola, and Nampundwe mining projects.

3 It is important to note that the deal, as is currently being negotiated, will not make AAC assume ZCCM's debt, currently standing at about $600 million. In mid-May, 1999, AAC reported that its purchase of the remaining ZCCM assets is dependent on: (a) the outcome of the Corporation's on-going due diligence study on Nkana and Nchanga that is expected to be completed in July, 1999; and (b) concluding a deal with an investment partner (possibly COLDECO) before October 1999.

4 The performance of the Lusaka Stock Exchange (LuSE) to date is very weak: poor dividend distribution, the history of public companies in Zambia; lack of market confidence in Kwacha-denominated equity securities; and high transaction costs, have all prevented the stock exchange from becoming an attractive, vibrant source of long-term capital and liquidity. To date, only a handful of companies are listed on LuSE in a country that is near the final stages of its privatization mission.

scale mining through special credit schemes for miners to meet the cost of equipment or start-up capital requirements. Alternatively, financial institutions could set up leasing and hire purchase arrangements for the procurement of mining equipment. Some form of partnership or cooperative arrangements between miners in the formal sector and small-scale miners could also facilitate the transfer of technology from the former to the latter, and encourage optimal exploitation of mineral resources. Governments could facilitate this by encouraging and providing support for the formation of formal enterprise groups in the small-scale mining sector. Supply of extension services in mining, mineral processing and marketing, in particular, marketing arrangements which are responsive to the needs of artisanal miners, would contribute to modernizing the small-scale mining sector. Donors could assist LDC Governments to design and implement technical assistance programmes aimed at, *inter alia*, introducing new technologies, skills, and modern methods of management to the small-scale mining sector.

It is important to note that the integration of the mining sector into the national economy would be necessary in order to optimize the multiplier effects of the sector on the entire economy. Essential inputs into the mining sector could be sourced locally, and forward linkages to this sector could be developed through the establishment of value-added activities, provided such activities do not compromise the competitiveness of the industry.

Structural change in LDC economies requires a strategy of simultaneous development of agriculture and industries, and of the informal sector, which in most LDCs is huge relative to the formal sector, and provides livelihood for a significant proportion of their populations.

LDC Governments need to enact legislation to ensure sustainable mining development especially in view of the high propensity for mining activities to degrade the environment. Elements of a comprehensive environmental management system would include the following: enacting environmental legislation and establishing an effective procedure for monitoring compliance; making it obligatory for new projects to prepare environmental impact assessments and environmental action plans based on baseline environmental studies; and establishing a transparent mechanism for determining environmental liability, and ensuring that the polluter pays for such liability. It may also be necessary to institute measures to resettle communities whose livelihoods are displaced by mining activities and give them adequate compensation.

Manufacturing

The experiences of more successful developing countries in East and South-East Asia suggest that a strong agriculture-industry nexus is crucial for industrial development. Continuously improved techniques for manufacture of agricultural tools, and forward and backward linkages between agriculture and industry, were instrumental in the industrial development of these countries. Even in some industrializing African countries, for example, Zimbabwe, agricultural-industrial linkages were critical for accelerating industrial development, especially prior to the implementation of structural adjustment programmes in the 1980s. (UNIDO, 1989, in Cornia, van der Hoeven and Lall, 1992: 219).

Structural change in LDC economies requires a strategy of simultaneous development of agriculture and industries, and of the informal sector, which in most LDCs is huge relative to the formal sector, and provides livelihood for a significant proportion of their populations. Rural industries are an important component of these activities, and LDCs should learn from examples of good practice (box 15). The informal sector would benefit from a redistribution of public expenditure to support the provision of infrastructure and services, which are critical to its development, and from the elimination of restrictive regulation.

Box 15: Globalization: threat or opportunity for rural industrialization in LDCs

The role of rural industries in employment and income generation to complement agriculture is well known. Trade liberalization and globalization have exposed most of the industrial sector to large and giant international companies, providing both opportunities and challenges. Opportunities are in the form of exposure and access to better technology, availability of a variety of raw materials and components, which guarantee better quality and provide means to higher efficiency and productivity. Challenges take the form of competition and reduced protection which exert considerable pressure on efficiency, price, quality, cost-control, marketing expertise, customer-satisfaction and innovativeness. Globalization is a major force that will modify and mould the environment for SMEs and entrepreneurship well into the twenty-first century (Benjamin, 1999).

Functions to support rural industrialization

The experience of countries with rural industries, also known as rural SMEs, vary. Some successes and failures are cited in the literature. The success of rural industrialization projects hinges upon the performance of a variety of functions which are outside the reach of the rural poor including:

- identifying a potential enterprise and entrepreneurs and conducting detailed feasibility analysis,
- searching for, and adapting, technology;
- developing production systems suitable to local conditions;
- organizing the producers into viable groups, and training them in managing an enterprise.
- securing adequate investment finance from appropriate credit channels;
- establishing forward and backward linkages for finished products and raw materials;
- providing easy access to financial resources, necessary marketing support, and ensuring proper and desired infrastructure support;
- introducing technological changes to orient production to meet market requirements;
- training/upgrading labour skills to produce products acceptable to markets;
- creating (or making available) an institutional network to provide information on markets and technologies and also to guide the adoption of appropriate technologies.

Ability to market the products of rural industries is also important. Under WTO agreements, rural industries are faced with new challenges in export markets related to a variety of standards (technical, health and safety, packaging norms, rules of origin and environment) that must be met.

The role of State and non-State actors

The Government is expected to act as facilitator in creating an enabling environment through necessary policy initiatives and infrastructure development. Despite limitations, such as scarce financial resources, limited institutional capacity, small size of operations and involvement in diversified activities, several NGOs have a good track record in spearheading rural industrialization and poverty alleviation projects because of strong grassroot links, commitment, flexibility and adaptability, and in most cases, dedicated professionals. The international community also has a role to play in assisting LDCs to develop their rural industries, particularly in the area of marketing and trade facilitation and in ensuring the implementation of WTO agreements by all parties.

Successful rural industrialization in the case of the People's Republic of China

China often has been mentioned as a role model for rural industrialization from which LDCs could learn. From an early stage onwards, the potential of the country's vast rural areas was recognized and the development of rural industries actively promoted. Post-Mao reforms have liberalized the township and village industries which continue to receive active support in terms of technology, human resource development, infrastructure and financial resources. Furthermore, through the establishment of strong linkages to the needs of the rural population, rural areas have become increasingly self-sustaining while linkages to the urban-based industrial sector have also been fostered. In particular in coastal areas such as Jiangsu Province, rural industries are now engaging in export and high-tech production and have often entered into joint ventures with foreign companies. Preliminary data suggest that the development of township and village industries has greatly contributed to the alleviation of rural poverty (ESCAP, 1999).

The inclusion of informal sector groups in publicly financed training programmes would also go a long way in facilitating the development of the sector.

In light of the time-dependent nature of technological capacity building, the tools and timing of competitive exposure for LDC small and medium scale enterprises should be selective. In this regard, Lall (1995) suggests four strategies:

- Support for infant industry, albeit for a limited period;
- Promotion of activities that have long learning periods but bring significant external benefits;
- Rapid liberalization of activities that would bring in new technologies to allow firms to use existing capabilities to reach competitive levels without further need for protection;
- Slow liberalization of activities that require longer learning periods in order to allow firms to build up capabilities for new technologies and create new skills for full competitiveness;
- Enhancement of supply-side measures to provide the necessary human capital, finance, information, and extension services, while firms build capabilities.

Aid could play an invaluable role in capacity-building for industrial development in LDCs through training and education, and also through public investment schemes in the rehabilitation and expansion of physical infrastructure.

Manufacturing activities, in general, would benefit from policy measures that create a more competitive macroeconomic environment. For the 29 LDCs that are currently members of the WTO, any protection offered to infant industries should conform to Article XVIII (C) of the General Agreement on Tariffs and Trade (GATT) 1994, and should only be accorded for a limited period to dynamic sectors which are expanding in line with the dynamic comparative advantage of the country. Industries that need more specific skills could also benefit from targeting education and training programmes to their special needs.

LDCs could also gain from cooperation with other developing countries within the framework of regional trading arrangements, particularly in the area of redeployment of labour-intensive manufacturing processes to low-wage economies, and the transfer of managerial and technical knowledge (UNIDO, 1997:14).

Privatization has been proposed as a means of improving the performance of previously State-owned enterprises (SOEs), as well as facilitating their access to modern technology. However, so far, privatization programmes in LDCs have met with varying degrees of success. It is important to note that privatization may not necessarily be a panacea to ailing SOEs. On the contrary, continuing active participation of the State may be necessary in those areas where private investor interest is lacking. In particular, the State could collaborate with private sector interests in joint ventures; in instances where it may be necessary to continue alone, there should be a clear separation between management and ownership of such enterprises, and they should also be exposed to normal competition (Cornia, van der Hoeven and Lall, 1992: 225).

Aid could play an invaluable role in capacity-building for industrial development in LDCs through training and education, and also through public investment schemes in the rehabilitation and expansion of physical infrastructure. Concessional flows could be used to support joint ventures, which provide working capital for rural financial institutions (Cornia, van der Hoeven and Lall, 1992: 226).

Many commentators have argued that low-income countries, including LDCs could strengthen their manufacturing sectors through policies that support the development of their small- and medium-scale enterprises to develop into competitive formal sector enterprises. What follows is a discussion of how this could be attained.

How can policy enhance the competitiveness of SMEs in LDCs?

In general, there are three levels of policy-making and direct intervention: the macro-level that defines the legal and regulatory environment; and the sectoral and micro-levels that deal with the strategies for promoting firm-level competitiveness, networking and efficiency through provision of training, research and extension delivery services. The major constraints facing individual SMEs are inadequate capital and skills, and a restrictive macroeconomic environment, among others. Consequently, much of the efforts to assist them have been directed at setting up institutions and schemes which provide *real services,* which may involve direct assistance for designing, building of prototypes, conducting feasibility studies, selecting suppliers, providing training, credit, and credit services.

There is a growing consensus on the need for intermediate- or medium-level institutions to support SMEs.

There have been isolated success stories, but justification for wider public intervention has come from evidence collected in the context of studies on industrial districts and clustering, rather than those concerning individual firms (Nadvi and Schmitz, 1997; Pyke, 1994; UNCTAD 1998d). Drawing from several case studies, the main lessons are that support for SMEs should be based on specific organizing principles. Public intervention should therefore be:

- Focused and strategic, and shaped around the sectoral needs of clusters;
- Channelled through private-sector representatives and self-help bodies such as industry associations;
- Flexible, demand-oriented and customer-driven rather than top-down and supply-driven; and
- Decentralized to community and regional levels.

Moreover, services such as finance, training, and innovation should be provided in an integrated manner rather than separately.

The availability of efficient, cost-effective commercial services to domestic producers is an important determinant of competitiveness.

The objective of intervention should be to enhance horizontal and vertical ties among enterprises, promote collective efficiency, stimulate learning, stabilize the market and reduce transaction costs. Productivity results from a network effect — a combination of greater access to relevant specialized information, greater supplier-producer interaction, access to high-quality public goods and innovation induced by rivalry within clusters. The efficiency of collective support has been supported by a number of case studies (boxes 16 and 17).

LDC Governments would need to fashion enterprise support to promote, and where necessary, build up new clusters, especially for non-traditional exports that may be destined for niche markets. There is a growing consensus on the need for enterprise support, which calls for intermediate- or medium-level institutions to support SMEs. As such, institutions are weak in LDCs, most countries will need to start with the basics. This will involve setting up institutions to provide training in business and management skills and technical information support, as well as setting up industrial standards and quality control agencies. In addition, institutions should be set up to promote a culture of innovation among

Box 16: Collective Support to Africa's Footwear Industry

The leather and footwear industry of Southern and Eastern Africa receives support from UNIDO, which is channelled entirely through the national associations participating in the programme. The two distinctive features of this programme are that first, it is demand, rather than supply driven, reflected in the support given to manufacturers to participate in international trade fairs. They often take shared stands at such fairs which mitigate the fear of intimidation by larger firms and helps to attract attention to producers. Trade fairs are avenues for producers to learn about competitors and markets as well as customer needs. The Bologna and Dusseldorf International shoe fairs, for example, provide avenues for African leather and footwear enterprises to measure their products against the best in the world. The second feature is that rather than being public-driven, the industries operate under the Eastern and Southern Africa Leather Industries Association (ESALIA). This organization has proved to be an effective channel for accessing outside assistance and a forum for regular exchange of experience among enterprises with similar problems.

Source: Nadvi and Schmitz, 1997

Box 17: Cluster supply response under competitive pressures

The surgical industry of Sialkot in the Punjab region of Pakistan consists of more than 300 manufacturers who produce surgical instruments from stainless steel. They subcontract to more than 1,500 small enterprises specializing in different stages of production and there are more than 200 input suppliers and more than 800 other enterprises providing services. The cluster exhibits mixture of intense competition and cooperation at all stages of the value chain. It accounts for over 20 per cent of world exports and is the second largest exporter after Germany. Over 90 per cent of output is exported, about 90 per cent of which goes to Europe and North America.

Another cluster, the Sinos Valley shoe manufacturing cluster in Brazil consists of small firms that have developed from enterprises previously servicing the local market to a cluster exporting about 70 per cent of its output. Some 500 shoe manufacturers draw on over 1,000 suppliers of specialized inputs and services supported by a wide array of self-help institutions. Fierce local rivalry exists alongside inter-firm cooperation and complementarity. Sinos Valley is largely responsible for the growth in Brazil's export of leather shoes from 0.5 per cent in 1970 to 12.3 per cent of total world exports in 1990.

The success of these two clusters would not have been possible if firms had been operating in isolation — efficiency and flexibility gains captured through collective efficiency could not have been realized without networking (Collective efficiency is defined as "the competitive advantage derived from local external economies and joint action").

Source: Nadvi and Schmitz in UNIDO (1997).

firms, develop basic research skills, provide information services on export, and credit support for investment, working capital and exports.

Services[24]

One defining characteristic of globalization is that services are becoming increasingly tradeable. This is because of the growth in service sector employment and output coupled with the impact of technological progress on service industries. Consequently, there is a much higher level of international competition in services, and Governments have become aware of the major impact that this sector has on efficiency, trade performance, and the development of their economies. The availability of efficient, cost-effective commercial services to domestic producers is thus an important determinant of competitiveness.

For LDCs, services are becoming increasingly important both as a direct export and as inputs into the production process. The export of services is, or has the potential to become, a significant source of export earnings; for example, the Gambia and the Maldives are major tourist destinations; Benin and the United Republic of Tanzania earn substantial fees from transit through their ports of the imports and exports of neighbouring countries; and Bangladesh and the Sudan receive substantial remittances from their citizens working abroad. In addition, there is the potential for growth and development in several service sub-sectors in LDCs, including, tourism, music, information technology-based services, labour and financial services.[25]

Tourism

International tourism is an important contributor to employment and foreign exchange earnings in a number of LDCs, including the Gambia, Maldives, Nepal, Samoa and Vanuatu. Several LDCs have succeeded in expanding their export earnings from tourist services by deliberately pursuing a tourist development strategy, investing in the supporting infrastructure, and training the labour force.

Notwithstanding the success of some of these countries in expanding their tourist trade, the long-term sustainability of an international tourist business requires careful planning and marketing, which must be responsive to changing market demands. Niche marketing is an important aspect of tourist development, and a country needs to identify the segment of the market best suited to developing its comparative advantage. Some LDCs have pursued the mass tourist market, packaging beach vacations designed to serve large numbers of tourists. However, the large influx of tourists, particularly at peak seasons, can put a significant strain on local infrastructural services. Moreover, in the past, this type of tourist development has paid little attention to environmental management and has resulted in extensive environmental damage. Not only the physical environment but also the social environment can suffer from mass tourism, which is frequently accompanied by rising crime rates, prostitution and drug trafficking.

Niche marketing is an important aspect of tourist development, and a country needs to identify the segment of the market best suited to developing its comparative advantage.

The Gambia's proximity to Europe has enabled it to develop successfully a mass tourist industry. However, failure to market the distinctive or unique aspects of the country has meant that the industry is now facing competition from other "sun-and-sand" destinations, which can compete effectively in terms of price and quality.

Maldives provides a contrasting example of successful tourist development; it also offers "sun-and-sand" vacations, but they are targeted at the low-volume, high-cost segment of the market. The disadvantages of its distant location and inconvenient air travel schedules have been overcome by marketing the "away-from-it-all" experience of a Maldives island vacation.

Another segment of the tourist market, which offers potential to certain LDCs, is ecotourism, comprising activities that do not entail environmental degradation. Ecotourism typically involves the operation of small-scale tours to natural areas or wildlife habitats, and since it is less capital-intensive than mass tourism it offers greater opportunities for local SMEs. Uganda is an example of an LDC which is successfully developing the low-volume high value-added ecotourism market, based on its rare wildlife — particularly the gorilla — which inhabits protected areas in the country, and rafting or surfing on the Nile river at the Bujagali Falls. Bhutan and Nepal have been successful in developing the high value-added, price-intensive market for trekking, although Nepal is now experiencing some of the adverse environmental impacts of over-rapid expansion.

The success of the niche marketing of tourism in LDCs depends very much on effective institutional and management capacity and appropriate human resource development. Access to market information is an essential condition for successful tourist development, but in many cases, this can only be acquired by collaborating with international tourist companies, which can supply the necessary technology transfer, training and marketing. Tourism-related services are dominated by transnational corporations, which are the essential intermediaries between the suppliers and final consumers of tourist services. Appropriate skills are therefore needed at all levels in the management of the tourist sector and in the provision of accommodation, catering, transport and associated services demanded by international visitors. Many of these services will be provided by the private sector, but permanent dialogue between the Government and those directly involved in the tourist business is of critical importance for the effective development of a sustainable tourist industry.

The greatest challenge facing the tourist sector in LDCs is to ensure that tourism's negative impacts on the host communities and the environment are kept to the minimum, and that linkages to other sectors of the economy are developed, while providing satisfaction to tourists and contributing positively to government income.

The greatest challenge facing the tourist sector in LDCs is to promote tourism on a sustainable basis. That is, to ensure that tourism's negative impacts on the host communities and the environment are kept to the minimum, and that linkages to other sectors of the economy are developed, while providing satisfaction to tourists and contributing positively to government income. This requires a marked shift from the traditional type of tourism to one that acknowledges the increasing global character of an industry which is being driven increasingly by global values.

LDC Governments interested in developing this sector would need to formulate action plans and create or adapt institutions to oversee the development of human resources, and tourist infrastructure, the implementation of promotional strategies and legislation, and the involvement of the private sector. These plans should be based on an integrated approach to tourism, economic development, and environmental protection, and should ensure the participation and inclusion of previously excluded groups (UNCTAD, 1999b: 113).

The abundant labour in LDCs can only be put to proper use in the tourist sector if it is properly trained in skills that are in short supply in the sector. This would involve human resource development strategies of the type described above, as part of institutional and capacity building for the sector. Specifically, training for the sector must ensure high-quality services, which are crucial to the competitiveness of tourism in LDCs.

LDCs would need to upgrade or reform their telecommunications infrastructure to be in a position to export these services competitively.

Governments, in association with the private sector, should upgrade the tourist infrastructure, including, hotels, tourist attractions and access roads. The sector could also benefit from new promotional strategies aimed at repackaging tourist products to increase their value and interests for tourists. For example, an efficient information gathering system would give tour operators the flexibility to tailor products to changing tastes or market trends, to serve niche markets, as well as develop the appropriate mix between mass, low-value tourism and low-volume, high-value tourism.

Other potential opportunities

A range of services, including, music, and information technology-based services whose potential has to date been grossly under exploited in LDCs, could, with appropriate policies, be developed to competitive levels. Music, for example, could become a vibrant and thriving export industry in several LDCs if their Governments were to help create an institutional capability to develop the sector. This would also require some education and training of policy-makers and musicians on the requirements of export markets, and proper legislation and an implementation mechanism, especially for enforcing copyrights. Furthermore, the financing necessary to design and market innovative products would have to be found, as well as investment in new technology to produce final products able to meet the high standards and stiff competition in export markets.

The development of a competitive information-services export sector in the medium-to long term has to be complemented by rapid growth in domestic information technology applications — starting with labour-intensive data-entry services — and the development of the necessary local expertise and facilities, based on a modern telecommunications infrastructure, if LDCs' service exports are to be globally competitive (UNCTAD, 1999b: 117–119). LDCs would also need to be selective in their approach to product mix and the type of capability that each can realistically develop, taking into consideration a realistic entry strategy, and the choice of carriers. Considering that the international market for subcontracting information services is still embryonic, with no dominant market leaders, there are as yet few, if any, barriers to market entry by newly emerging firms (UNCTAD, 1999b: 117-119). LDCs would, however, need to upgrade or reform their telecommunications infrastructure to be in a position to export these services competitively.

Policy emphases will vary for different LDCs to reflect specific characteristics of each of them, such as their level of development, static and dynamic comparative advantages, and physical or geographical characteristics (islands or landlocked).

C. Concluding remarks

Structural adjustment programmes (SAPs), which have been implemented by most LDCs since the early 1980s have not been effective in reviving, or strengthening, the productive capacities of LDCs. In the agricultural sector, productivity had been stagnant for major LDC exports, such as coffee, tobacco, cotton, cocoa, and tea, for much of the period from 1990 to 1997. SAPs have failed to generate substantial increases in investments in LDCs and to develop LDCs' potential (or dynamic) comparative advantage in non-traditional agriculture, agro-processing and industry. In fact, SAPs have been blamed for the "de-industrialization" experienced by some LDCs (Cornia, van der Hoeven and Lall, 1992). This necessitates a reorientation of the overall macro- policy and institutional framework (figure 1) with emphasis on, *inter alia*, human resource development, and restructuring of institutional, managerial and production systems, which are crucial to improving productive capacities and competitiveness in LDCs.

Policy emphases will vary for different LDCs to reflect specific characteristics of each of them, such as their level of development, static and dynamic comparative advantages, and physical or geographical characteristics (islands or land-locked). These are areas in which UNCTAD could collaborate with other specialized organizations, such as FAO and UNIDO,[26] to provide the necessary technical assistance, although LDC Governments would have to take the initiative for domestic policy reforms. Considering the paucity of financial resources and expertise in LDCs, complementary policy support from the international community — taking into consideration the development interests of LDCs — and technical co-operation programmes will be critical for the design and implementation of appropriate policies. A range of international measures necessary to support reforms in LDCs is discussed in the next chapter.

Notes

1. For the possible effects of financing the fiscal deficit associated with natural disasters, and the monetary aspects of this, see Benson, 1997: 62-65.
2. Extensive and prolonged droughts affected more than one and a half million people in Ethiopia and the Sudan in 1998, because of the destruction of crops, and water and food shortages. In the Sudan, bush fires that killed many people aggravated the situation. An earthquake and severe avalanches and floods in northern Afghanistan in the same year caused large-scale loss of lives and destruction of properties.
3. Between 1985 and 1994 Vanuatu suffered seven major cyclones which either destroyed, or reduced drastically, the copra crop – which is the island's principle export.
4. Bangladesh has experienced an increased frequency and intensity of natural disasters. The country suffered from floods and extreme economic disruption in September 1998, affecting two thirds of the country, killing at least 470 persons and rendering about 21 million people homeless or marooned. The floods caused substantial damage to crops and infrastructure: a $300-million rice crop was destroyed, 9,160 kilometres of roads were damaged, over 6,500 bridges and culverts were washed away, and 1,800 schools were affected. Some 11,000 enterprises were inundated, of which over 6,000 were closed. Overall, the economic losses suffered by Bangladesh were estimated at over $4,300 million, which represented a third of the gross national product.
5. The importance of good governance, in particular, the quality, stability and predictability of policies, and efficient functioning institutions in promoting economic development is backed by a wealth of recent literature (see for example, Hall and Jones, 1999). Similarly, the transaction costs attributed to the absence of good governance, and an inefficient institutional framework have been highlighted by recent research (see, Dixit, 1996).
6. Administrative and institutional weaknesses in LDCs underscore many of their difficulties in the area of development. For example, LDC members of the WTO have been unable to fulfil their notification obligations and other WTO commitments in full and on time because of institutional weaknesses and paucity of skilled personnel.
7. This may require a strengthening of the trade units in consulates abroad and/or establishing new ones in countries where there are none at present, and for forging a link between them and industrial associations at home. The organization of domestic international trade fairs, and/or participation in trade fairs abroad, could also be used to the same effect.
8. For a discussion of the progress, constraints and limitations of financial sector reforms in LDCs, see, UNCTAD, 1996a, pp 87-105, and Brownbridge and Gayi, 1999.
9. The average direct contribution of labour productivity to annual GDP per capita growth (attributed to investment in education and training) over a 30-year period, ranged from 1.1 per cent in Malaysia to 3.5 per cent in Taiwan Province of China, Honk Kong (China) and Japan - see Table below:

Sources of growth in NIEs, or areas (average over 1960-1989)

	GDP growth Per capita[1]	Growth from Investment (%)[2]	Residual TFP Growth[3]
1. China (Taiwan province)	7.0	3.5	3.5
2. Hong Kong	5.8	2.3	3.5
3. Indonesia	3.2	2.0	1.2
4. Japan	5.5	2.0	3.5
5. Malaysia	4.0	2.9	1.1
6. Republic of Korea	6.6	3.4	3.2
7. Singapore	6.2	4.9	1.3
8. Thailand	4.6	2.2	2.4

Source: World Bank, *The East Asian Miracle* (1993).

Notes:

1 Labour productivity growth approximated by the average annual growth of GDP per capita;
2 Contribution of direct capital investment per worker;
3 Total Factor Productivity (TFP), or economic efficiency growth contribution, which is not directly attributable to the expansion of physical capital per worker.

10. See part two, chapter 1, for a further discussion of these issues.
11. The landlocked LDCs are: Burkina Faso, Burundi, the Central African Republic, Chad, Ethiopia, Lesotho, Malawi, Mali, Niger, Rwanda, Uganda, and Zambia (in Africa); and Bhutan, Lao People's Democratic Republic and Nepal (in Asia).
12. Nine of the 20 LDCs are landlocked.

13. Ad valorem transport rates for natural resources tend to increase with additional fabrication because shipping tariffs are generally set according to the principle of "what the traffic can bear", i.e. according to strength and weakness of demand rather than costs of carriage per se.
14. The donor community has been supporting the development of infrastructure in LDCs. For example, Burkina Faso is implementing a $300 million transport sector adjustment programme, funded by the World Bank, while the European Union and bilateral donors including, Italy, Sweden, Belgium, Greece and Portugal have provided US $435 million for various projects along the Beira Corridor. Donor support has been crucial in maintaining the functioning of the existing basic infrastructure and should, therefore, continue.
15. These issues, and others, emerged from a World Bank (1994) study on Africa, and have been adapted here for LDCs (see Biggs, Moody, van Leeuwen and White, 1994, chapters III and V).
16. This is why it is discussed here as a cross-sectoral issue, although it is a sectoral issue for just under a third of LDCs which have the potential for hydrocarbon exports and for whom enhanced productive capacity is an important criterion for making their exports more competitive.
17. Included in this list are Angola and Yemen (crude oil), and Bangladesh and Afghanistan (natural gas). In the case of Afghanistan, production is at present minimal because of political instability. In the next few years, a number of LDCs are likely to increase their output or become first-time crude oil producers, including, Chad, Sudan, Equatorial Guinea, the Democratic Republic of the Congo and Madagascar. Mozambique, Myanmar and the United Republic of Tanzania are potential gas producers, while the Gambia and Sao Tome and Principe have the potential for crude oil production.
18. For example, plans to build a 890-mile pipeline (estimated to cost $ 2 billion) to transport 2-billion-cubic-feet-per-day natural gas from Afghanistan to Pakistan, have been delayed for a variety of reasons, including high political risk and security concerns. On the other hand, a few LDCs and their neighbours, in recognition of the efficiency of this mode of transporting oil and gas products, are set to go ahead with their own projects:
    (i) In 1997, the United Republic of Tanzania, in a partnership agreement with Uganda, was to begin the construction of a new oil pipeline from Dar-es-Salaam to Mwanza on Lake Victoria, from where tankers would ferry oil across the lake to Port Bell in Uganda.
    (ii) A $400 million pipeline project to supply Nigerian gas along the West Africa coast was signed by four countries, including Nigeria, Ghana, and two LDCs - Benin and Togo - in August 1999. Gas produced by joint ventures operated in Nigeria by Chevron and Shell will be piped along the coast for power generation in the three countries, which have been suffering from power shortages.
    (iii) There are plans to transport crude oil (about 225,000 b/d is expected to be produced by the middle of the next decade) from the Doba basin fields in Chad, via a 1,050- kilometre (650-mile) export pipeline through Cameroon to offshore export facilities located near Kribi. Construction of the pipeline and export facilities are expected to last two years at a cost of $1.5-$1.8 billion, while the total cost of field development and construction of the pipeline and export facilities is estimated at between $3 - $3.5 billion.
19. A related issue is the price differential for petroleum products between neighbouring countries, which encourages significant smuggling of such products with fiscal repercussions. The Democratic Republic of the Congo is the destination of oil smuggled from Angola, estimated at some 6,000 barrels a month - this amounts to a loss of about 140 million FCFA in tax revenue for the Congolese Government. It is, also estimated that at least 10 per cent of all petrol, diesel and kerosene used in Uganda is smuggled across the border from Kenya. Smuggling of petroleum products from Nigeria to Benin has also been observed.
20. According to the Economist Intelligence Unit, Angolan oil, at present, accounts for 8 per cent of total United States consumption, and this is expected to rise to 13 per cent once oil starts flowing from the new fields in which United States companies such as, Chevron and Exxon, have interests.
21. In 1994, Chile earned slightly more than what the whole of sub-Saharan Africa earned from exports of such "dynamic" agricultural products, Malaysia earned double this amount and Brazil earned more than three times the foreign exchange earned from this source in sub-Saharan Africa.
22. Possibilities for export expansion in these products would also depend on further liberalization in international agricultural trade. This is because, while tariff escalation has generally decreased, it is significant still for a number of products important to LDCs, including vegetables, fruits and nuts. Also, post Uruguay Round tariff reductions are low for crude vegetable oils and leather; in addition, uneven product coverage and limited

agricultural liberalization would limit, for example, meat exports from LDCs. (see UNCTAD, 1997:56-59).

23. This is so not just for the least industrialised African economies but also for countries such as Zimbabwe and Kenya, with relatively diversified structures. Indeed, even in South Africa the contribution of agriculture to what may be termed overall an agro-industrial complex is considerable (MERG, 1993).
24. The introduction to this section, and the discussion on tourism, is extracted from UNCTAD, 1998a, Part two, chapter 3: 109-116.
25. For a discussion of labour and financial services in LDCs, which are not covered here, see UNCTAD, 1998a: 116-125. See the same source, pages 126-135 for how LDCs can use the WTO General Agreement on Trade in Services (GATS) to enhance their competitiveness in the services sector.
26. For the specific areas in which UNIDO could provide crucial technical assistance, see UNIDO, 1997, especially pages 55-58.

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International support measures to enhance productive capacities and competitiveness in LDCs

Chapter

4

Introduction

The previous chapters discussed the magnitude of the complex development problems of LDCs stemming largely from their structural weaknesses, and proposed measures to address them at the national level. Nevertheless, because of the enormity of the problem, there is a general consensus that LDCs cannot by themselves address their structural weaknesses that have been the bane of their development. The problem is twofold. First, LDCs lack adequate levels of resources – financial, human and technological - necessary for their own development. Second, they have been frustrated in their efforts to export the few products in which they enjoy some comparative advantage, despite the existence of several preferential market-access schemes for their exports. This is partly due to their supply-side weaknesses, the persistence of tariff peaks and tariff escalation, and difficulties in understanding and utilizing various schemes under the Generalized System of Preferences (GSP). Intervention by the international community, therefore, needs to take the form of: a) providing LDCs with adequate resources for enhancing their productive capacities; and b) working out more realistic and enhanced market access schemes for LDC products. Resource levels can be raised not only through increasing inflows, but also by helping to reduce resource outflows, for example, through debt cancellation, or by reducing debt-servicing obligations, and other measures proposed below (section B). Through such measures, LDCs would be able to take full advantage of, and integrate positively into, the global trading system and finally be in a position to address effectively their endemic poverty.

LDCs have been frustrated in their efforts to export the few products in which they enjoy some comparative advantage, despite the existence of several preferential market-access schemes for their exports.

Intensified action to foster development in LDCs is important partly in the interest of international solidarity. It is imperative that LDCs, consisting of 13 per cent of the world's population, share in the benefits of globalization. However, this ethical imperative apart, there is also an economic rationale for the international community to act. LDCs may be poor, in terms of the levels of income that they are able to generate at present, but their economic potential is high because, as a group, they are endowed with considerable natural resources. These resources could be exploited for the mutual benefit of both the LDCs and the international community as a whole.

International support measures should, of course, go hand in hand with the LDCs' own efforts to mobilize domestic resources. It is important, in this regard, for LDC Governments to create an enabling environment as much for local as for foreign private investment, and to increase public investment, particularly in the development of their economic and social infrastructure. Such LDC efforts are necessary first, because this assures them ownership and control of the development process. Second, it enables the creation of backward and forward linkages within the economies which are essential for self-sustained economic growth. Third, efforts help to foster a sense of responsibility and accountability on the part of LDC Governments and provides greater opportunities for the participation of civil society in development. Last, but by no means least, sustained efforts at domestic resource mobilization will also lend greater credibility to LDCs in the eyes of the international community and help to overcome the growing aid fatigue.

Although developed countries have subscribed to a number of development assistance commitments at the international level in favour of LDCs (for example the UN aid targets), many have failed to honour their pledges fully. As preparations are underway for the Third UN Conference on LDCs in the year 2001 (LDC-III), it is important for the international community to muster the necessary political will to provide more assistance to the world's poorest countries. Efforts at mobilizing international support for LDCs need to focus on four major actors working in partnership — donor governments, multilateral organizations, the corporate sector, and development NGOs, especially those from the North. Donor Governments need to strengthen their commitments to international development by making adequate resources available for both bilateral and multilateral assistance to LDCs as agreed in the Programme of Action for LDCs for the 1990s (part one, chapter 3). Multilateral organizations largely depend on donor Governments to mobilize development resources for LDCs, but they also have an important role to play in shaping development policy at various levels. The corporate sector, endowed with enormous resources, can do much more than it is doing at present to promote the development of LDCs. It is important, for example, that multinational corporations operating in LDCs reinvest more of their profits in these countries in order to expand their productive base and to develop their human resources and skills. Secondly, since private investment ordinarily goes where the returns are expected to be highest, and, therefore, LDCs are more than likely to be bypassed in most cases, the corporate sector could exercise its responsibility to the poor by setting investment targets for LDCs and establishing special funds to facilitate investment in these countries. As has been demonstrated by the actions of Jubilee 2000 — an international NGO, which includes several eminent persons — and other NGOs that culminated in the enhanced Heavily Indebted Poor Countries (HIPC) debt initiative of the World Bank/IMF, the NGO community can influence donor Governments and the private sector to act on international support measures.

It is important to reiterate the point made earlier (part one, chapter 2) that, in order to be effective, international support measures need to target strategic sectors and should aim at removing the major bottlenecks that impede the enhancement of productive capacities in LDCs. This would enable these economies to move away from aid dependency, and to reach a level where they would be able to compete in the global markets. Given the diversity of LDCs (part two, chapter 3), the specific mix of international support measures must be tailored to suit the needs of each beneficiary country.

The objective of this chapter is to outline briefly the role the international community can play in addressing the supply-side weaknesses and related problems in LDCs in order to enhance their competitiveness in global trade. In what ways can the international donor community complement LDCs' own efforts towards effective and positive integration into the multilateral trading system through strengthening their competitive position in global markets? What measures are necessary in the interim to improve market access for LDCs' exports?

In this chapter it is suggested that international support measures for LDCs should be delivered in two different, but complementary, packages. The first is a "priority-needs" package including measures that should, or could, be delivered within a relatively short period of time either due to the immediacy of LDC needs or because their implementation would involve relatively modest levels of resources. The second is a long-term financial and technical assistance package involving measures that entail either complex planning and management processes or capacity-building and/or substantial levels of resources which may take time to mobilize or may involve intricate negotiation processes. These proposed measures are discussed below.

International support measures for LDCs should be delivered in two different, but complementary, packages: a "priority-needs" package in the short term and a financial and technical assistance package in the long term.

A. Priority-needs package

The priority-needs package for immediate to medium-term needs would consist of measures to substantially enhance market access for LDC exports, address the debt problem and other forms of resource outflows, increase resource inflows, upgrade skills, improve capacity utilization, support trade in services and deal with natural disasters.

Market access

Enhanced market access for LDC exports would constitute an important incentive for improving their productive capacities and encouraging both domestic and foreign investors to invest in the productive sectors of these countries. A variety of measures could be deployed for this purpose, including a more efficient utilization of existing market access schemes by LDCs, improved implementation of market access commitments by developed countries to facilitate market access for LDCs' exports and adoption of additional or new measures to expand such market access for LDC goods and services. In this connection, three elements are worth considering.

First, developed countries should provide technical assistance to LDCs to train their officials and exporters in the proper use of GSP schemes. A recent UNCTAD study has revealed that, between 1994 and 1997, the utilization rate was below 50 per cent for GSP schemes of the EU, which is a major market for LDCs (UNCTAD, 1999). Simplification of these schemes, including improvements in the rules of origin (such as full and global cumulation of production inputs from other beneficiaries), would greatly increase their utilization rate by LDC exporters.

Anti-dumping, countervailing and safeguard measures – including sanitary and phytosanitary measures – should be implemented in a transparent and consistent manner.

Second, in line with their obligations under the special and differential treatment measures in the WTO agreements, the developed countries should implement these agreements, especially the contingency protection measures (anti-dumping, countervailing and safeguard measures) in a manner that does not frustrate market access for LDC exports. In particular, sanitary and phytosanitary (SPS) measures need to be applied in a transparent and consistent manner — so as not to take the form of non-tariff barriers to trade — to support the development of LDCs' non-traditional exports such as fish and horticultural products (see part two, chapter 3).

Third, the developed countries should undertake to provide enhanced and stable market access for exports that LDCs produce, notably by completely eliminating tariffs on all these exports.[1] This is particularly relevant as those products in which LDCs enjoy comparative advantage (especially labour-intensive products), or which offer possible trade diversification for LDCs — such as leather, footwear and vegetable oil — are subject to tariff escalation and tariff peaks. Possible future multilateral trade negotiations in the context of WTO, at a minimum, should address the issue of tariff peaks and tariff escalation and their impacts on LDCs.

Measures to augment and conserve LDC resources

With the intensification of international competitiveness, it has become increasingly necessary that the international community take measures that would raise the level of resources at the disposal of LDCs in order to deal with more immediate development issues. Concerted efforts are needed to halt the continuous decline in ODA flows to LDCs. Achieving the United Nations official development assistance (ODA) aid targets of 0.15 and 0.20 per cent of donor countries' GNP would be the best approach in this regard. (See chapter 3, part one)

While an increase in resource flows to LDCs would certainly enhance the development potential of these countries, it is also important that LDC development partners work towards ensuring that more of the resources generated within LDCs are retained there in order to finance development. The recent improvements on the HIPC initiative are welcomed. However, this does not mean that the debt problem of LDCs is over. In fact, more than a third of these countries will not qualify under the "enhanced" initiative and, for those that will, the process of reaching "completion point", as discussed above (part one, chapter 2), is painfully slow. It is important to include the issue of debt in the priority package, taking into account some of the suggestions already made in part one, chapter 2 above, to ensure that immediate debt relief is provided to all debt-distressed LDCs. International support measures are also needed to assist LDC Governments in preventing capital flight and in encouraging its repatriation through special incentives.

Expenditure on military hardware and large armies has significant fiscal implications for many Governments, in particular as this diverts funds from health care, education and infrastructural development, which are crucial to the development of productive capacity and competitiveness in any economy. During the period 1990-1997, for example, a fall in military spending was accompanied by an increase in spending on education and health care as a proportion of GDP in a sample of 56 countries, including 25 African countries. Despite the downward trend in military expenditure in Africa during most of the 1990s (it was 2.3 per cent of GDP in 1998), it was still relatively high compared to 1.6 per cent and 1.3 per cent of GDP in Asia and the Western hemisphere respectively. Indeed, Africa (where most of the LDCs are located) spends more, as a share of GDP, on the military than all other regions, except the Middle East[2] (IMF, 1999:103–107). The international community can contribute to reduced military expenditure by helping with conflict prevention and conflict resolution in developing countries, including LDCs.

Enhancing productive capacities

Increased aid flows, more efficient utilization of aid, efforts to discourage capital flight, and reductions in military expenditure in LDCs would release scarce financial resources for funding projects which support the enhancement of productive capacities and competitiveness in LDCs. Such projects should be directed towards upgrading skills (e.g. on-the-job training schemes), supporting education and health care delivery as part of human resources development, and promoting trade efficiency. Special technical assistance programmes to address the lacunae in management skills at the firm level will be necessary in the immediate to short term, not only to improve capacity utilization, but also to introduce managers and entrepreneurs to a more proactive management culture, including familiarization with skills necessary for meeting the exacting standards of global markets.

Improving capacity to manage natural disasters

The economic weakness of LDCs renders them specially vulnerable to natural disasters which, in some instances, have had disastrous economic and social effects (part two, chapter 1). Although it is virtually impossible to prevent the occurrence of such disasters, a better analysis and understanding of them could lead to the development of early warning systems and appropriate disaster response and relief systems. These would not only lessen the social and economic disruptions associated with them (e.g. damage to the already weak productive capacities of LDCs prone to them), but also facilitate the process of economic recovery from them.

Special technical assistance programmes to address the lacunae in management skills at the firm level will be necessary in the immediate to short term, to improve capacity utilization and introduce managers and entrepreneurs to a more proactive management culture to enable them to meet the exacting standards of global markets.

Those LDCs prone to natural disasters need technical and financial assistance from the international community in disaster management. Shocks and losses related to natural disasters could be reduced if LDCs had the training and expertise in disaster-preparedness and post-disaster rehabilitation activities. If training in tackling the risk of hazards were incorporated in the design of broader economic strategy, it would also help mitigate the economic impacts of disasters.

B. Long-term financial and technical assistance package

In the long term, international support measures should focus, first, on easing supply-side constraints in order to improve the efficiency of domestic production as well as to enhance capacity for the supply of tradeable goods and services; and, second, on the promotion of LDC trade, for example by strengthening the negotiating capacities of LDCs to enable them to formulate negotiating positions at WTO in consonance with their development priorities. Long term measures should be adopted as soon as possible, though it is expected that their full implementation will take longer than those recommended under section A.

Measures to enhance productive capacities

Long-term financial and technical assistance is needed to fund major investments in physical and social infrastructure, which are crucial in “crowding in” private investments in LDCs. In the previous chapter, poor transport infrastructure and facilities were identified as a major bottleneck in the development of productive capacities in LDCs. Funding is needed to link up production centres to domestic and export markets by road, including rural feeder roads. Other infrastructure in need of funding, especially to support industrial development, includes reliable systems of water and power supply. Funding and technical support is also needed for improving port facilities, customs services and telecommunications facilities in order to enhance trade efficiency.

Donor assistance would be invaluable to enhance the competitiveness of LDC economies by supporting enterprise development, in particular, by facilitating access to new technology, especially for SMEs, improving technological capabilities, and providing training to improve firm-level management skills. Meeting the long-term skill requirements of LDCs calls for a new orientation to human resource development. This might require changes to their educational systems and curricula, with an emphasis on vocational and technical education, and a partnership between schools and training institutions on the one hand, and industries or the private sector on the other. This would provide a framework within which the educational and training systems of LDCs could meet the skill requirements of industries specifically and those of the economy in general. Donor support for capacity-building would play a critical role in ensuring the success of this strategy for skills development in LDCs.

The widespread environmental damage associated with agriculture (including fisheries and forestry), mining and other productive activities must be addressed to ensure that improved productive capacity and competitiveness in this sector are attained without damaging the environment. Environmental degradation would undermine the basis for sustainable development. This is particularly important for agriculture in view of its overwhelming contribution to the GDP of LDCs, as well as its importance as a source of livelihood to the vast majority of their populations. Donors could contribute to sustainable agricultural development, inter alia, by providing financial resources, expertise and training to LDCs to enable them undertake continuous assessment, monitoring and evaluation of environmental impacts through information management and decision-support systems, and by the use of indicators of sustainability and geographical referencing of information.[3]

By providing larger markets, regional trading arrangements would make LDCs more attractive to potential investors, encourage the pooling of resources for research on trade and trade-related issues specific to the region, and introduce LDC exporters to the exacting standards of global markets.

Long-term international support measures should also include capacity-building, especially training of staff and provision of laboratory equipment, to ensure that LDC exports meet the SPS requirements of importing countries.

Measures in support of regional trading arrangements

Technical assistance to improve the functioning of regional trading arrangements of which LDCs are members would help these countries to become more competitive. By providing larger markets, these regional trading arrangements would make LDCs more attractive to potential investors, encourage the pooling of resources for research on trade and trade-related issues specific to the region, and, most importantly, introduce LDC exporters to the exacting standards of global markets. Regional trading arrangements could be boosted by sub-regional and regional approaches to the provision of infrastructure, in particular transit-transport corridors and maritime and aviation infrastructure, which could also ease the transport bottlenecks of landlocked LDCs.

It is also crucial for LDCs to be assisted in developing their trade negotiating capacities to enable them to participate effectively in future trade negotiations, to understand and follow closely developments in WTO and to defend their trading interests and development priorities individually and collectively.

Financing development

The proposed international support measures would certainly require considerable levels of development finance, which would have to come from multilateral, bilateral, as well as private sources. Review of the strategies for ensuring that donors honour their commitments to agreed United Nations aid targets, should form part of the agenda for LDC-III. Ways should be sought to make the round table process of consultations, initiated by LDC-I and upheld by LDC-II, a more useful tool for LDCs to foster their own development efforts, and to mobilize international support.

Since LDCs generally tend to be less attractive to private investors, special measures are necessary to promote FDI flows to these countries. Although LDCs continue to make major efforts to attract investment by creating an enabling environment for FDI, the international community could also play a critical role in assisting them in this regard. From the perspective of the developed countries, specific initiatives that could be taken might involve, inter alia, taxation allowances for companies operating in LDCs, partial risk and partial credit guarantees for private investment in infrastructural development and the development of venture capital funds for projects in LDCs. Also, the granting of bound duty-free and quota-free market access for all products from LDCs would create a strong incentive for FDI to these countries.

Review of the strategies for ensuring that donors honour their commitments to agreed United Nations aid targets, should form part of the agenda for LDC-III. In particular, it is important that the round table process of consultations becomes a more useful tool for LDCs to foster their own development efforts, and to mobilize international support.

C. Conclusions

Ultimately, the LDCs are responsible for helping themselves by mobilizing their own resources and using them to foster their own development. However, the international community can assist this process by providing additional resources and other essential elements for growth such as technical expertise, management skills, and easier access to markets. As least developed countries, there are limits - and in some cases severe limits - on their ability to effectively undertake austerity measures, such as limiting public spending, though more can be done in some cases. However, beyond what can be accomplished by domestic resource mobilization alone, the very limited ability of most of these countries to earn foreign exchange also sharply limits their growth possibilities unless they can obtain finance for vitally needed imports.

In this regard, some critical international support measures needed to assist LDCs, which should be high on the agenda at LDC-III and other relevant international forums, include:

- Preferential terms in favour of LDC access to the markets of developed countries and special support for the development of export capacity in LDCs;
- Increased ODA flows. Many of the least developed countries are already highly dependent on ODA for the financing of their imports. Continued or increased flows will be required in most cases to support more intensive development efforts in the coming decade. The possibility of a more generous aid target for LDCs should be explored during LDC-III;
- Progress by developed countries in increasing the participation of the LDCs in trade in services through the fourth mode of supply of services under GATS, namely movement of natural persons. Considering that remittances from LDC nationals working abroad are a major source of foreign exchange for several LDCs, (part one, chapter 2), this would be of immense benefit to these countries.

- Debt relief measures beyond the current HIPC initiative, including waivers and debt-for-equity swaps; and
- Other efforts to reduce the drain on LDC resources, such as special incentives to influence the repatriation of flight capital.

For developing countries as a whole private investment flows have grown enormously in importance, but these flows have been extremely limited as far as LDCs are concerned. Creative efforts to attract larger flows should be emphasized at LDC-III, including examining the possibility of getting major private donors to establish funds specializing in the funding of direct investments in LDCs, or in arranging for partnerships between local LDC entrepreneurs and foreign private capital.

International support measures need to be designed and implemented in a manner that complements the domestic programmes and policies employed by each LDC to address supply-side weaknesses.

International support measures need to be designed and implemented in a manner that complements the domestic programmes and policies employed by each LDC to address supply-side weaknesses. In this way, not only would costly duplication of projects be avoided, but the efficacy of their domestic programmes would also be greatly enhanced. It is important that both packages of international support measures prioritize projects that promote and facilitate inter-sectoral linkages at the national level as well as sub-regional and regional integration among LDCs.

The least developed countries have undoubtedly benefited from the spotlight of attention that they have attracted in the international community. The preparatory processes for two major international events – the Tenth United Nations Conference on Trade and Development (UNCTAD X) and, especially, the Third United Nations Conference on the Least Developed Countries – gave LDCs and their development partners a rare opportunity to evolve a new strategy of development cooperation. This new strategy should include a search for innovative approaches to mobilizing additional ODA and private capital flows in order to complement LDCs' own efforts to enhance their productive capacities and competitiveness in a rapidly evolving global context.

Notes

1. It is hoped that this would not create too many difficulties for the European Community (EC). GSP and other preferential market access schemes of the ACP-EU Convention imply that about 60–80 per cent of LDCs' exports to the EC enjoy some form of preferential market access. Measures (e.g. reform of GSP schemes, including enhanced coverage) announced during, and since, the WTO High Level Meeting in 1997 by the EC, Canada, Switzerland, Turkey, and other developed countries, have enhanced market access for more LDC products. In the case of the EC, the decision to levy zero duties on a large number of industrial products, and tariff reductions on agricultural products (all previously excluded from its GSP scheme) for all LDCs in line with preferences for ACP countries, imply, according to WTO (1998b, p.3, paragraph. 8) that 99 per cent of LDC exports (by value) now enter the EC market duty free. For the EC therefore, this proposal might imply extending zero-tariff coverage to just the remaining one percent of LDC exports.

2. As a share of government spending, however, military outlays in Africa fell from 12.5 per cent to 8.5 per cent between 1990 to 1998 — the lowest ratio in the developing world and transition economies, except in the Western Hemisphere and the transition economies of Central Europe (IMF, 1999: 105).

3. For details on how the international community can assist LDCs in limiting environmental damage associated with agricultural activities, see UNCTAD, 1997:83-85.

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Statistical Annex

Basic Data on the Least Developed Countries

Contents

Explanatory Notes

Definition of country groupings

Least developed countries

The United Nations has designated 48 countries as least developed: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, the Central African Republic, Chad, the Comoros, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, the Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, the Niger, Rwanda, Samoa, Sao Tome and Principe, Sierra Leone, Solomon Islands, Somalia, the Sudan, Togo, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Yemen and Zambia. Except where otherwise indicated, the totals for least developed countries refer to these 48 countries.

Major economic areas

The classification of countries and territories according to main economic areas used in this document has been adopted for purposes of statistical convenience only and follows that in the UNCTAD *Handbook of International Trade and Development Statistics 1995*.[1] Countries and territories are classified according to main economic areas as follows:

Developed market economy countries: Australia, Canada, the European Union (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom), Faeroe Islands, Gibraltar, Iceland, Israel, Japan, New Zealand, Norway, South Africa, Switzerland and the United States.

Countries in Eastern Europe: Albania, Belarus, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Republic of Moldova, Romania, the Russian Federation, Slovakia and Ukraine.

Developing countries and territories: All other countries, territories and areas in Africa, Asia, America, Europe and Oceania not specified above.

Other country groupings

DAC member countries: The countries members of the OECD Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.

OPEC member countries: The countries members of the Organization of Petroleum Exporting Countries are Algeria, Ecuador, Gabon, Indonesia, the Islamic Republic of Iran, Iraq, Kuwait, the Libyan Arab Jamahiriya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela.

Other notes

Calculation of annual average growth rates. In general, they are defined as the coefficient *b* in the exponential trend function $y^t = ae^{bt}$ where *t* stands for time. This method takes all observations in a period into account. Therefore, the resulting growth rates reflect trends that are not unduly influenced by exceptional values.

Population growth rates are calculated as exponential growth rates.

The term "dollars" ($) refers to United States dollars, unless otherwise stated.

Details and percentages in tables do not necessarily add up to totals, because of rounding.

The following symbols have been used:
A hyphen (-) indicates that the amount is nil or negligible.
Two dots (..) indicate that the data are not available or are not separately reported.
A dot (.) indicates that the item is not applicable.
Use of a dash (–) between dates representing years, e.g. 1980–1990, signifies the full period involved, including the initial and final years.

1 United Nations Publication, Sales No. E/F.97.II.D.7.

Abbreviations

ACBF	African Capacity Building Foundation
ADF	African Development Fund
AfDB	African Development Bank
AFESD	Arab Fund for Economic and Social Development
AsDB	Asian Development Bank
BADEA	Arab Bank for Economic Development in Africa
BDEAC	Banque de Développement des Etats de l'Afrique Centrale
BITS	Swedish Agency for International Technical and Economic Cooperation
BOAD	West African Development Bank
CCCE	Caisse centrale de coopération économique
CEC	Commission of the European Communities
CIDA	Canadian International Development Agency
DAC	Development Assistance Committee
DANIDA	Danish International Development Agency
DCD	Development Cooperation Department
EC	European Community
ECA	Economic Commission for Africa
EDF	European Development Fund
EEC	European Economic Community
ESAF	Enhanced Structural Adjustment Facility
ESCAP	Economic and Social Commission for Asia and the Pacific
FAC	Fonds d'aide et de coopération
FAO	Food and Agriculture Organization of the United Nations
GDP	gross domestic product
GNP	gross national product
GTZ	German Technical Assistance Corporation
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
IRF	International Road Federation
IRU	International Road Transport Union
IsDB	Islamic Development Bank
ITU	International Telecommunication Union

KFAED	Kuwait Fund for Arab Economic Development
KfW	Kreditanstalt für Wiederaufbau
LDC	least developed country
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OECF	Overseas Economic Co-operation Fund
OPEC	Organization of Petroleum Exporting Countries
SAF	Structural Adjustment Facility
SDC	Swiss Development Corporation
SDR	special drawing rights
SFD	Saudi Fund for Development
SITC	Standard International Trade Classification (Revision I)
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNTA	United Nations Technical Assistance
USAID	United States Agency for International Development
WFP	World Food Programme
WHO	World Health Organization

1. Per capita GDP and population: Levels and growth

Country	Per capita GDP in 1997 dollars		Annual average growth rates of per capita real GDP (%)		Population		
					Level (millions)	Annual average growth rates (%)	
	1980	*1997*	*1980–1990*	*1990–1997*	*1997*	*1980–1990*	*1990–1997*
Afghanistan	..	..	..	..	22.1	-0.8	6.1
Angola	..	662	0.8[a]	-4.3	11.6	2.8	3.3
Bangladesh	214	340	2.1	3.2	122.0	2.2	1.5
Benin	336	374	-0.2	1.6	5.7	3.1	2.9
Bhutan	..	638	5.0	3.3[b]	0.6	2.4	1.7
Burkina Faso	190	216	0.8	0.4	11.1	2.8	2.9
Burundi	182	150	1.4	-5.7	6.4	2.9	2.2
Cambodia	..	290	2.0[c]	2.7	10.5	3.0	2.8
Cape Verde	..	1 047	4.4[d]	1.2	0.4	1.6	2.6
Central African Republic	370	298	-1.0	-1.0	3.4	2.4	2.2
Chad	178	239	1.5	1.8	6.7	2.2	2.7
Comoros	395	297	-0.4	-3.6	0.7	3.2	3.2
Dem. Rep. of the Congo	323	127	-1.6	-9.3	48.0	3.3	3.7
Djibouti	..	789	..	-5.7[e]	0.6	6.3	2.9
Equatorial Guinea	..	1 159	-0.8[a]	12.3	0.4	4.9	2.6
Eritrea	..	192	..	2.3[f]	3.4	1.9	2.4
Ethiopia	..	106	-0.6[d]	1.0	60.1	2.5	3.2
Gambia	373	349	-0.1	-1.2	1.2	3.7	3.5
Guinea	..	511	0.8[g]	0.7	7.6	2.6	4.3
Guinea-Bissau	160	239	2.1	1.3	1.1	1.9	2.1
Haiti	624	381	-2.1	-4.3	7.4	1.9	1.9
Kiribati	703	671	-1.0	0.4	0.1	1.7	1.8
Lao PDR	..	337	7.0[h]	3.5	5.2	2.7	3.1
Lesotho	281	446	1.7	5.0	2.1	2.7	2.6
Liberia	..	..	..	..	2.5	3.2	-1.4
Madagascar	356	224	-2.2	-2.3	15.8	3.4	3.3
Malawi	248	250	-1.8	2.6	10.1	4.2	0.9
Maldives	..	1 255	6.4[a]	3.1	0.3	3.2	3.4
Mali	235	221	-0.2	0.1	11.5	3.0	3.2
Mauritania	456	459	-0.7	1.6	2.4	2.6	2.6
Mozambique	159	151	-1.5	1.0	18.3	1.6	3.8
Myanmar	..	..	..	..	46.8	2.0	1.8
Nepal	152	218	1.9	2.3	22.6	2.6	2.7
Niger	303	190	-3.3	-1.9	9.8	3.3	3.4
Rwanda	363	317	-1.2	-2.5	9.8	3.0	-3.3
Samoa	1107	1 156	0.7	1.3	5.9	0.3	0.7
Sao Tome and Principe	..	316	-1.2[c]	-0.7	0.2	2.4	2.2
Sierra Leone	363	186	-1.8	-5.7	0.1	2.1	1.4
Solomon Islands	663	927	3.0	1.0	0.4	3.5	3.4
Somalia	..	..	-0.5	..	10.2	2.5	2.4
Sudan	302	367	-2.1	5.5	27.9	2.6	2.1
Togo	447	342	-1.3	-1.0	4.3	3.0	2.9
Tuvalu	..	..	..	..	..	1.2	1.9
Uganda	..	317	0.6[i]	4.0	20.8	2.4	3.3
United Rep. of Tanzania	..	220	1.4[h]	-0.4	31.5	3.2	3.1
Vanuatu	1401	1 415	0.6	-0.8	0.2	2.5	2.5
Yemen	..	347	-1.3	-1.3	16.3	3.5	5.1
Zambia	557	456	-1.3	-1.2	8.5	2.3	2.3
All LDCs	163	235	..	0.5	610.5	2.5	2.6
All developing countries	821	1 205	2.2	3.1	4 636.6	2.1	1.7
Developed market economy countries	16 041	24 522	2.4	2.3	883.7	0.7	0.7
Countries in Eastern Europe	706	2 627	1.1[k]	-5.5	320.2	0.7	-0.1

Source: UNCTAD secretariat calculations, based on data from the Statistics Division of the United Nations, the IMF, the World Bank (*World Development Indicators 1999*), and other international and national sources.

Note: Data for Ethiopia prior to 1992 include Eritrea.
The weights used in the aggregate figures are base year weights at 1995 prices.
a 1985-1990. b 1990-1995. c 1987-1990. d 1981-1990. e 1991-1997. f 1992-1997. g 1986-1990. h 1988-1990. i 1982-1990. j data available for 29 countries. K data for Albania, Bulgaria, Hungary, Poland and Romania .

2. Real GDP, total and per capita: Annual average growth rates

(Percentage)

Country	Total real product					Per capita real product				
	1980–1990	1990–1997	1995	1996	1997	1980–1990	1990–1997	1995	1996	1997
Afghanistan	..	..	..	..	..	..	..	..	..	..
Angola	3.7[a]	-1.2	11.3	11.6	7.6	0.8[a]	-4.3	7.7	7.9	4.1
Bangladesh	4.3	4.7	5.5	5.0	5.9	2.1	3.2	4.0	3.4	4.2
Benin	2.9	4.5	4.6	5.6	5.6	-0.2	1.6	1.7	2.7	2.7
Bhutan	7.6	4.8[b]	6.5	..	..	5.0	3.3[b]	4.6	..	..
Burkina Faso	3.6	3.3	4.0	6.0	5.5	0.8	0.4	1.1	3.0	2.6
Burundi	4.4	-3.6	-7.0	-8.6	0.4	1.4	-5.7	-9.1	-10.9	-2.4
Cambodia	5.2[c]	5.5	7.6	7.0	1.0	2.0[c]	2.7	4.8	4.4	-1.3
Cape Verde	6.2[d]	3.8	4.7	4.3	3.0	4.4[d]	1.2	2.0	1.7	0.4
Central African Republic	1.4	1.2	6.0	-1.5	5.1	-1.0	-1.0	3.7	-3.6	2.9
Chad	3.7	4.6	0.9	3.5	6.5	1.5	1.8	-1.9	0.6	3.6
Comoros	2.8	-0.6	-3.9	-0.4	-	-0.4	-3.6	-6.8	-3.5	-3.0
Dem. Rep. of the Congo	1.6	-6.0	0.7	-0.9	-5.7	-1.6	-9.3	-2.7	-3.8	-8.1
Djibouti	..	-3.1[e]	-4.0	-5.1	0.5	..	-5.7[e]	-6.5	-7.6	-2.2
Equitorial Guinea	1.5[a]	15.2	14.3	29.1	76.1	-0.8[a]	12.3	11.4	26.0	71.8
Eritrea	..	5.2[f]	2.9	6.8	7.9	..	2.3[f]	0.1	3.2	3.8
Ethiopia	2.3[d]	4.3	6.2	10.6	5.6	-0.6[d]	1.0	2.9	7.1	2.3
Gambia	3.6	2.2	0.9	2.2	5.4	-0.1	-1.2	-2.2	-0.5	2.9
Guinea	3.9[g]	5.0	4.4	4.6	4.8	0.8[g]	0.7	0.8	2.2	3.5
Guinea-Bissau	4.0	3.4	4.4	4.6	5.0	2.1	1.3	2.3	2.5	2.9
Haiti	-0.2	-2.5	4.4	2.7	1.1	-2.1	-4.3	2.5	0.8	-0.7
Kiribati	0.7	2.1	3.4	1.9	3.0	-1.0	0.4	0.8	0.6	0.5
Lao People's Dem. Republic	10.4[h]	6.7	7	6.9	6.5	7.0[h]	3.5	3.8	3.6	3.3
Lesotho	4.4	7.8	9.1	12.7	8.0	1.7	5.0	6.3	9.9	5.4
Liberia	..	..	..	..	..	..	..	..	..	..
Madagascar	1.1	0.9	1.7	2.1	3.6	-2.2	-2.3	-1.5	-1.0	0.4
Malawi	2.5	3.6	14.7	10.7	5.1	-1.8	2.6	13.7	8.7	2.6
Maldives	9.9[a]	6.6	7.2	6.5	6.2	6.4[a]	3.1	3.6	2.9	2.5
Mali	2.8	3.3	6.4	4.0	6.7	-0.2	0.1	3.1	0.8	3.5
Mauritania	1.8	4.2	4.6	4.7	4.5	-0.7	1.6	2.0	2.1	1.9
Mozambique	-0.1	4.9	4.3	7.1	12.4	-1.5	1.0	0.5	3.9	9.5
Myanmar	..	..	..	..	..	..	..	..	..	..
Nepal	4.6	5.1	3.5	5.3	4.0	1.9	2.3	0.8	2.6	1.4
Niger	-0.1	1.5	2.6	3.3	3.4	-3.3	-1.9	-0.8	-0.1	-
Rwanda	2.2	-5.7	36.6	12.0	10.9	-1.2	-2.5	39.6	7.6	1.7
Samoa	1.0	2.0	9.6	5.8	4.0	0.7	1.3	8.8	4.8	3.0
Sao Tome and Principe	1.2[c]	1.5	2.0	1.5	1.0	-1.2[c]	-0.7	-0.3	-	-1.2
Sierra Leone	0.3	-4.4	-10.0	5.0	-20.2	-1.8	-5.7	-11.5	2.5	-22.6
Solomon Islands	6.6	4.4	7.7	0.6	-0.5	3.0	1.0	4.2	-2.6	-3.7
Somalia	2.1	..	..	..	..	-0.5	..	..	..	..
Sudan	0.4	7.7	23.6	4.2	4.6	-2.1	5.5	21.0	1.9	2.3
Togo	1.7	1.9	6.8	9.1	4.7	-1.3	-1.0	3.8	6.1	1.9
Tuvalu	..	..	..	..	..	..	..	..	..	..
Uganda	2.9[i]	7.4	11.4	9.3	5.4	0.6[i]	4.0	8.0	6.3	2.7
United Rep. of Tanzania	4.7[h]	2.7	2.6	4.1	4.1	1.4[h]	-0.4	-0.3	1.5	1.8
Vanuatu	3.1	1.7	3.8	3.5	2.7	0.6	-0.8	1.2	0.9	0.2
Yemen	..	3.7	8.2	4.4	5.4	-1.3	-1.3	3.2	0.1	1.4
Zambia	1.0	1.0	-2.3	6.5	3.5	-1.3	-1.2	-4.5	4.0	1.0
All LDCs	2.6[j]	3.1	6.2	5.1	4.7	..	0.5	3.5	2.4	2.0
All developing countries	4.4	4.9	4.9	2.8	4.6	2.2	3.1	3.1	1.1	2.9
Developed market economy countries	3.1	3.0	2.3	2.9	2.9	2.4	2.3	1.6	2.2	2.4
Countries in Eastern Europe	1.6[k]	-5.6	-1.7	-1.2	1.7	1.1[k]	-5.5	-1.6	-1.0	2.0

Source: UNCTAD secretariat calculations, based on data from the Statistics Division of the United Nations, the World Bank (*World Development Indicators 1999*), and other international and national sources.

Note: Data for Ethiopia prior to 1992 include Eritrea.
The weights used in the aggregate figures are base year weights at 1995 prices.
a 1985-1990. *b* 1990-1995. *c* 1987-1990. *d* 1981-1990. *e* 1991-1997. *f* 1992–1997. *g* 1986-1990. *h* 1988-1990. *i* 1982-1990.
j Data available for 29 countries. *k* Data for Albania, Bulgaria, Hungary, Poland and Romania.

3. Agricultural production, total and per capita: Annual average growth rates

Country	Percentage share of agriculture in:				Annual average growth rates (%)					Annual average growth rates (%)				
	Total labour force		GDP		Total agricultural production					Per capita agricultural production				
	1980	1997	1980	1997	1980–1990	1990–1997	1995	1996	1997	1980–1990	1990–1997	1995	1996	1997
Afghanistan	61	68	..	..	..	..	..	..	..	..	..	..	..	..
Angola	74	73	14[a]	9	0.6	4.6	2.4	7.4	-0.3	-2.1	1.3	-0.9	3.8	-3.5
Bangladesh	75	59	34	24	2.1	1.0	0.2	5.2	4.8	-0.1	-0.5	-1.3	3.6	3.1
Benin	70	57	35	38	6.5	6.7	18.6	2.9	-0.9	3.3	3.7	15.3	0.1	-3.6
Bhutan	93	94	57	38	1.6	1.0	1.0	-	-	-0.9	-0.6	-0.8	-2.3	-2.7
Burkina Faso	87	92	33	35	6.4	3.3	-	8.0	-2.2	3.5	0.4	-2.9	5.0	-5.0
Burundi	93	91	62	53	2.7	-1.9	5.3	-0.3	-1.5	-0.2	-4.0	2.9	-2.8	-4.2
Cambodia	75	71	43[b]	51	5.9	4.3	23.0	1.9	..	2.7	1.5	19.8	-0.5	-2.3
Cape Verde	52	25	16[b]	9	9.6	4.1	21.4	-1.8	..	7.9	1.4	18.3	-4.3	..
Central African Rep.	72	75	40	54	2.3	4.0	0.9	16.9	-2.8	-0.1	1.7	-1.3	14.5	4.9
Chad	83	78	45	39	1.1	3.2	3.9	1.4	3.6	-1.1	0.4	1.1	-1.4	0.7
Comoros	83	75	34	39	2.4	2.1	5.2	-2.3	..	-1.1	-1.1	2.0	-5.3	..
Dem. Rep. of the Congo	72	65	25	58	3.1	-0.4	1.7	-7.8	-1.9	-0.2	-3.9	-1.7	-10.5	-4.4
Djibouti	..	..	3[c]	4	8.8	-2.5	4.3	0.2	..	2.3	-5.3	1.6	-2.4	..
Equatorial Guinea	66	72	69[a]	23	1.4	-1.0	-4.4	7.7	..	-3.5	-3.6	-6.8	5.1	..
Eritrea	..	79	..	9	..	2.2[f]	-13.5	-0.8	6.6	..	-0.6[f]	-15.8	-4.0	2.5
Ethiopia	80[d]	84	56[e]	55	..	6.2[f]	10.3	7.0	1.3	..	2.8[f]	6.9	3.6	-1.8
Gambia	84	80	31	30	0.7	-0.6	-2.2	-17.8	15.8	-2.9	-3.9	-5.1	-20.0	12.9
Guinea	81	85	24[g]	23	-0.4	3.5	3.8	1.0	2.8	-2.9	-0.7	0.2	-1.2	1.4
Guinea-Bissau	82	84	42	54	3.8	1.6	1.4	-4.4	3.7	1.9	-0.4	-0.6	-6.4	1.8
Haiti	70	64	33[h]	30	-0.4	-1.4	-6.4	3.0	0.6	-2.3	-3.3	-8.1	1.0	-1.2
Kiribati	..	..	21	25[i]	..	..	..	..	..	..	..	..	..	..
Lao People's Dem.Rep.	76	77	61[c]	52	3.1	1.9	-7.2	1.3	-	0.3	-1.1	-9.9	-1.9	-3.1
Lesotho	86	39	24	11	1.7	1.7	-12.2	18.4	-14.8	-0.9	-0.8	-14.3	15.5	-16.9
Liberia	74	69	36	..	..	..	..	..	..	..	..	..	..	..
Madagascar	81	76	30	32	1.9	0.7	1.7	1.5	1.1	-1.4	-2.5	-1.6	-1.6	-2.1
Malawi	83	84	44	36	1.6	2.0	19.3	6.2	-6.0	-2.7	1.1	18.4	4.4	-8.3
Maldives	..	25	..	..	2.1	1.7	1.3	-0.4	..	-1.1	-1.7	-2.1	-3.8	..
Mali	86	83	48	49	2.4	3.5	3.7	3.2	2.0	-0.6	0.3	0.5	0.1	-1.1
Mauritania	69	53	30	25	1.4	0.6	3.8	7.2	-3.0	-1.2	-1.9	1.2	4.6	-5.5
Mozambique	84	81	37	31	-0.5	4.2	17.9	11.8	7.1	-1.9	0.3	13.5	8.4	4.3
Myanmar	53	71	47	59	0.7	6.0	3.0	6.0	7.5	-1.3	4.2	1.2	4.1	5.6
Nepal	93	93	62	41	4.4	2.6	8.5	1.6	3.0	1.7	-0.1	5.6	-1.0	0.4
Niger	91	89	43	38	-0.8	3.2	-11.5	13.1	-2.9	-4.0	-0.2	-14.5	9.4	-6.1
Rwanda	93	91	50	37	1.2	-4.7	13.9	3.6	5.5	-2.1	-1.5	16.4	-0.5	-3.3
Samoa	..	..	46	40[i]	0.2	0.3	-	-	-	-	-0.3	-0.9	-0.9	..
Sao Tome and Principe	..	..	22[g]	23	-1.3	4.4	-4.5	-4.5	..	-3.6	2.2	-6.4	-6.4	..
Sierra Leone	70	64	33	50	2.3	-0.5	-7.2	5.6	0.6	0.1	-1.8	-8.7	3.0	-2.3
Solomon Islands	..	74	..	..	-0.4	1.0	2.5	0.3	-	-3.8	-2.3	-0.7	-3.1	-3.2
Somalia	76	73	68	66[h]	..	..	..	..	..	..	..	..	..	..
Sudan	71	64	33	..	-0.5	5.6	-1.4	11.5	0.2	-3.0	3.4	-3.4	9.1	-1.9
Togo	73	62	27	42	4.6	4.2	13.3	14.0	2.1	1.5	1.2	10.1	10.8	-0.6
Tuvalu	..	..	..	..	-4.1	-1.0	-	-	-	-5.3	-2.9	-1.2	-0.4	..
Uganda	86	82	72	44	3.1	1.6	2.8	-2.9	0.7	0.7	-1.7	-0.3	-5.6	-1.9
United Rep. of Tanzania	86	82	53[j]	47	2.8	0.2	3.6	4.9	-5.3	-0.4	-2.8	0.6	2.4	-7.4
Vanuatu	..	..	19	25	1.2	-0.2	3.8	-1.0	-	-1.2	-2.7	1.2	-3.4	-2.5
Yemen	62	54	30[h]	18	3.9	3.2	2.1	0.7	6.6	0.4	-1.8	-2.8	-3.4	2.5
Zambia	73	71	11	16	4.1	0.5	-7.8	17.7	-10.8	1.8	-1.8	-9.9	14.9	13.0
All LDCs	76	72	31	29	1.7	2.4	3.2	4.3	1.6	-0.8	-0.2	0.5	1.5	-1.0
All developing countries	66	57	16	12	3.6	4.3	5.6	5.4	1.8	1.5	2.5	3.9	3.6	0.1

Source: UNCTAD secretariat calculations, based on data from FAO, the Economic Commission for Africa, the World Bank (*World Development Indicators 1999 CD-ROM)*, and other international and national sources.
a 1985. *b* 1987. *c* 1989. *d* Includes Eritrea. *e* 1981. *f* 1993–1996. *g* 1986.
h 1990. *i* 1992. *j* 1988.

4. Food production, total and per capita: Annual average growth rates

(Percentage)

Country	Total food production					Per capita food production				
	1980–1990	*1990–1997*	*1995*	*1996*	*1997*	*1980–1990*	*1990–1997*	*1995*	*1996*	*1997*
Afghanistan	..	..	..	..	..	..	..	..	..	..
Angola	1.0	4.8	2.2	7.4	-0.5	-1.7	1.5	-1.0	3.9	-3.7
Bangladesh	2.2	1.0	1.0	5.0	4.9	-	-0.5	-0.5	3.4	3.2
Benin	5.4	4.1	12.4	0.5	-3.1	2.2	1.2	9.2	-2.2	-5.7
Bhutan	1.6	1.0	1.0	-	-	-0.9	-0.6	-0.8	-2.3	-2.7
Burkina Faso	5.7	3.4	0.4	5.2	-3.0	2.8	0.5	-2.4	2.3	-5.7
Burundi	2.7	-1.5	8.7	0.1	-0.7	-0.2	-3.6	6.3	-2.4	-3.4
Cambodia	5.7	4.3	24.3	2.3	-	2.5	1.5	21.0	-0.2	-2.4
Cape Verde	9.7	4.1	21.4	-1.8	-	7.9	1.5	18.3	-4.3	-
Central African Republic	2.4	3.8	1.8	14.1	-3.6	-	1.6	-0.4	11.7	-5.6
Chad	0.5	2.8	0.8	-3.8	4.5	-1.7	0.1	-2.0	-6.5	1.6
Comoros	2.4	2.3	5.4	-1.9	-	-1.1	-0.9	2.1	-4.9	-
Dem. Republic of the Congo	3.3	-0.2	1.9	-7.3	-2.0	0.1	-3.8	-1.7	-10.0	-4.5
Djibouti	8.8	-2.5	4.3	0.2	-	2.3	-5.3	1.6	-2.4	-
Equatorial Guinea	1.5	-1.6	-6.6	11.8	-	-3.3	-4.1	-8.9	9.0	-
Eritrea	..	2.2[a]	-13.7	-0.9	6.7	..	-0.8[a]	-16.1	-4.0	2.6
Ethiopia	2.3[b]	5.5[a]	10.3	7.6	1.0	..	2.2[a]	6.8	4.1	-2.1
Gambia	0.7	-1.0	-2.0	-19.2	16.6	-2.9	-4.3	-5.0	-21.3	13.7
Guinea	0.8	3.9	4.5	2.2	2.7	-3.2	-0.4	0.8	-0.1	1.4
Guinea-Bissau	3.9	1.7	1.2	-4.5	3.8	2.0	-0.4	-1.0	-6.4	1.8
Haiti	-0.3	-1.2	-6.4	3.6	0.5	-2.2	-3.1	-8.1	1.6	-1.2
Kiribati	-0.9	4.9	2.4	1.3	-	-2.5	3.2	0.6	-0.5	-
Lao People's Dem. Republic	3.0	1.9	-7.6	1.7	-	0.2	-1.1	-10.5	-1.3	-3.1
Lesotho	1.9	1.9	-14.7	29.2	-16.1	-0.8	-0.7	-16.8	26.0	-18.2
Liberia	..	..	..	..	..	..	..	..	..	-
Madagascar	1.9	0.9	2.3	1.5	1.7	-1.4	-2.3	-1.1	-1.6	-1.4
Malawi	0.8	1.2	16.6	4.7	-10.4	-3.5	0.3	15.7	2.9	-12.5
Maldives	2.1	1.7	1.3	-0.4	-	-1.1	-1.7	-2.1	-3.8	-
Mali	1.7	2.6	0.5	0.3	-0.1	-1.2	-0.6	-2.6	-2.8	-3.1
Mauritania	1.4	0.6	3.8	7.2	-3.0	-1.2	-1.9	1.2	4.6	-5.5
Mozambique	0.2	4.2	18.6	12.2	7.0	-1.3	0.4	14.3	8.7	4.3
Myanmar	0.8	5.9	3.0	5.0	7.0	-1.2	4.1	1.1	3.3	5.0
Nepal	4.5	2.6	8.6	1.6	3.1	1.8	-0.1	5.8	-1.0	0.4
Niger	-0.9	3.2	-11.6	13.2	-3.0	-4.0	-0.2	-14.5	9.4	-6.2
Rwanda	0.8	-4.2	9.9	5.3	5.2	-2.5	-0.9	12.3	1.1	-3.5
Samoa	0.2	0.2	-	-	-	-	-0.4	-0.8	-0.9	-
Sao Tome and Principe	-1.3	4.4	-4.5	-4.5	-	-3.5	2.2	-6.4	-6.5	-
Sierra Leone	1.7	-0.4	-7.0	6.2	0.6	-0.5	-1.8	-8.5	3.7	-2.3
Solomon Islands	-0.4	1.0	2.6	0.2	-	-3.8	-2.3	-0.8	-3.0	-3.3
Somalia	..	..	..	..	..	..	..	..	..	..
Sudan	-0.6	6.3	-2.3	12.3	0.8	-3.1	3.6	-4.4	9.9	-1.5
Togo	3.2	4.7	21.1	12.0	3.4	0.2	1.7	17.7	9.0	0.5
Tuvalu	-4.1	-1.0	-	-	-	-5.3	-2.9	-1.2	-0.4	-
Uganda	3.2	0.6	3.9	-8.0	3.3	0.8	-2.6	0.6	-10.5	0.6
United Republic of Tanzania	3.0	0.1	3.7	3.1	-5.2	-0.2	-2.9	0.7	0.5	-7.2
Vanuatu	1.2	-0.2	3.9	-1.0	-	-1.2	-2.7	1.2	-3.4	-2.5
Yemen	4.1	3.1	1.8	0.1	6.5	0.7	-1.9	-3.0	-4.0	2.5
Zambia	3.9	0.5	-9.9	19.7	-11.0	1.6	-1.8	-12.1	17.0	-13.2
All LDCs	1.7	2.3	3.1	3.7	1.6	-0.8	-0.3	0.4	1.0	-1.0
All developing countries	3.7	4.5	5.5	5.6	1.9	1.5	2.7	3.7	3.8	0.2

Source: UNCTAD secretariat calculations, based on data from FAO.
a average 1993–1997; *b* 1985–1990 included Eritrea.

5. The manufacturing sector: Annual average growth rates and shares in GDP

(Percentage)

Country	Share in GDP		Annual average growth rates				
	1980	*1997*	*1980–1990*	*1990–1997*	*1995*	*1996*	*1997*
Afghanistan	..	..	..	..	..	..	..
Angola	10[a]	4	-11.1[b]	-4.2	-11.4	1.8	8.0
Bangladesh	18	18	3.1	7.5	10.4	6.1	3.5
Benin	8	8	..	..	..	..	..
Bhutan	3	13	13.0	10.2	15.9	9.0	..
Burkina Faso	16	20	2.0	2.0	0.2	3.4	11.2
Burundi	7	10	5.7	-9.9	-21.8	-16.4	-2.8
Cambodia	11[c]	6	8.7[d]	8.2	10.0	13.2	7.3
Cape Verde	7[e]	1	..	0.5	7.9	3.9	3.5
Central African Republic	7	9	5.0	-0.6	7.3	-12.1	-7.9
Chad	11[f]	12	..	..	..	..	..
Comoros	4	5	4.9	0.2	-14.2	-0.2	-0.1
Dem. Republic of the Congo	14	7[g]	..	..	..	..	..
Djibouti	6[e]	6	..	..	..	..	..
Equatorial Guinea	..	1[h]	..	6.5[i]	3.1	..	..
Eritrea	..	16	..	..	..	..	..
Ethiopia	8[j]	6[g]	..	..	..	..	..
Gambia	6	6	7.8	0.5	-	-1.0	0.3
Guinea	5[k]	4	4.0[l]	0.8	-13.0	2.5	4.5
Guinea-Bissau	14[m]	7	9.2[n]	4.5	3.8	2.3	3.3
Haiti	..	8[o]	..	..	..	..	..
Kiribati	2	2[p]	..	..	..	..	..
Lao People's Dem. Republic	9[e]	16	8.9[q]	6.2	17.6	19.0	6.2
Lesotho	7	17	13.7	9.4[r]	20.4	14.1	..
Liberia	8	..	..	..	..	..	..
Madagascar	11[s]	11	2.1[q]	0.6	0.1	1.1	1.7
Malawi	14	14	3.6	5.1	5.5	-1.3	5.5
Maldives	..	..	..	..	..	..	..
Mali	7	7	6.8	5.0	6.4	6.1	4.6
Mauritania	13[a]	10	-2.1[b]	1.3	10.4	9.4	-10.5
Mozambique	..	10	..	23.7[t]	..	14.7	33.4
Myanmar	10	7	..	..	..	..	..
Nepal	4	9	9.3	11.2	2.0	9.0	5.7
Niger	4	7	-2.7[b]	1.5	4.2	4.4	4.7
Rwanda	17	19	2.6	2.2	94.8	15.1	16.6
Samoa	6	11[p]	..	..	..	..	..
Sao Tome and Principe	6[e]	3	..	..	..	..	..
Sierra Leone	5	7	..	5.0	-2.1	1.7	..
Solomon Islands	..	..	..	..	..	..	..
Somalia	5	5[u]	-1.7	..	..	..	..
Sudan	8	..	3.7	..	..	..	..
Togo	8	9	1.7	1.5	24.4	2.7	9.4
Tuvalu	..	..	..	..	..	..	..
Uganda	4	8	3.7[v]	13.9	17.3	19.7	13.5
United Republic of Tanzania	8[k]	7[w]	4.9[l]	1.9[r]	0.7	3.2	..
Vanuatu	4	5	..	..	..	..	..
Yemen	..	11	..	1.0	16.7	10.5	3.4
Zambia	19	12	4.1	-16.7	-0.4	5.5	7.4
All LDCs	12	11	..	..	..	..	..

Source: UNCTAD secretariat calculations, based on data from the World Bank (*World Development Indicators 1999*).
a 1985. *b* 1985–1990. *c* 1987. *d* 1987–1990. *e* 1989. *f* 1983. *g* 1993. *h* 1995. *i* 1991-1995. *j* 1981. *k* 1988. *l* 1988–1990. *m* 1986. *n* 1986–1990. *o* 1994. *p* 1992. *q* 1984-1990. *r* 1990-1996. *s* 1984. *t* 1995-1997. *u* 1990. *v* 1982-1990. *w* 1996.

6. Investment: Annual average growth rates and shares in GDP

(Percentage)

Country	Share in GDP		Annual average growth rates				
	1980	*1997*	*1980–1990*	*1990–1997*	*1995*	*1996*	*1997*
Afghanistan	..	..	..	..	..	..	..
Angola	18[a]	25	-5.6[b]	16.3	20.1	1.2	17.5
Bangladesh	22	21	1.4	6.7	9.1	9.2	10.2
Benin	15	18	-5.6	4.2	56.0	-3.5	18.0
Bhutan	31	43	..	..	..	..	..
Burkina Faso	17	25	8.6	3.2	46.1	35.0	0.2
Burundi	14	7	6.9	-18.5	-11.1	8.5	-21.5
Cambodia	9[c]	16	..	..	..	..	..
Cape Verde	30[d]	34	2.7[e]	5.7	-12.2	1.5	-2.1
Central African Republic	7	9	10.0	-12.0	35.4	-81.0	224.6
Chad	3	19	..	19.0	5.0	-9.1	13.5
Comoros	33	21	-4.2	-2.1	-0.4	0.1	1.0
Dem. Republic of the Congo	10	7	-5.1	-4.9	-6.9	-10.3	-1.0
Djibouti	..	9	..	..	..	..	..
Equatorial Guinea	..	96	..	53.6	17.6	116.1	33.1
Eritrea	..	41	..	..	..	..	..
Ethiopia	9[f]	19	7.0	15.4	15.3	28.5	5.6
Gambia	27	18	-	4.4	20.0	7.7	-15.5
Guinea	15[g]	22	2.4	6.1	18.2	1.9	4.0
Guinea-Bissau	28	24	12.9	-6.5	2.6	8.6	-15.3
Haiti	17	10	-0.6	..	88.6	6.0	4.3
Kiribati	33	..	..	..	..	..	..
Lao People's Dem. Republic	6[h]	29	..	..	..	..	..
Lesotho	43	86	6.3	12.7	27.8	19.2	3.5
Liberia	27	..	..	..	..	..	..
Madagascar	15	12	4.9	-1.2	1.5	12.5	-0.7
Malawi	25	12	-2.8	-9.4	-24.2	5.0	7.1
Maldives	..	..	..	..	..	..	..
Mali	16	23	7.1	5.3	6.3	4.0	-4.4
Mauritania	36	18	-4.1	2.0	16.1	25.6	-4.8
Mozambique	8	30	3.8	8.2	20.9	-7.1	13.9
Myanmar	21	13	..	..	..	..	..
Nepal	18	21	6.0	7.3	8.0	3.2	-2.8
Niger	28	11	-7.1	1.2	-26.9	35.7	15.9
Rwanda	16	11	4.3	-8.5	63.2	26.1	28.3
Samoa	33	..	..	..	..	..	..
Sao Tome and Principe	34[e]	50	1.1[e]	9.7	19.0	10.2	5.5
Sierra Leone	3[h]	-5	-6.7	-17.2	-55.4	32.5	-183.8
Solomon Islands	36	..	..	..	..	..	..
Somalia	42	..	..	..	..	..	..
Sudan	15	..	..	..	..	..	..
Togo	28	16	2.7	20.7	64.6	27.9	4.7
Tuvalu	..	..	..	..	..	..	..
Uganda	6	15	8.0[i]	10.1	40.9	10.0	-2.6
United Rep. of Tanzania	19[c]	20	0.9[j]	-4.1	-6.8	-9.1	-16.9
Vanuatu	26[k]	..	..	..	..	..	..
Yemen	..	21	..	9.9	19.1	4.0	6.8
Zambia	23	15	-8.7	12.1	5.1	9.6	16.2
All LDCs	19	20	0.3	4.6	12.0	7.7	6.2

Source: UNCTAD secretariat calculations, based on data from the World Bank (*World Development Indicators 1999*).
Note: Aggregate figures based on countries for which data are available.
a 1985. *b* 1985–1990. *c* 1988. *d* 1987. *e* 1987–1990. *f* 1981. *g* 1986. *h* 1984. *i* 1982–1990. *j* 1988-1990. *k* 1983.

7. Indicators on area and population

Country	Area Total (000 km²)	Area % of arable land and land under permanent crops 1996	Population Density Pop./km² 1997	Population Total (mill.) 1997	Population Urban % 1997	Activity rate[a] M 1997	Activity rate[a] F 1997	Activity rate[a] T 1997
Afghanistan	652.1	12.4	34	22.1	21	54	31	43
Angola	1 246.7	2.8	9	11.6	32	50	42	46
Bangladesh	144.0	61.2	847	122.0	20	57	44	51
Benin	112.6	16.7	52	5.7	40	47	43	45
Bhutan	47.0	3.2	13	0.6	7	58	39	48
Burkina Faso	274.0	12.5	40	11.1	17	54	47	50
Burundi	27.8	39.5	223	6.4	8	56	51	54
Cambodia	181.0	21.1	58	10.5	22	52	52	52
Cape Verde	4.0	10.1	101	0.4	58	52	29	40
Central African Republic	623.0	3.2	5	3.4	40	53	44	48
Chad	1 284.0	2.5	5	6.7	23	54	42	48
Comoros	2.2	52.9	292	0.7	32	51	39	45
Dem. Rep. of the Congo	2 344.9	3.4	20	48.0	29	48	36	42
Djibouti	23.2	..	27	0.6	83	..	..	..
Equatorial Guinea	28.1	8.2	15	0.4	45	55	29	42
Eritrea	117.6	4.4	29	3.4	18	53	47	50
Ethiopia	1 104.3	10.8	54	60.1	16	51	36	43
Gambia	11.3	15.5	103	1.2	30	57	45	51
Guinea	245.9	3.6	31	7.6	30	50	45	48
Guinea-Bissau	36.1	9.4	31	1.1	23	57	37	47
Haiti	27.8	32.8	266	7.4	33	51	37	44
Kiribati	0.7	50.7	112	0.1	37	..	..	..
Lao People's Dem. Republic	236.8	3.6	22	5.2	22	51	45	48
Lesotho	30.4	10.5	70	2.1	26	52	30	41
Liberia	111.4	2.9	22	2.5	48	50	33	42
Madagascar	587.0	5.3	27	15.8	28	52	42	47
Malawi	118.5	14.3	85	10.1	14	50	47	48
Maldives	0.3	10.0	909	0.3	27	45	35	41
Mali	1 240.2	3.7	9	11.4	28	53	45	49
Mauritania	1 025.5	0.5	2	2.4	54	52	40	46
Mozambique	801.6	4.0	23	18.2	36	54	50	52
Myanmar	676.6	15.0	69	46.8	27	60	46	53
Nepal	147.2	20.2	153	22.6	11	54	38	46
Niger	1 267.0	3.9	8	9.8	19	53	41	47
Rwanda	26.3	43.7	223	5.9	6	55	52	54
Samoa	2.8	43.0	59	0.2	21	..	..	..
Sao Tome and Principe	1.0	42.7	144	0.1	44	..	..	..
Sierra Leone	71.7	7.5	62	4.4	35	48	27	37
Solomon Islands	28.9	2.1	14	0.4	18	53	50	51
Somalia	637.7	1.6	15	10.2	27	49	37	43
Sudan	2 505.8	5.2	11	27.9	33	56	23	39
Togo	56.8	42.8	76	4.3	32	50	33	41
Tuvalu	-	..	333	-	40	..	..	..
Uganda	241.0	28.2	86	21.0	13	52	47	50
United Republic of Tanzania	945.1	4.2	33	31.5	26	53	50	51
Vanuatu	12.2	11.8	15	0.2	19	..	..	..
Yemen	528.0	2.9	31	16.3	35	46	18	32
Zambia	752.6	7.0	11	8.5	44	47	37	42
ALL LDCs	20 590.7	6.2	30	610.5	24	54	42	48
All developing countries	82 232.2	11.0	57	4 636.6	39	59	43	50

Sources: United Nations, *Demographic Yearbook 1997; World Population Prospects 1998*, Revision Vol.2; *World Urbanization Prospects 1994;* UNFPA, *The State of World Population 1995;* FAO, *Production Yearbook 1997;* and estimates by the Bureau of Statistics of the ILO.

a Economically active population as a percentage of total population of sex(es) specified of all ages.

8. Indicators on demography

Country	Infant mortality rate (per 1,000 live births)		Average life expectancy at birth (years)						Crude birth rate (per 1,000)		Crude death rate (per 1,000)	
	1985–1990	1997	1985–1990			1990–1995[a]			1985–1990	1997[a]	1985–1990	1997[a]
			M	F	T	M	F	T				
Afghanistan	170	165	41	42	42	43	44	44	47	53	23	21
Angola	138	170	42	46	44	45	48	46	51	48	21	19
Bangladesh	110	81	53	53	53	56	56	56	38	27	14	10
Benin	104	102	49	53	51	51	55	53	49	42	16	13
Bhutan	96	87	52	54	53	57	59	58	41	41	14	14
Burkina Faso	110	110	45	47	46	44	46	45	49	46	19	18
Burundi	114	106	45	49	47	40	43	42	47	43	18	17
Cambodia	130	106	47	50	49	50	53	52	45	34	17	12
Cape Verde	74	54	62	67	64	64	69	67	36	32	9	7
Central African Rep.	104	113	45	50	48	46	49	48	42	38	18	16
Chad	131	118	43	47	45	44	48	46	48	42	21	17
Comoros	95	69	53	57	55	55	59	57	42	41	12	10
Dem. Rep. of the Congo	100	128	48	53	50	47	51	49	48	45	15	14
Djibouti	122	111	45	49	47	47	50	48	42	39	18	15
Equatorial Guinea	127	109	44	48	46	46	50	48	44	41	20	16
Eritrea	112	73	46	50	48	48	51	50	45	40	17	15
Ethiopia	133	111	43	46	45	44	47	45	49	48	20	16
Gambia	143	66	42	45	43	43	47	45	46	40	21	18
Guinea	145	126	42	43	43	44	45	45	47	48	22	19
Guinea-Bissau	151	130	40	43	42	42	45	44	44	41	23	21
Haiti	100	92	51	54	53	52	56	54	42	34	15	13
Kiribati	69	55	52[b]	52[b]	52[b]	56	60	58	26[c]	32	9[c]	9
Lao People's Dem. Rep.	123	99	47	50	48	50	52	51	46	44	17	14
Lesotho	107	95	55	58	56	57	60	58	38	36	12	11
Liberia	104	157	51	54	53	38	40	39	47	48	14	17
Madagascar	104	96	52	55	54	54	57	56	46	41	15	10
Malawi	153	135	45	46	45	42	43	42	52	48	21	22
Maldives	82	53	61	58	60	63	61	62	42	42	10	8
Mali	145	145	48	51	49	50	53	51	51	48	19	17
Mauritania	110	120	48	51	49	50	53	51	44	38	16	13
Mozambique	125	130	44	48	46	46	50	48	46	43	19	18
Myanmar	101	81	54	57	55	56	59	58	27	27	12	10
Nepal	109	75	53	51	52	55	54	55	40	37	14	11
Niger	135	191	43	46	45	45	48	47	56	50	20	17
Rwanda	115	105	47	50	48	23	24	24	45	43	17	22
Samoa	42	41	66	69	68	68	72	69	32	27	7	6
Sao Tome and Principe	..	61	..	..	..	..	..	..	..	35	..	9
Sierra Leone	180	182	35	38	37	33	36	34	49	47	27	26
Solomon Islands	32	23	67	71	69	69	73	70	39	36	5	4
Somalia	132	125	43	47	45	39	40	39	52	50	20	17
Sudan	86	73	50	52	51	50	52	51	37	34	14	12
Togo	96	78	50	53	51	48	51	50	45	42	15	15
Tuvalu	..	40	..	..	..	..	..	..	24[d]	25	10[d]	11
Uganda	124	86	40	42	41	37	38	37	50	51	22	21
United Rep. of Tanzania	92	92	49	53	51	48	51	49	45	41	15	14
Vanuatu	57	39	61	65	63	64	67	65	37	33	8	6
Yemen	105	76	52	53	53	55	56	55	49	48	14	11
Zambia	85	112	50	52	50	43	45	44	46	43	15	18
ALL LDCs	116	108	48	50	49	48	50	49	43	39	16	14
All developing countries	76	65	59	62	61	60	64	62	30	25	10	9

Sources: United Nations, *World Population Prospects 1998 Revision;* UNICEF, *The State of the World's Children 1999;* ESCAP, *Statistical Yearbook for Asia and the Pacific 1992;* World Bank, *World Development Indicators 1999;* and AsDB, *Key Indicators of Developing Asian and Pacific Countries 1995.*

a Or latest year available. *b* 1988. *c* 1985. *d* 1983.

9. Indicators on health

Country	Low birth-weight infants (percentage) 1990–1997[b]	Percentage of women attended during childbirth by trained personnel 1990–1997[b]	Percentage of children immunized against DPT[a] (3 doses) 1996[b]
Afghanistan	20	9	12
Angola	19	15	42
Bangladesh	50	8	97
Benin	10	60	80
Bhutan	..	15	87
Burkina Faso	21	42	48
Burundi	14	19	63
Cambodia	..	31	75
Cape Verde	9	54	73
Central African Rep.	15	46	53
Chad	11	15	20
Comoros	8	52	60
Dem. Rep. of the Congo	15	..	36
Djibouti	11	79	49
Equatorial Guinea	10	58	64
Eritrea	13	21	46
Ethiopia	16	14	67
Gambia	10	44	97
Guinea	13	31	48
Guinea-Bissau	20	27	53
Haiti	15	21	30
Kiribati	3	72	79
Lao People's Dem. Rep.	18	..	58
Lesotho	11	50	58
Liberia	..	58	45
Madagascar	5	47	73
Malawi	20	55	90
Maldives	13	90	95
Mali	16	25	52
Mauritania	11	40	50
Mozambique	20	44	60
Myanmar	24	56	88
Nepal	26	9	75
Niger	15	15	23
Rwanda	17	26	95
Samoa	6	76	95
Sao Tome and Principe	7	86	68
Sierra Leone	11	25	65
Solomon Islands	20	87	97
Somalia	16	2	18
Sudan	15	69	79
Togo	20	54	82
Tuvalu	3	100	87
Uganda	13	38	79
United Rep. of Tanzania	14	38	82
Vanuatu	7	87	67
Yemen	19	43	54
Zambia	13	47	83
All LDCs	21	28	62
All developing countries	18	55	80

Sources: UNICEF, The State of the World's Children 1999; World Bank, World Development Indicators 1999; and WHO, The World Health Report 1998.

a Diphtheria, pertussis and tetanus.
b Or latest year available.

10. Indicators on nutrition and sanitation

Country	Total food supply (calories per capita per day)		Percentage of population with access to safe water or adequate sanitation							
			Urban				Rural			
			Water		Sanitation		Water		Sanitation	
	1980	1997	1980	1997[a]	1980	1997[a]	1980	1997[a]	1980	1997[a]
Afghanistan	2 186	1 745	28	39	..	38	8	5	..	1
Angola	2 184	1 903	85	46	40	62	10	22	15	27
Bangladesh	1 902	2 085	26	99	21	83	40	95	1	38
Benin	2 186	2 487	26	46	48	57	15	71	4	8
Bhutan	..	..	50	75	..	90	5	54	..	66
Burkina Faso	1 668	2 121	27	66	38	41	31	37	5	33
Burundi	2 025	1 685	90	92	40	60	20	49	..	50
Cambodia	2 206	2 048	..	65	..	81	..	25	..	9
Cape Verde	2 716	3 015	100	70	34	40	21	34	10	10
Central African Republic	2 266	2 016	..	55	..	38	..	21	..	16
Chad	1 639	2 032	..	48	..	73	..	17	..	7
Comoros	1 760	1 858	..	76	..	40	..	45	..	16
Dem. Rep. of the Congo	2 078	1 755	43	89	..	53	5	26	10	6
Djibouti	1 782	2 084	50	77	43	64	20	100	20	24
Equatorial Guinea	..	..	47	88	99	61	..	100	..	48
Eritrea	..	1 622	..	60	..	48	..	8	..	..
Ethiopia	1 858	1 868	..	91	..	97	..	19	..	7
Gambia	2 023	2 350	85	80	..	83	..	65	..	23
Guinea	2 229	2 231	69	69	54	54	2	36	1	19
Guinea-Bissau	1 818	2 430	18	32	21	24	8	67	13	32
Haiti	2 067	1 869	48	50	39	49	8	28	10	17
Kiribati	2 656	2 851	93	70	87	45	25	80	80	54
Lao People's Dem. Rep.	2 443	2 108	21	40	..	70	12	39	..	13
Lesotho	2 222	2 243	37	91	13	56	11	57	14	35
Liberia	2 398	2 044	..	79	..	56	..	13	..	4
Madagascar	2 430	2 021	80	68	9	68	7	12	..	30
Malawi	2 251	2 043	77	95	100	18	37	40	81	1
Maldives	2 130	2 485	11	98	60	98	3	50	1	26
Mali	1 789	2 029	37	87	79	12	..	55	..	3
Mauritania	2 118	2 622	80	88	5	44	85	59	..	19
Mozambique	1 953	1 832	..	17	..	70	..	40	..	11
Myanmar	2 330	2 862	38	78	38	56	15	50	15	36
Nepal	1 863	2 366	83	93	16	28	7	68	1	14
Niger	2 229	2 097	41	76	36	79	32	44	3	5
Rwanda	2 048	2 056	48	75	60	77	55	79	50	85
Samoa	2 495	..	97	100	86	100	94	77	83	95
Sao Tome and Principe	2 121	2 138	..	33	..	8	..	45	..	13
Sierra Leone	2 008	2 035	50	58	31	17	2	21	6	8
Solomon Islands	2 289	2 122	91	80	82	60	20	62	10	9
Somalia	1 788	1 566	60	46	45	69	20	28	5	35
Sudan	2 244	2 395	100	66	63	79	31	45	0	4
Togo	2 264	2 469	70	82	24	76	31	41	0	22
Tuvalu	..	..	..	100	..	90	..	95	..	85
Uganda	2 071	2 085	45	77	40	75	8	41	10	55
United Rep. of Tanzania	2 284	1 995	88	92	83	98	39	58	47	83
Vanuatu	2 577	2 700	65	96	95	72	53	67	68	18
Yemen	1 934	2 051	93	88	60	47	19	55	..	17
Zambia	2 196	1 970	65	84	100	94	32	10	48	57
All LDCs	2 050	2 145	51	82	44	66	24	50	12	28
All developing countries[b]	2 313	2 650	73	89	50	78	32	62	13	25

Sources: FAO, *Production Yearbook 1994;* WHO/UNICEF, *Water Supply and Sanitation Sector Monitoring Report 1993* and *1996;* WHO, *The International Drinking Water Supply and Sanitation Decade: End of Decade Review* (as at December 1990), *Review of National Progress* (various issues); and UNICEF, *The State of the World's Children 1999.*

a Or latest year available. *b* Average of countries for which data are available.

11. Indicators on education and literacy

Country	Adult literacy rate (%)			School enrolment ratio (% of relevant age group)												
				Primary						Secondary						
	1995[a]			1980			1996[a]			1980			1996[a]			
	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T	
	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T	
Afghanistan	47	15	32	54	12	34	46	16	31	16	4	10	22	8	15	
Angola	56	29	42	187	163	175	95	88	91	32	9	20	15	10	12	
Bangladesh	49	26	38	72	43	58	84	73	79	25	9	17	25	13	19	
Benin	49	26	37	87	41	64	96	56	76	24	9	16	23	10	17	
Bhutan	56	28	42	23	10	17	34	22	28	3	1	2	9	2	6	
Burkina Faso	30	9	19	22	13	17	48	31	40	4	2	3	11	6	8	
Burundi	49	23	35	32	21	26	55	46	51	4	2	3	9	5	7	
Cambodia	48	22	35	..	..	..	..	..	..	..	..	..	..	..	..	
Cape Verde	81	64	72	119	110	114	132	129	131	9	7	8	28	26	27	
Central African Republic	69	52	60	92	51	71	71	46	58	21	7	14	15	6	10	
Chad	62	35	48	52	19	36	85	44	65	9	1	5	16	4	10	
Comoros	64	50	57	100	75	88	85	71	78	30	15	23	21	17	19	
Dem. Rep. of the Congo	87	68	77	108	77	92	86	59	72	35	13	24	32	19	26	
Djibouti	60	33	46	44	26	35	44	32	38	15	9	12	17	12	14	
Equatorial Guinea	90	68	79	153	120	136	167	133	149	20	4	12	23	4	13	
Eritrea	..	..	..	..	..	..	59	49	54	..	..	..	24	17	21	
Ethiopia	46	25	36	47	25	36	47	27	37	12	6	9	13	10	11	
Gambia	53	25	39	69	36	53	87	67	77	16	7	11	30	19	25	
Guinea	50	22	36	48	25	36	63	34	48	24	10	17	18	6	12	
Guinea-Bissau	68	43	55	94	43	68	81	47	64	10	2	6	11	4	7	
Haiti	48	42	45	82	70	76	58	54	56	14	13	14	23	22	22	
Kiribati	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	
Lao People's Dem. Rep.	69	44	57	123	104	113	123	92	107	25	16	21	31	19	25	
Lesotho	81	62	71	84	120	102	92	102	97	14	21	18	23	34	29	
Liberia	54	22	38	62	34	48	45	25	35	31	12	22	22	9	16	
Madagascar	60	32	46	136	131	133	74	71	73	35	24	29	13	13	13	
Malawi	72	42	56	72	48	60	142	128	135	5	2	3	21	12	16	
Maldives	93	93	93	153	139	146	136	133	134	4	5	4	49	49	49	
Mali	39	23	31	33	18	26	41	27	34	12	5	8	12	6	9	
Mauritania	50	26	38	47	26	37	88	79	83	17	4	11	21	11	16	
Mozambique	58	23	40	114	84	99	70	50	60	8	3	5	9	5	7	
Myanmar	89	78	83	93	89	91	107	104	105	25	19	22	23	23	23	
Nepal	41	14	28	122	52	88	130	87	109	33	9	22	46	23	35	
Niger	21	7	14	33	18	25	36	22	29	7	3	5	9	5	7	
Rwanda	70	52	61	66	60	63	83	81	82	4	3	3	12	9	11	
Samoa	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	
Sao Tome and Principe	76	47	60	..	..	..	..	..	..	..	..	..	..	..	..	
Sierra Leone	45	18	31	61	43	52	59	41	50	20	8	14	22	13	17	
Solomon Islands	..	..	..	83	65	74	102	87	94	22	9	16	21	13	17	
Somalia	36	14	24	24	14	19	15	8	11	11	4	8	9	5	7	
Sudan	58	35	46	59	41	50	57	48	53	20	12	16	21	19	20	
Togo	67	37	52	146	91	118	140	99	119	51	16	33	40	14	27	
Tuvalu	68	45	56	..	..	..	..	..	..	..	..	..	..	..	..	
Uganda	74	50	62	56	43	50	79	67	73	7	3	5	15	9	12	
United Rep. of Tanzania	79	57	68	99	86	93	67	66	66	4	2	3	6	5	5	
Vanuatu	..	..	..	..	..	..	105	107	106	..	..	..	23	18	20	
Yemen	53	26	33	72	16	45	111	43	79	11	3	7	47	10	29	
Zambia	86	71	78	97	83	90	92	86	89	22	11	16	34	21	28	
All LDCs[b]	60	38	48	77	54	66	79	61	70	21	9	15	23	15	19	
All developing countries[b]	79	62	71	103	85	95	106	94	100	42	28	35	55	45	50	

Sources: UNESCO, *Compendium of Statistics on Illiteracy* (1990 and 1995 editions), *Statistical Yearbook* (1998), *Trends and Projections of Enrolment by Level of Education and by Age, 1960–2025* (as assessed in 1993); and ECA, *African Socio-economic Indicators, 1990–91*.

a Or latest year available. *b* Average of countries for which data are available.

12. Indicators on communications and media

Country	Post offices open to the public (per 100,000 inhabitants)		Telephones (per 1,000 inhabitants)		Radio receivers (per 1,000 inhabitants)		Circulation of daily newspapers (per 1,000 inhabitants)	
	1980	1997[b]	1980	1996[b]	1980	1996[b]	1980	1996[b]
Afghanistan	..	1.5	2.0	1.4	75	122	6.0	0.6
Angola	1.4	0.7	5.1	4.7	21	54	20.0	12.0
Bangladesh	8.2	7.5	1.1	2.6	17	50	3.0	9.0
Benin	..	2.8	5.0[c]	5.9	66	108	0.3	2.0
Bhutan	6.3	5.8	..	10.1	6	19	..	..
Burkina Faso	1.2	0.7	1.5[c]	3.2	18	32	0.2	1.0
Burundi	0.4[d]	0.4	1.3[e]	2.5	39	68	0.2	3.0
Cambodia	..	0.5	..	0.8	92	127	..	..
Cape Verde	18.7[d]	13.2	5.7[f]	63.7	142	179	..	..
Central African Republic	3.1[e]	1.0	2.1[f]	2.9	52	84	..	2.0
Chad	0.5[e]	0.5	1.5[g]	0.9	168	249	0.2	0.3
Comoros	..	4.5	5.0[c]	7.9	120	138	..	..
Democratic Rep. of the Congo	1.4	0.6	0.8	0.8	56	98	2.0	3.0
Djibouti	1.6	1.9	16.8	13.2	75	81	..	..
Equatorial Guinea	4.6[d]	5.9	..	8.9	401	427	7.0	5.0
Eritrea	..	1.1	..	5.1	..	101	..	..
Ethiopia	1.1[f]	0.9	2.3	2.5	82	194	1.0	2.0
Gambia	..	..	5.4[h]	18.7	114	164	..	2.0
Guinea	..	1.3	1.9[g]	2.2	30	47	..	..
Guinea-Bissau	..	1.7	..	7.3	31	43	8.0	6.0
Haiti	..	1.6	..	8.4	20	55	7.0	3.0
Kiribati	42.4	62.5	12.3	26.0	193	213	..	..
Lao People's Dem. Republic	2.1	2.9	2.1[g]	5.6	109	139	4.0	4.0
Lesotho	9.2	7.6	..	9.0	24	48	32.0	7.0
Liberia	2.6	1.2	..	1.6	179	318	6.0	15.0
Madagascar	85.6	4.6	4.3	2.6	176	192	6.0	4.0
Malawi	3.9	3.0	5.2	3.5	42	256	3.0	3.0
Maldives	5.8	92.0	6.8	63.0	44	122	6.0	18.0
Mali	1.9[d]	1.1	..	1.9	15	49	1.0	1.0
Mauritania	3.7	2.6	2.5[d]	4.3	97	150	..	0.5
Mozambique	4.8	2.2	4.5[f]	3.4	21	39	4.0	3.0
Myanmar	3.3	2.7	1.1[h]	3.9	23	89	10.0	10.0
Nepal	9.6	16.8	1.0[c]	5.3	20	37	8.0	11.0
Niger	2.7	0.5	1.7	1.6	45	69	0.5	0.2
Rwanda	..	0.4	0.9	2.8	34	102	0.1	0.1
Samoa	..	22.4	36.9	49.7	206	485	..	..
Sao Tome and Principe	55.9	10.0	15.1[f]	19.7	245	272	..	..
Sierra Leone	3.3[d]	1.2	..	4.0	139	251	3.0	5.0
Solomon Islands	..	31.8	..	18.4	88	141	..	..
Somalia	..	..	..	1.5	17	46	1.0	1.0
Sudan	4.0	1.5	3.4	3.6	187	270	6.0	27.0
Togo	15.2	1.2	3.8	5.7	203	217	6.0	4.0
Tuvalu	..	..	..	11.5	206	400	..	..
Uganda	..	1.6	3.6	2.4	30	123	2.0	2.0
United Republic of Tanzania	3.2	2.0	5.0	3.0	16	278	11.0	4.0
Vanuatu	5.3	..	23.2[c]	25.7	197	345	..	..
Yemen	2.4	1.5	..	12.9	28	64	12.0	15.0
Zambia	7.0[f]	6.4	10.7	9.4	24	121	19.0	14.0
All LDCs[a]	6.7	3.5	2.3	3.1	50	116	5.0	7.0
All developing countries[a]	13.1[i]	10.1	15.5	50.0	97	198	37.0	44.0

Sources: UNESCO, *Statistical Yearbook 1998;* Universal Postal Union, *Statistique des services postaux 1997;* ITU, *World Telecommunications Development Report 1996-1997;* and other international and national sources.

a Average of countries for which data are available. *b* Or latest year available. *c* 1978. *d* 1982. *e* 1983. *f* 1981. *g* 1977. *h* 1979. *i* Excluding China.

13. Indicators on transport and transport networks[a]

Country	Road networks			Railways				Civil aviation			
	Total	Paved	Density	Network	Density	Freight	Passenger	Freight		Passenger	
								Total	International	Total	International
	km	%	km/ 1,000 km²	km	km/ 1,000 km²	mill. ton km	mill. pass. km	thousands of tons		thousands	
Afghanistan	21 000	13.3	32.2	..	..	..	..	13.5	13.2	256	112
Angola	76 626	25.0	58.3	2 523	2	1 890	360	62.2	60.5	585	165
Bangladesh	204 022	12.3	1 380.0	2 746	19.1	718	5 348	135.7	135.5	1252	765
Benin	6787	20.0	60.3	579	5.1	220	230	16.4	16.4	75	75
Bhutan	3 285	60.7	69.9	..	..	..	..	..	..	..	..
Burkina Faso	12 100	16.0	44.2	607	2.2	72	152	16.5	16.5	138	112
Burundi	14 480	7.1	520.9	..	..	..	..	..	..	9	8
Cambodia	35 769	7.5	197.6	601	3.3	34	80	..	..	..	..
Cape Verde	1 100	78.0	272.7	..	..	..	..	0.8	0.3	129	31
Central African Republic	24 000	1.8	38.5	..	..	..	..	16.4	16.4	75	75
Chad	33 400	0.8	26.0	..	..	..	..	16.4	16.4	93	78
Comoros	900	76.5	409.1	..	..	..	..	..	..	27	5
Dem. Rep. of the Congo	157 000	..	67.0	5 088	2.2	1 836	580	17.2	16.4	253	80
Djibouti	2 890	12.6	124.6	100	4.3	..	..	8.4	8.4	126	112
Equatorial Guinea	2 880	..	102.5	..	..	..	..	0.1	0.1	15	15
Eritrea	4 010	21.8	34.1	..	..	..	..	..	..	..	..
Ethiopia	28 500	15.0	25.8	781	0.7	103	185	118.1	117.8	743	477
Gambia	2 700	35.4	238.9	..	..	..	..	..	..	..	..
Guinea	30 500	16.5	124.0	940	3.8	660	116	0.7	0.6	36	31
Guinea-Bissau	4 400	10.3	121.9	..	..	..	..	0.1	-	21	8
Haiti	4 160	24.3	149.6	100	3.6	..	..	..	..	..	..
Kiribati	670	..	957.1	..	..	..	..	0.9	0.9	28	3
Lao People's Dem. Rep.	22 321	13.8	94.3	..	..	..	..	0.9	0.4	125	31
Lesotho	4 955	17.9	163.2	16	0.5	..	..	..	..	17	17
Liberia	10 600	6.2	95.2	493	4.4	..	..	..	..	..	..
Madagascar	49 837	11.6	84.9	1 030	1.8	93	46	25.2	23.9	547	119
Malawi	16 451	18.5	174.0	789	6.7	48	40	3.5	3.1	153	76
Maldives	..	..	..	..	..	..	..	6.8	6.8	207	167
Mali	15 100	12.1	12.2	642	0.5	4	9	16.4	16.4	75	75
Mauritania	7 660	11.3	7.5	650	0.6	16 623	7	16.7	16.5	235	99
Mozambique	30 400	18.4	37.9	3 150	3.9	1 420	500	5.4	3.6	163	54
Myanmar	28 200	12.2	41.7	2 775	4.1	648	4 675	1.2	0.3	334	19
Nepal	7 700	41.5	52.3	52	0.4	..	..	17.9	17.5	755	385
Niger	10 100	7.9	8.0	..	..	..	..	16.4	16.4	75	75
Rwanda	14 900	9.1	566.5	2 652	100.7	2 140	2 700	..	..	..	..
Samoa	790	42.0	282.1	..	..	..	..	1.5	1.5	270	270
Sao Tome and Principe	320	68.1	320.0	..	..	..	..	..	..	23	14
Sierra Leone	11 300	8.0	163.2	84	1.2	..	..	0.3	0.3	15	15
Solomon Islands	1 360	2.5	47.1	..	..	..	..	1.7	1.7	94	28
Somalia	22 100	11.8	34.7	..	..	..	..	2.0	1.9	136	110
Sudan	11 900	36.3	4.7	4 756	1.9	1 970	985	46.3	23.6	491	315
Togo	7 520	31.6	132.4	514	9.1	17	132	16.4	16.4	75	75
Tuvalu	8	..	307.7	..	..	..	..	..	..	..	..
Uganda	26 800	7.7	111.2	1 100	4.6	82	315	1.1	1.1	100	100
United Rep. of Tanzania	88 200	4.2	99.8	3 575	4	523	935	3.0	1.6	224	85
Vanuatu	1 070	23.9	87.7	..	..	..	..	1.2	1.2	73	73
Yemen	64 725	8.1	122.6	..	..	..	..	9.1	8.9	588	366
Zambia	66 781	18.3	52.8	1 924	2.6	1 625	547	9.4	8.8	413	265

Sources: IRU, *World Transport Statistics 1996;* IRF, *World Road Statistics 1999;* ICAO, Statistical Year Book, *Civil Aviation Statistics of the World 1996.*

a Data refer to 1997 for road network and 1996 for civil avilation or latest year available.

14. Indicators on energy

Country	Coal, oil, gas and electricity		Fuelwood, charcoal and bagasse		Installed electricity capacity	
	Consumption per capita in kg of coal equivalent				*kW/1,000 inhabitants*	
	1980	*1996*	*1980*	*1996*	*1980*	*1996*
Afghanistan	48	31	99	99	27	24
Angola	135	82	362	183	86	55
Bangladesh	45	108	23	24	11	27
Benin	52	45	347	344	4	3
Bhutan	9	62	777	262	10	205
Burkina Faso	29	44	277	312	6	7
Burundi	14	19	252	255	2	7
Cambodia	22	24	213	218	6	3
Cape Verde	194	145	..	..	10	18
Central African Republic	26	37	358	335	16	13
Chad	23	7	206	208	7	4
Comoros	48	51	..	..	13	8
Democratic Republic of the Congo	75	33	298	335	64	68
Djibouti	474	281	..	..	125	138
Equatorial Guinea	124	150	645	383	23	12
Eritrea	..	..	..	..	..	..
Ethiopia	21	25[a]	296	285	8	8[a]
Gambia	117	90	452	338	17	25
Guinea	103	72	246	221	37	25
Guinea-Bissau	81	100	177	134	9	10
Haiti	61	73	322	288	23	21
Kiribati	220	128	..	..	34	25
Lao People's Democratic Republic	34	43	354	308	55	51
Lesotho	..	..	..	..	..	..
Liberia	500	79	709	589	173	148
Madagascar	86	39	194	242	11	14
Malawi	56	42	288	314	24	19
Maldives	129	536	..	..	13	95
Mali	28	23	196	191	12	10
Mauritania	188	583	1	1	44	45
Mozambique	150	30	351	323	156	134
Myanmar	60	90	143	149	20	30
Nepal	17	37	305	282	5	13
Niger	48	52	191	200	6	7
Rwanda	28	47	292	232	8	6
Samoa	310	400	145	149	82	114
Sao Tome and Principe	213	278	..	..	53	44
Sierra Leone	80	43	709	237	31	29
Solomon Islands	212	194	..	126	53	31
Somalia	36	48[b]	192	315	7	8
Sudan	81	60	282	289	16	18
Togo	70	75	66	94	12	8
Tuvalu	..	..	..	..	..	..
Uganda	27	27	235	236	12	8
United Republic of Tanzania	46	37	331	392	22	18
Vanuatu	248	168	68	48	85	63
Yemen	187	311	45	8	20	52
Zambia	396	208	496	502	301	294
All LDCs	64	69	212	210	28	33
All developing countries	508	898	125	135	98	386

Source: United Nations, *Energy Statistics Yearbook 1996* and *Statistical Yearbook 1985/86.*
a includes Eritrea. *b* 1989.

15. Indicators on the status of women in LDCs

Country	Education, training and literacy: Female–male gaps[a]				Health, fertility and mortality			Economic activity, employment					Political participation	
	Adult literacy rate	School enrolment ratio			Average age at first marriage (years)	Total fertility rate (births per woman)	Maternal mortality (per 100,000 births)	Women as a percentage of total:				Female labour force: Agriculture/total	Legislators	Decision makers in all ministries
		Primary	*Secondary*	*Post-secondary*				*Labour force*	*Employees*	*Self-employed*	*Unpaid family*	*(%)*	*(%)*	*(%)*
	1996[b]		*1996[c]*		*1997[c]*	*1997[c]*	*1997[c]*	*1997[c]*	*1992[c]*	*1992[c]*	*1997[c]*	*1997[c]*	*1996[c]*	*1996[c]*
Afghanistan	32	50	34	46	18	7	1 700[d]	31	..	..	..	85	2	-
Angola	52	93	67	23	18	7	1 500[d]	42	..	..	..	86	10	7
Bangladesh	53	88	54	19	18	3	850d	44	14	4	71	76	9	5
Benin	53	59	43	21	18	6	500[b]	43	..	..	40	65	7	15
Bhutan	50	..	..	..	..	6	1 600[d]	39	..	..	..	98	5	13
Burkina Faso	30	65	55	31	19	7	930[d]	47	13	16	66	94	9	11
Burundi	47	82	63	31	22	6	1 300[d]	51	13	53	60	98	12	8
Cambodia	66	90	80	17	21	5	900[b]	52	..	..	..	78	2	-
Cape Verde	79	98	95	..	25	4	200[d]	29	32	46	54	32	11	13
Central African Rep.	75	65	40	16	19	5	700[b]	44	10	52	55	87	4	5
Chad	56	56	25	18	17	6	840[b]	42	..	..	..	91	17	5
Comoros	78	83	81	..	22	6	950[d]	39	24	25	..	91	3	6
Dem. Rep. of the Congo	78	70	62	20	20	6	870[d]	36	..	..	..	81	3	8
Djibouti	55	75	66	66	19	5	..	40	33	28	22	..	-	-
Equatorial Guinea	77	102	90	15	..	6	..	29	..	..	74	91	5	5
Eritrea	..	91	88	17	..	5	1 400[d]	47	..	..	..	85	21	..
Ethiopia	54	68	83	27	18	7	1 400[d]	36	26	..	67	86	5	12
Gambia	47	79	63	55	..	5	1 050[d]	45	..	..	64	92	8	22
Guinea	44	58	36	..	16	7	880[b]	45	..	..	60	92	7	15
Guinea-Bissau	63	58	36	11	18	6	910[d]	37	..	..	4	96	10	8
Haiti	88	93	96	38	24	5	600[b]	37	44	38	37	57	3	17
Kiribati	..	..	..	..	..	..	..	14	..	..	..	..	-	..
Lao People's Dem. Rep.	64	86	71	41	..	7	660[d]	45	..	..	..	81	9	-
Lesotho	77	117	183	124	21	5	610[d]	30	38	24	39	59	15	..
Liberia	41	..	..	..	20	6	..	33	..	..	..	84	6	10
Madagascar	53	100	100	83	20	6	500[b]	42	..	..	..	88	4	-
Malawi	58	90	57	44	18	7	620[b]	47	13	57	58	96	6	5
Maldives	100	97	..	..	19	7	..	35	17	22	29	28	6	5
Mali	59	66	50	14	19	7	580[b]	45	17	15	53	89	2	10
Mauritania	52	90	52	20	23	5	800[d]	40	15	23	38	63	1	4
Mozambique	40	77	71	29	22	6	1 100[d]	50	..	..	82	96	25	4
Myanmar	88	99	96	159	22	3	580[d]	46	..	..	..	78	..	-
Nepal	34	71	51	30	18	5	1 500[d]	38	15	36	61	98	5	-
Niger	33	63	57	17	17	7	590[b]	41	8	17	24	97	4	10
Rwanda	74	100	78	22	21	6	1 300[d]	52	15	33	53	98	17	8
Samoa	..	100	112	..	25	4	..	37	37	9	8	..	4	7
Sao Tome and Principe	..	..	..	..	18	..	..	..	32	26	54	..	8	-
Sierra Leone	40	69	59	21	18	6	..	27	20	24	72	81	6	4
Solomon Islands	..	85	66	..	21	5	..	50	20	39	..	85	..	-
Somalia	39	53	56	24	20	7	..	37	..	..	..	88	4	-
Sudan	60	84	90	88	24	5	370[b]	23	..	..	..	84	2	2
Togo	55	74	38	20	20	6	640[d]	33	15	48	54	65	3	4
Tuvalu	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	68	85	60	48	19	7	550[b]	47	..	..	72	88	18	13
United Rep.of Tanzania	72	104	83	13	21	6	530[b]	50	..	..	88	91	17	16
Vanuatu	..	102	78	..	23	4	..	..	..	..	..	..	..	-
Yemen	49	40	26	16	18	8	1 400[d]	18	8	13	69	88	1	-
Zambia	83	99	74	39	21	5	650[d]	37	16	55	54	83	10	7
All LDCs	63	76	61	36	20	5	..	42	..	..	..	83	9	6

Sources: UNDP, *Human Development Report 1999;* United Nations, *The World's Women 1970–1990: Trends and Statistics; Women's Indicators and Statistics* (Wistat); UNESCO, *Statistical Yearbook* 1998; UNICEF, *The State of the World's Children 1999;* estimates by the Bureau of Statistics of the ILO; and World Bank, *World Development Indicators 1999*.

a Females as percentage of males. *b* Estimates. *c* Or latest year available. *d* UNICEF-WHO estimate based on statistical modeling.

16. Leading exports of all LDCs in 1996–1997

SITC	Item	Value[a] (million dollars)	As percentage of LDCs	Developing countries	World
	All commodities	18 813.7	100.00	1.21	0.35
333	Petroleum oils, crude and crude oils obtained from bituminous minerals	3 711.8	19.73	2.11	1.59
263	Cotton	1 595.0	8.48	19.99	12.82
71	Coffee and coffee substitutes	1 154.6	6.14	9.68	7.51
844	Under garments of textile fabrics	867.8	4.61	9.29	6.33
36	Crustaceans and molluscs, fresh, chilled, frozen, salted, in brine or dried	851.2	4.52	7.61	5.23
682	Copper	832.3	4.42	6.28	2.56
842	Outer garments, men's, of textile fabrics	690.5	3.67	3.64	2.13
843	Outer garments, women's, of textile fabrics	469.9	2.50	1.89	1.08
247	Other wood in the rough or roughly squared	440.9	2.34	13.95	5.16
846	Under garments, knitted or crocheted	415.3	2.21	2.41	1.44
667	Pearls, precious and semi-precious stones unworked or worked	394.1	2.09	4.30	0.94
287	Ores and concentrates of base metals, n.e.s.	387.2	2.06	3.97	1.91
121	Tobacco, unmanufactured	371.8	1.98	9.48	5.45
845	Outergarments and other articles, knitted	365.2	1.94	1.53	0.89
34	Fish, fresh (live or dead) chilled or frozen	317.3	1.69	4.39	1.63
54	Vegetables, fresh, chilled, frozen or simply preserved, roots, tubers	301.8	1.60	4.20	1.29
281	Iron ore and concentrates	271.4	1.44	6.80	2.96
611	Leather	268.6	1.43	3.19	1.62
232	Natural rubber latex	263.0	1.40	4.08	3.96
659	Floor coverings	251.4	1.34	6.40	2.26

Source: UNCTAD secretariat computations, based on data from the Statistics Division of the United Nations.

a Annual average.

17. Main markets for exports of LDCs: Percentage shares in 1997 (or latest year available)

Country	Developed market economy countries					Countries in Eastern Europe	Developing countries			Other and unallocated
	Total	*European Union*	*Japan*	*USA and Canada*	*Others*		*Total*	*OPEC*	*Other*	
Afghanistan	46.2	31.5	6.3	7.4	1.0	6.7	47.1	4.1	43.0	-
Angola	80.7	14.6	0.1	64.9	1.1	-	17.6	-	17.6	1.7
Bangladesh	83.1	42.1	2.4	37.5	1.1	1.2	15.0	2.8	12.1	0.7
Benin	21.2	16.9	0.6	3.2	0.5	0.2	74.7	15.8	58.9	3.9
Bhutan	-	-	-	-	-	-	-	-	-	-
Burkina Faso	34.3	30.7	2.1	0.5	1.0	0.6	51.1	1.9	49.2	14.0
Burundi	63.8	48.8	-	0.9	14.1	-	1.6	0.5	1.1	34.6
Cambodia	26.4	11.2	1.0	13.9	0.3	0.5	73.1	0.2	72.9	-
Cape Verde	80.0	80.0	-	-	-	-	15.0	5.0	10.0	5.0
Central African Republic	48.6	47.5	0.3	0.6	0.2	2.9	14.3	0.9	13.4	34.2
Chad	50.2	45.2	1.6	2.9	0.5	1.8	42.3	2.9	39.4	5.7
Comoros	93.6	71.7	0.7	20.4	0.8	0.5	5.9	1.2	4.7	-
Dem. Republic of the Congo	93.2	59.5	3.7	22.0	8.0	0.2	6.4	0.8	5.6	0.2
Djibouti	6.1	5.9	0.1	-	0.1	0.3	93.6	2.7	90.9	-
Equatorial Guinea	62.5	37.1	15.0	10.4	-	-	37.3	0.2	37.1	0.2
Eritrea	-	-	-	-	-	-	-	-	-	-
Ethiopia	77.3	50.8	11.2	13.3	2.0	4.7	16.8	5.4	11.4	1.2
Gambia	92.7	86.0	4.7	1.7	0.3	1.0	6.3	0.4	5.9	-
Guinea	56.0	39.0	0.4	14.4	2.2	27.8	15.9	0.4	15.5	0.3
Guinea-Bissau	15.7	14.4	0.8	0.3	0.2	-	83.6	-	83.6	0.7
Haiti	98.5	15.2	0.2	82.5	0.6	0.1	1.0	-	1.0	0.4
Kiribati	61.8	24.0	17.2	16.2	4.4	0.9	37.3	-	37.3	-
Laos	50.3	41.5	3.5	3.6	1.7	-	18.6	-	18.6	31.1
Lesotho	-	-	-	-	-	-	-	-	-	-
Liberia	69.4	48.0	-	0.5	20.9	17.2	13.4	0.1	13.3	-
Madagascar	86.6	69.1	5.8	10.3	1.4	0.9	11.8	1.6	10.2	0.7
Malawi	59.0	27.8	4.5	12.2	14.5	5.6	13.0	0.2	12.8	22.4
Maldives	62.4	22.4	18.7	21.0	0.3	0.3	35.1	-	35.1	2.2
Mali	40.2	31.5	1.0	5.2	2.5	0.2	46.2	3.0	43.2	13.4
Mauritania	84.8	59.9	24.5	0.1	0.3	1.2	13.2	0.1	13.1	0.8
Mozambique	71.2	35.4	8.1	12.4	15.3	1.1	23.6	0.2	23.4	4.1
Myanmar	31.8	12.2	7.7	10.9	1.0	0.1	52.5	2.7	49.8	15.6
Nepal	74.6	41.3	0.9	30.1	2.3	1.1	23.5	0.1	23.4	0.8
Niger	81.8	46.0	0.2	34.6	1.0	0.7	13.6	6.1	7.5	3.9
Rwanda	70.5	66.1	-	3.8	0.6	3.1	16.7	-	16.7	9.7
Samoa	87.3	7.3	1.3	7.2	71.5	2.9	6.7	-	6.7	3.1
Sao Tome and Principe	91.1	83.7	0.2	2.7	4.5	3.9	4.9	0.5	4.4	0.1
Sierra Leone	82.9	69.7	0.9	11.3	1.0	1.0	2.2	-	2.2	13.9
Solomon Islands	75.5	12.9	59.9	0.6	2.1	-	22.3	-	22.3	2.2
Somalia	13.4	13.3	-	0.1	-	0.2	86.4	73.3	13.1	-
Sudan	42.6	35.3	4.2	2.3	0.8	1.6	55.4	24.2	31.2	0.4
Togo	34.4	14.7	-	12.0	7.7	4.4	38.8	9.4	29.4	22.4
Tuvalu	28.9	24.4	-	-	4.5	55.3	15.8	-	15.8	-
Uganda	82.9	71.9	0.7	7.2	3.1	10.0	6.6	1.1	5.5	0.5
United Republic of Tanzania	46.6	33.1	7.5	3.9	2.1	2.6	44.3	6.4	37.9	6.5
Vanuatu	86.9	53.7	27.8	3.4	2.0	-	10.6	-	10.6	2.5
Yemen	19.4	8.1	5.3	0.3	5.7	-	80.2	2.8	77.3	0.4
Zambia	43.7	23.1	10.7	6.4	3.5	0.1	51.0	10.0	41.0	5.2
All LDCs	63.3	32.4	4.4	22.7	3.8	2.8	29.8	3.3	26.5	4.1
All developing countries	54.8	17.7	10.2	24.1	2.8	1.8	38.8	3.3	35.5	4.6

Sources: UNCTAD secretariat calculations, based on data from IMF, *Direction of Trade Statistics Yearbook 1998* and CD-ROM.

18. Main sources of imports of LDCs: Percentage shares in 1997 (or latest year available)

Country	Developed market economy countries: Total	European Union	Japan	USA and Canada	Others	Countries in Eastern Europe	Developing countries: Total	OPEC	Other	Other and unallocated
Afghanistan	31.2	11.8	17.0	2.3	0.1	6.7	62.0	4.0	58.0	0.1
Angola	84.1	57.6	2.9	13.9	9.7	1.1	14.7	0.3	14.4	0.1
Bangladesh	28.8	12.8	6.9	5.6	3.5	1.3	50.9	5.8	45.1	19.0
Benin	59.5	49.5	1.6	6.9	1.5	0.6	37.1	1.2	35.9	2.8
Bhutan	-	-	-	-	-	-	-	-	-	-
Burkina Faso	57.6	50.1	1.9	4.2	1.4	0.7	37.7	6.2	31.5	4.0
Burundi	40.9	28.2	6.2	1.9	4.6	0.6	30.6	10.3	20.3	27.9
Cambodia	31.0	7.7	7.5	2.8	13.0	0.6	68.4	1.3	67.1	-
Cape Verde	83.3	78.3	-	4.3	0.7	1.8	9.8	-	9.8	5.1
Central African Republic	47.6	43.3	1.2	2.6	0.5	0.4	39.4	1.4	38.0	12.6
Chad	65.2	59.7	0.6	2.7	2.1	0.9	33.7	11.8	21.9	0.2
Comoros	88.1	69.2	1.4	0.2	17.2	0.6	11.2	0.6	10.6	-
Dem. Republic of the Congo	61.1	32.6	0.7	4.6	23.1	0.8	37.4	6.7	30.7	0.7
Djibouti	47.8	41.5	3.2	2.3	0.8	0.4	44.4	10.1	34.3	7.4
Equatorial Guinea	82.1	53.6	0.1	26.4	1.9	0.3	17.6	-	17.6	-
Eritrea	-	-	-	-	-	-	-	-	-	-
Ethiopia	62.3	40.4	8.3	9.8	3.8	1.5	33.4	6.0	27.4	2.8
Gambia	45.6	38.0	1.8	3.2	2.6	0.4	52.8	1.4	51.4	1.2
Guinea	64.2	47.5	1.6	12.0	3.1	1.6	32.7	4.2	28.5	1.5
Guinea-Bissau	52.9	40.0	8.6	3.6	0.7	0.2	40.4	0.7	39.7	6.5
Haiti	80.0	13.3	4.6	61.2	0.8	0.2	18.3	0.7	17.6	1.5
Kiribati	83.8	35.0	24.7	3.3	20.8	0.7	14.6	0.1	14.5	0.9
Lao People's Dem. Republic	3.4	0.6	2.5	0.1	0.1	-	93.6	-	93.6	3.0
Lesotho	-	-	-	-	-	-	-	-	-	-
Liberia	35.2	17.6	13.3	1.2	3.0	3.3	61.5	0.5	61.0	-
Madagascar	69.0	52.6	4.2	1.8	10.4	0.3	28.8	2.1	26.7	1.9
Malawi	51.2	10.1	2.8	3.3	35.0	0.1	36.1	0.2	35.9	12.6
Maldives	21.9	14.6	1.8	2.6	2.9	-	77.9	27.1	50.7	0.2
Mali	36.5	32.2	0.7	3.2	0.4	1.7	55.1	0.5	54.6	6.7
Mauritania	65.7	56.8	4.9	3.4	0.6	0.5	27.2	7.1	20.1	6.6
Mozambique	74.5	10.0	2.8	5.5	56.2	0.2	25.0	7.7	17.3	0.3
Myanmar	17.9	7.2	8.6	0.9	1.1	0.5	79.3	5.8	73.5	2.3
Nepal	34.5	16.2	5.9	5.4	7.1	0.3	64.6	0.9	63.7	0.6
Niger	39.9	32.1	0.5	6.4	0.9	0.2	17.4	3.0	14.4	42.4
Rwanda	45.5	26.9	4.7	11.3	2.5	0.1	43.3	1.8	41.5	11.1
Samoa	83.4	4.6	17.3	9.2	52.3	-	14.5	0.1	14.4	2.1
Sao Tome and Principe	94.9	25.1	0.1	35.2	34.5	1.3	3.7	0.1	3.6	0.1
Sierra Leone	66.0	52.0	1.3	7.8	4.9	2.6	27.7	4.8	22.9	3.7
Solomon Islands	61.3	2.2	10.5	1.3	47.3	-	30.4	0.7	29.7	8.3
Somalia	10.8	5.7	0.3	1.3	3.5	11.5	69.7	12.6	57.1	8.0
Sudan	38.3	29.4	2.1	3.5	3.3	2.0	59.4	29.8	29.6	0.3
Togo	35.2	29.4	1.7	3.0	1.1	0.9	59.2	5.1	54.1	4.7
Tuvalu	48.1	8.7	12.0	-	27.4	2.3	49.6	0.4	49.2	-
Uganda	45.2	28.5	5.1	5.5	6.2	0.5	54.2	3.9	50.3	-
United Republic of Tanzania	47.9	25.3	4.4	4.2	14.0	0.7	47.1	12.0	35.1	4.3
Vanuatu	85.7	5.6	52.6	0.6	25.6	0.1	16.0	0.1	15.9	1.1
Yemen	41.6	23.4	2.9	8.0	7.3	1.4	54.4	23.9	30.5	2.5
Zambia	23.5	17.0	2.6	3.5	0.4	0.2	27.7	6.3	21.4	48.6
All LDCs	45.4	25.6	5.7	6.5	7.5	1.3	46.6	6.4	40.2	6.7
All developing countries	56.8	19.9	12.7	19.8	4.4	2.1	35.2	5.9	29.3	5.9

Sources: UNCTAD secretariat calculations, based on data from IMF, *Direction of Trade Statistics Yearbook 1998* and CD-ROM.

19. Composition of total financial flows to all LDCs in current and in constant dollars

(Net disbursements)

	Millions of current dollars					Millions of 1980 dollars[f]				
	1985	*1990*	*1995*	*1996*	*1997*	*1985*	*1990*	*1995*	*1996*	*1997*
Concessional loans & grants	**10 049**	**16 014**	**16 654**	**14 235**	**13 547**	**11 372**	**13 892**	**12 811**	**11 298**	**10 751**
Of which:										
DAC	8 585	15 439	16 650	14 195	13 481	9 715	13 394	12 808	11 266	10 699
- Bilateral	5 288	9 306	8 930	7 749	7 320	5 984	8 073	6 869	6 150	5 810
- Multilateral[a]	3 297	6 133	7 720	6 446	6 161	3 731	5 321	5 939	5 116	4 889
- Grants	6 215	11 205	12 625	10 998	10 542	7 033	9 721	9 712	8 729	8 367
- Loans	2 370	4 234	4 025	3 197	2 939	2 682	3 673	3 096	2 537	2 332
- Technical assistance	2 129	3 285	3 730	3 559	3 410	2 409	2 850	2 869	2 825	2 706
- Other[b]	6 456	12 154	12 920	10 636	10 071	7 306	10 544	9 939	8 441	7 993
OPEC	684	581	4	40	66	774	505	3	32	52
- Bilateral	610	569	4	40	66	690	495	3	32	52
- Multilateral[c]	74	12	-	-	-	84	10	-	-	-
- Grants	430	504	11	7	8	487	437	8	6	6
- Loans	254	77	..	..	..	287	68	..	..	..
Non-concessional flows	**392**	**862**	**-451**	**925**	**1552**	**443**	**748**	**-347**	**734**	**1232**
Of which:										
DAC	399	862	-451	925	1552	452	748	-347	734	1232
- Bilateral official	473	661	-38	56	274	535	574	-29	44	217
- Multilateral[a]	242	50	-52	-11	-82	274	43	-40	-9	-65
- Export credits[d]	-308	-488	-320	-197	329	-349	-423	-246	-156	261
- Direct investment	-65	310	271	463	1179	-74	269	208	367	936
- Other[e]	57	329	-312	614	-148	65	285	-240	488	-117
Total financial flows	**10 441**	**16 876**	**16 203**	**15 160**	**15 099**	**11 815**	**14 640**	**12 464**	**12 032**	**11 983**

Source: UNCTAD secretariat calculations, mainly based on OECD/DAC data.

a From multilateral agencies mainly financed by DAC member countries.
b Grants (excluding technical assistance grants) and loans.
c From multilateral agencies mainly financed by OPEC member countries.
d Guaranteed private.
e Bilateral financial flows originating in DAC countries and their capital markets in the form of bond lending and bank lending (either directly or through syndicated "Eurocurrency credits"). Excludes flows that could not be allocated by recipient country.
f The deflator used is the unit value index of imports.

20. Distribution of financial flows to LDCs and to all developing countries, by type of flow

(*Percentage*)

	To least developed countries					To all developing countries				
	1985	*1990*	*1995*	*1996*	*1997*	*1985*	*1990*	*1995*	*1996*	*1997*
Concessional loans & grants	**96.2**	**94.9**	**102.7**	**93.9**	**89.7**	**71.2**	**71.2**	**37.3**	**29.1**	**25.2**
Of which:										
DAC	82.2	90.0	102.7	93.6	89.3	59.9	62.9	37.0	28.8	25.0
- Bilateral	50.6	54.2	55.1	51.1	48.5	42.3	46.2	25.0	19.0	16.2
- Multilateral[a]	31.6	35.8	47.6	42.5	40.8	17.6	16.7	12.0	9.8	8.8
- Grants	59.5	65.2	77.9	72.5	69.8	42.8	47.1	28.7	22.9	20.4
- Loans	22.7	24.8	24.8	21.1	19.5	17.1	15.8	8.3	5.9	4.6
- Technical assistance	20.4	19.1	23.0	23.5	22.6	17.8	18.2	11.3	9.1	8.0
- Other[b]	61.8	70.9	79.7	70.2	66.7	42.1	44.7	25.7	19.7	17.0
OPEC	6.5	3.4	-	0.3	0.4	6.9	7.3	0.3	0.3	0.2
- Bilateral	5.8	3.3	-	0.3	0.4	6.6	7.2	0.3	0.3	0.2
- Multilateral[c]	0.7	-	-	-	-	0.3	-	-	-	-
- Grants	4.1	3.0	-	-	-	5.8	7.2	0.3	0.2	0.1
- Loans	2.4	0.4	..	..	..	1.1	0.1	-	0.1	0.1
Non-concessional flows	**3.8**	**5.1**	**-2.7**	**6.1**	**10.3**	**28.8**	**28.8**	**62.7**	**70.9**	**74.8**
Of which:										
DAC	3.8	5.0	-2.7	6.1	10.3	28.1	28.7	62.7	70.9	74.8
- Bilateral official	4.5	3.8	-0.2	0.4	1.8	8.1	9.9	5.5	2.9	3.0
- Multilateral[a]	2.3	0.3	-0.3	-0.1	-0.5	16.6	12.7	2.7	2.8	5.5
- Export credits[d]	-2.9	-2.8	-2.0	-1.3	2.2	2.9	-1.0	3.1	0.6	1.8
- Direct investment	-0.6	1.8	1.7	3.1	7.8	13.3	30.9	31.4	30.4	39.3
- Other[e]	0.5	1.9	-1.9	4.1	-1.0	-12.7	-23.8	20.0	34.2	25.2
Total financial flows	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

For sources and notes, see table 19.

21. Share of LDCs in financial flows to all developing countries, by type of flow

(Percentage)

	1985	1990	1995	1996	1997
Concessional loans & grants	**31.4**	**28.4**	**28.0**	**25.5**	**27.3**
Of which:					
DAC	31.5	30.5	28.2	25.7	27.4
- Bilateral	27.7	25.0	22.4	21.3	23.0
- Multilateral[a]	40.6	45.7	40.5	34.3	35.5
- Grants	32.2	29.5	27.6	25.1	26.2
- Loans	29.7	33.4	30.5	28.2	32.7
- Technical assistance	26.5	22.4	20.7	20.4	21.6
- Other[b]	33.7	33.8	31.6	28.2	30.2
OPEC	22.0	9.8	0.8	7.0	15.3
- Bilateral	20.5	9.8	0.8	7.0	15.3
- Multilateral[c]	57.7	15.4	-	-	-
- Grants	16.4	8.9	2.4	1.6	3.6
- Loans	52.2	68.8	-	-	-
Non-concessional flows	**3.0**	**3.8**	**-0.5**	**0.7**	**1.1**
Of which:					
DAC	3.1	3.7	-0.5	0.7	1.1
- Bilateral official	12.9	8.3	-0.4	1.0	4.6
- Multilateral[a]	3.1	0.4	-1.2	-0.2	-0.8
- Export credits[d]	-	62.7	-6.5	-17.2	9.3
- Direct investment	-	1.2	0.5	0.8	1.5
- Other[e]	-	-1.7	-1.0	0.9	-0.3
Total financial flows	**23.2**	**21.3**	**10.2**	**7.9**	**7.7**

Note: No percentage is shown when either the net flow to all LDCs or the net flow to all developing countries in a particular year is negative.
For other notes and sources, see table 19.

22. Net ODA[a] from individual DAC member countries to LDCs as a group

Donor country[b]	% of GNP				Millions of dollars				% change
	1990	*1995*	*1996*	*1997*	*1990*	*1995*	*1996*	*1997*	*1997/1990*
Norway	0.55	0.31	0.33	0.34	555	484	508	514	-7.4
Denmark	0.40	0.29	0.32	0.29	487	498	558	486	-0.3
Sweden	0.36	0.21	0.24	0.23	818	492	573	514	-37.2
Netherlands	0.30	0.22	0.23	0.22	847	906	898	793	-6.4
Luxembourg	0.07	..	0.12	0.16	8	..	22	28	250.0
Portugal	0.16	0.14	0.14	0.16	100	165	148	166	66.0
Ireland	0.06	0.12	0.13	0.15	23	66	76	89	286.9
Switzerland	0.14	0.10	0.10	0.11	323	331	304	297	-8.1
France	0.18	0.11	0.09	0.10	2 193	1 767	1419	1390	-36.6
Belgium	0.19	0.09	0.08	0.08	377	261	220	204	-45.9
Canada	0.13	0.08	0.06	0.08	735	466	341	468	-36.4
Finland	0.26	0.08	0.10	0.08	339	102	117	93	-72.6
New Zealand	0.05	0.05	0.04	0.06	19	26	26	35	84.2
United Kingdom	0.09	0.07	0.07	0.06	881	827	810	772	-12.4
Australia	0.06	0.06	0.06	0.05	178	206	219	199	11.8
Germany	0.12	0.07	0.07	0.05	1 768	1 611	1692	1138	-35.6
Total DAC	**0.09**	**0.06**	**0.05**	**0.05**	**15 340**	**13 265**	**11 412**	**10 916**	**-28.8**
Austria	0.07	0.04	0.03	0.04	110	104	77	92	-16.4
Japan	0.06	0.05	0.03	0.04	1 698	2 527	1418	1771	4.3
Spain	0.04	0.04	0.02	0.04	203	219	142	201	-1.0
Italy	0.13	0.03	0.05	0.03	1 421	387	592	324	-77.2
United States	0.04	0.02	0.02	0.02	2 256	1 821	1 254	1 343	-40.5

Source: UNCTAD secretariat calculations, based on information from the OECD/DAC secretariat.
a Including imputed flows through multilateral channels.
b Ranked in descending order of the ODA/GNP ratio in 1997.

23. Bilateral ODA from DAC member countries and total financial flows from multilateral agencies[a] to all LDCs

(Millions of dollars)

	Net disbursements					Commitments				
	1985	*1990*	*1995*	*1996*	*1997*	*1985*	*1990*	*1995*	*1996*	*1997*
A. Bilateral donors										
Australia	58.2	104.5	139.4	143.0	125.7	59.1	97.0	156.0	192.3	104.6
Austria	11.8	60.6	70.6	64.0	52.6	11.6	130.6	69.7	54.3	103.6
Belgium	174.0	263.4	148.9	153.3	160.2	81.0	263.4	153.8	156.2	168.4
Canada	315.7	360.7	224.5	216.9	234.6	340.9	338.0	225.1	217.2	250.6
Denmark	125.4	293.6	332.7	400.0	337.2	146.4	269.2	238.4	542.7	359.8
Finland	60.5	192.8	65.2	64.6	53.7	127.7	127.1	44.5	54.8	54.2
France	643.8	1 626.8	1197.7	1065.1	1127.0	759.8	1 331.3	968.8	937.0	1335.5
Germany	570.3	1 080.1	1083.0	1082.3	772.9	831.0	1 232.9	1 222.8	1208.9	755.4
Ireland	10.4	13.9	55.7	67.1	79.9	10.4	13.9	-	67.1	79.9
Italy	404.4	923.0	269.7	230.8	239.0	525.5	799.8	504.8	285.8	213.9
Japan	551.5	985.1	1603.2	1177.7	987.3	626.3	1 043.9	1 757.6	1831.1	1397.7
Luxembourg	-	6.0	19.3	18.5	23.8	-	-	-	14.9	16.9
Netherlands	252.6	568.6	658.7	666.2	615.3	249.1	666.1	666.1	667.7	516.3
New Zealand	7.0	13.3	20.7	23.3	26.7	12.2	9.7	-	23.3	-
Norway	154.9	354.5	370.2	378.3	379.1	150.6	186.2	391.8	280.6	254.5
Portugal	-	105.2	153.9	144.2	159.0	-	-	103.9	85.6	108.4
Spain	-	91.1	117.2	105.8	150.6	-	-	7.3	93.9	137.2
Sweden	200.8	530.2	354.6	407.8	361.6	210.0	332.4	190.2	199.9	157.8
Switzerland	83.4	219.6	240.5	210.6	169.1	130.1	213.7	150.6	223.8	176.4
United Kingdom	280.2	471.4	558.8	565.3	557.8	226.5	478.1	571.2	580.2	564.0
United States	1 383.0	1 041.0	1 246.0	564.0	707.0	1 315.9	1 107.6	1 455.6	735.0	823.0
Total bilateral concessional	5 287.9	9 305.4	8930.5	7748.6	7320.2	5 814.1	8 640.9	8878.2	8452.4	7578.1
B. Multilateral donors										
1. Concessional										
AfDF	171.2	535.5	449.3	446.7	443.4	337.6	807.9	-	80.1	631.0
AsDB	229.6	448.1	410.3	434.7	329.2	383.7	536.4	400.5	713.2	556.3
CEC	548.8	1 144.7	1 489.9	1399.8	1287.8	575.9	764.1	1 741.0	1371.5	1076.3
IBRD	0.4	-	-	-		-	-	-	-	-
IDA	1 151.9	2 026.0	1 790.8	2082.8	1957.3	1 550.0	2 859.0	2 020.9	1771.9	2127.2
IDB	10.7	11.7	67.4	36.2	44.2	24.7	56.0	181.1	82.5	51.1
IFAD	107.5	119.1	52.3	69.7	43.8	83.2	71.9	124.0	133.8	108.3
IMF Trust fund	-103.1	-	-	-	-	-	-	-	-	
IMF (SAF/ESAF)	-	270.3	1 341.6	24.4	103.7	-	-	-	-	
Other:	1 106.2	1 578.2	2 118.0	1 952.1	1 951.2	1 106.3	1 578.3	2 118.0	1 943.3	1 981.9
Of which:										
UNDP	270.7	444.4	342.3	396.0	468.3					
UNHCR	201.1	192.6	406.6	346.5	345.5					
UNICEF	124.7	227.6	342.3	308.3	313.7					
UNTA	60.9	57.6	146.9	60.9	95.2					
WFP	343.0	489.6	700.0	647.8	636.3					
Total	3 223.2	6 133.6	7 719.6	6 446.4	6 160.6	4 061.4	6 673.6	6 585.5	6 096.3	6 532.1
2. Non-concessional										
AfDB	1 38.1	106.9	26.9	40.7	-21.3					
AsDB	-0.9	-0.5	-1.1	5.4	4.1					
CEC	19.4	-9.6	-6.6	-6.9	-0.8					
IBRD	55.4	-69.0	-111.8	-86.9	-64.8					
IFC	20.4	14.7	40.3	36.5	-					
Other	-	-	-	-	1.4					
Total	232.4	42.5	-52.3	-11.2	-81.4					
Total concessional (A + B.1)	**8 511.1**	**15 439.0**	**16 650.1**	**14 195.0**	**13 480.8**					
Grand total	8 743.5	15 481.5	16 597.8	14 183.8	13 399.4	9 875.5	15 314.5	15 463.7	14 548.7	14 110.2

Source: UNCTAD secretariat, based on information from the OECD/DAC secretariat.

a Multilateral agencies mainly financed by DAC countries.

24. ODA to LDCs from DAC member countries and multilateral agencies mainly financed by them: Distribution by donor and shares allocated to LDCs in total ODA flows to all developing countries

(Percentage)

	Distribution by donor					Share of LDCs in ODA flows to all developing countries				
	1985	*1990*	*1995*	*1996*	*1997*	*1985*	*1990*	*1995*	*1996*	*1997*
Bilateral donors										
Australia	0.7	0.7	0.8	1.0	0.9	10.9	13.9	15.1	16.9	16.4
Austria	0.1	0.4	0.4	0.5	0.4	6.9	20.6	12.7	15.7	17.5
Belgium	2.0	1.7	0.9	1.1	1.2	63.2	48.1	29.4	29.2	37.2
Canada	3.7	2.3	1.3	1.5	1.7	31.7	21.4	16.3	16.1	19.5
Denmark	1.5	1.9	2.0	2.8	2.5	54.9	42.2	38.3	39.0	34.7
Finland	0.7	1.2	0.4	0.5	0.4	47.4	38.8	29.7	30.3	27.4
France	7.6	10.5	7.2	7.5	8.4	26.9	29.1	18.7	18.6	23.8
Germany	6.7	7.0	6.5	7.6	5.7	29.6	24.7	22.6	23.9	21.6
Ireland	0.1	-	0.3	0.5	0.6	60.5	60.8	65.7	61.4	69.1
Italy	4.8	6.0	1.6	1.6	1.8	51.9	44.6	34.1	29.5	56.7
Japan	6.5	6.4	9.6	8.3	7.3	21.6	14.5	15.4	14.4	15.2
Luxembourg	-	-	0.1	0.1	0.2	-	39.9	43.3	33.3	36.4
Netherlands	3.0	3.7	4.0	4.7	4.6	33.4	31.1	30.1	30.0	29.5
New Zealand	-	-	0.1	0.2	0.2	16.4	16.4	21.3	22.9	23.9
Norway	1.8	2.3	2.2	2.7	2.8	47.3	46.8	41.8	40.7	42.4
Portugal	-	0.7	0.9	1.0	1.2	-	96.6	93.2	91.8	97.4
Spain	-	0.6	0.7	0.7	1.1	-	14.4	14.4	11.9	19.8
Sweden	2.4	3.4	2.1	2.9	2.7	34.6	38.6	30.3	30.0	31.0
Switzerland	1.0	1.4	1.4	1.5	1.3	36.7	40.0	31.7	30.2	30.1
United Kingdom	3.3	3.1	3.4	4.0	4.1	33.7	32.0	33.1	32.2	28.8
United States	16.2	6.7	7.5	4.0	5.2	22.4	14.8	24.1	12.3	14.7
Total	62.1	60.3	53.6	54.6	54.3	27.7	25.0	22.4	21.3	23.0
Multilateral donors										
AfDF	2.0	3.5	2.7	3.1	3.3	81.5	88.8	78.9	75.5	75.2
AsDB	2.7	2.9	2.5	3.1	2.4	58.4	40.7	35.4	39.5	32.6
CEC	6.4	7.4	8.9	9.9	9.6	41.6	44.7	32.2	27.1	25.5
EBRD	-	-	-	-	-	1.2	-	-	-	-
IDA	13.5	13.0	10.8	14.7	14.5	44.3	51.8	36.7	36.6	37.6
IDB	0.1	-	0.4	0.3	0.3	3.0	7.6	28.7	8.9	15.2
IFAD	1.3	0.8	0.3	0.5	0.3	39.8	48.6	62.3	46.5	40.4
IMF	-1.2	1.8	8.1	0.2	0.8	-	84.1	84.2	7.4	58.4
UN	13.0	10.2	11.6	12.4	13.8	36.5	35.1	39.4	38.9	40.3
Other	0.1	0.1	1.1	1.4	0.7		19.0	18.1	24.3	31.8
Total	37.9	39.7	46.4	45.4	45.7	40.6	45.7	40.5	34.3	35.5
Grand total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**31.5**	**30.5**	**28.2**	**25.7**	**27.4**

Source: UNCTAD secretariat, based on information from the OECD/DAC secretariat.

25. Total financial flows and ODA from all sources to individual LDCs

(Net disbursements in millions of dollars)

Country	Total financial flows					Of which: ODA				
	1985	*1990*	*1995*	*1996*	*1997*	*1985*	*1990*	*1995*	*1996*	*1997*
Afghanistan	214	135	215	198	270	237	137	215	228	279
Angola	271	92	493	450	971	105	270	418	544	436
Bangladesh	1 113	2 170	853	1 235	1 054	1 145	2 101	1 279	1 255	1 009
Benin	97	244	283	297	274	95	269	282	293	225
Bhutan	24	51	80	62	105	24	48	74	62	70
Burkina Faso	189	351	484	412	390	195	335	488	418	370
Burundi	156	256	281	199	115	138	266	289	204	119
Cambodia	125	42	584	443	377	125	42	567	453	372
Cape Verde	76	109	163	126	143	75	110	117	120	110
Central African Republic	116	258	168	160	101	109	251	168	167	92
Chad	182	318	288	354	262	181	317	239	305	225
Comoros	51	46	42	40	28	48	46	43	40	28
Dem. Republic of the Congo	469	1411	241	230	212	303	898	196	167	168
Djibouti	103	192	105	113	110	81	195	106	97	87
Equatorial Guinea	31	63	34	33	26	20	62	34	31	24
Eritrea	-	-	150	157	116	-	-	150	157	123
Ethiopia	909	992	871	877	699	840	1 020	888	849	637
Gambia	48	108	50	46	41	50	100	48	39	40
Guinea	108	287	433	209	425	115	296	416	296	382
Guinea-Bissau	64	136	114	204	135	59	132	117	180	126
Haiti	142	158	720	383	280	150	172	731	375	332
Kiribati	12	21	15	13	16	12	21	15	13	16
Lao People's Dem. Republic	174	151	314	337	400	147	151	313	339	341
Lesotho	119	149	211	189	139	94	143	115	107	94
Liberia	-289	517	-54	717	80	95	112	123	207	95
Madagascar	222	431	255	317	1193	195	399	303	365	838
Malawi	118	520	437	515	372	113	505	434	501	350
Maldives	8	38	43	-61	37	9	22	56	33	26
Mali	391	480	609	556	469	389	487	546	505	455
Mauritania	233	221	215	279	246	217	240	231	274	250
Mozambique	398	1 055	1 131	1 056	1 077	368	1 008	1 101	923	963
Myanmar	318	109	181	90	242	355	164	152	56	45
Nepal	244	432	419	418	479	234	429	436	401	414
Niger	300	384	201	212	312	316	398	274	259	341
Rwanda	199	288	659	675	591	195	293	712	674	592
Samoa	20	54	46	34	48	19	48	43	32	28
Sao Tome and Principe	13	54	58	49	35	14	55	84	47	34
Sierra Leone	66	66	212	205	143	74	63	207	196	130
Solomon Islands	22	58	44	44	133	21	45	47	42	42
Somalia	373	489	192	173	104	356	494	191	91	104
Sudan	1 123	744	282	218	137	1 135	827	236	230	187
Togo	91	259	189	156	113	111	261	193	166	124
Tuvalu	3	5	7	8	-1	3	5	8	11	10
Uganda	223	668	850	755	782	183	671	831	684	840
United Republic of Tanzania	537	1 129	885	992	983	485	1 175	882	894	963
Vanuatu	39	149	35	95	-66	22	50	46	31	27
Yemen	456	402	99	278	328	451	406	175	260	366
Zambia	542	584	2 015	612	573	341	481	2 035	614	618
All LDCs	10 441	16 876	16 203	15 160	15 099	10 049	16 020	16 654	14 235	13 547
All developing countries	45 034	79 731	159 287	192 177	196 913	32 048	56 517	59 474	55 786	49 593
Memo items:										
In current dollars per capita:										
All LDCs	23.2	33.0	28.0	25.5	24.7	22.4	31.4	28.8	23.9	22.2
All developing countries	12.1	19.3	35.5	42.1	42.5	8.6	13.7	13.3	12.2	10.7
In constant 1980 dollars[a] (million):										
All LDCs	11 815	14 640	12 464	12 032	11 983	11 372	13 898	12 811	11 298	10 752
All developing countries	50 840	69 732	130 563	162 862	166 875	36 180	49 429	48 749	47 276	42 028
In constant 1980 dollars[a] per capita:										
All LDCs	26.2	28.7	21.5	20.2	19.6	25.3	27.2	22.1	19.0	17.6
All developing countries	13.7	16.9	29.1	35.7	36.0	9.7	12.0	10.9	10.4	9.1

Source: UNCTAD secretariat estimates, mainly based on data from the OECD secretariat.

a The deflator used is the unit value index of imports.

26. ODA from DAC member countries and multilateral agencies mainly financed by them, to individual LDCs

	Average: 1980-1989							Average: 1990-1997						
	Per capita ODA	Total ODA	Of which: Technical assistance	Bilateral ODA	Of which: Grants	Multi-lateral ODA	Of which: Grants	Per capita ODA	Total ODA	Of which: Technical assistance	Bilateral ODA	Of which: Grants	Multi-lateral ODA	Of which: Grants
Country[a]	*$*	*$ mill.*	*As percentage of total ODA*					*$*	*$ mill.*	*As percentage of total ODA*				
Bangladesh	13.9	1 373.2	12.5	60.7	50.5	39.3	10.5	13.6	1 562.4	19.1	50.8	53.8	49.2	14.1
Mozambique	30.5	411.7	18.4	77.2	59.8	22.8	17.0	69.6	1 118.4	17.9	66.5	61.6	33.5	16.7
United Rep. of Tanzania	33.3	719.6	24.9	76.9	70.9	23.1	9.7	36.5	1 032.4	23.1	65.6	68.3	34.4	12.4
Ethiopia	11.9	503.5	22.3	50.1	44.5	49.9	35.6	18.4	980.2	19.5	49.9	48.0	50.1	31.8
Zambia	52.6	337.8	27.6	79.7	55.9	20.3	9.8	115.8	907.2	18.4	59.5	65.2	40.5	10.2
Uganda	14.7	220.4	21.4	38.5	39.6	61.5	27.1	38.6	723.2	17.8	49.3	44.2	50.8	18.0
Rwanda	30.9	188.3	34.5	62.0	56.1	38.0	19.6	89.3	507.7	21.6	53.1	51.7	46.9	35.5
Malawi	27.4	209.4	26.3	48.5	45.1	51.5	19.1	50.1	482.0	21.3	44.7	40.2	55.3	27.7
Sudan	38.9	826.0	18.1	69.9	58.2	30.1	17.3	18.7	472.8	26.0	45.5	47.0	54.5	43.5
Mali	40.7	323.1	23.1	65.2	47.5	34.8	17.8	44.9	461.9	27.4	57.4	54.3	42.6	18.0
Nepal	16.4	273.9	28.5	54.0	50.3	46.0	14.5	20.6	422.8	32.0	60.5	55.8	39.5	12.1
Burkina Faso	29.7	233.0	35.1	70.9	62.0	29.1	17.2	42.1	422.5	28.5	61.9	59.8	38.1	19.0
Madagascar	23.7	251.6	20.4	52.9	33.6	40.8	13.1	29.6	422.0	26.9	63.4	72.7	36.5	15.3
Somalia	55.6	427.4	28.3	61.7	50.4	38.3	26.9	43.6	393.6	21.2	65.2	66.1	34.8	34.3
Angola	12.7	103.2	28.2	67.3	50.6	32.7	31.4	36.4	380.3	19.7	55.1	46.0	44.9	39.5
Guinea	32.0	162.9	17.2	53.3	29.0	46.7	18.2	55.3	374.0	18.9	48.6	42.0	51.4	20.2
Niger	39.7	261.8	30.2	68.2	58.5	31.8	16.3	39.9	343.0	31.8	67.6	70.1	32.4	21.9
Haiti	25.4	149.0	28.9	64.7	56.5	35.3	12.5	46.6	327.5	30.8	70.0	74.8	30.0	18.8
Dem. Rep. of the Congo	14.1	446.9	33.5	67.6	46.2	32.4	11.7	8.0	324.7	28.0	62.5	65.0	37.5	29.4
Cambodia	8.8	59.8	55.0	39.7	39.9	60.2	60.2	30.2	298.4	42.5	57.8	58.7	42.2	33.6
Yemen	45.8	427.6	20.6	72.6	59.3	27.4	10.7	20.7	286.2	28.1	61.8	55.3	38.2	18.3
Benin	29.6	120.7	30.4	53.5	47.0	46.5	20.9	52.1	269.3	23.1	58.2	54.9	41.8	17.1
Chad	28.1	143.7	24.3	55.7	54.9	44.3	37.1	42.0	254.3	24.7	53.2	51.1	46.8	20.3
Afghanistan	2.7	38.8	141.5	13.9	102.1	86.1	95.6	14.4	254.1	31.1	58.7	60.1	41.3	41.3
Mauritania	114.3	199.5	19.4	69.6	45.9	30.4	14.8	114.9	251.7	20.4	46.8	43.5	53.2	29.8
Burundi	33.3	158.5	31.3	53.7	43.0	46.3	19.1	42.3	247.4	21.6	43.0	44.5	57.0	41.7
Lao People's Dem. Rep.	14.5	53.4	34.4	44.6	47.6	55.4	29.6	49.3	234.7	25.1	46.8	49.1	53.2	14.3
Togo	41.2	126.2	30.7	58.6	53.4	41.4	15.2	45.3	174.2	24.1	61.0	59.4	39.0	14.9
Central African Republic	51.5	134.2	30.5	63.6	52.1	36.4	17.5	54.7	171.2	28.5	61.9	65.1	38.1	19.7
Sierra Leone	21.9	78.3	31.9	62.2	53.2	37.8	23.1	39.6	165.1	20.4	43.9	36.2	56.1	26.4
Guinea-Bissau	87.8	77.0	24.5	57.6	53.4	42.4	21.5	125.5	130.4	32.7	60.4	49.6	39.6	19.5
Liberia	44.7	95.3	34.0	73.8	56.9	26.2	12.8	53.9	125.1	16.3	35.4	33.1	64.5	61.1
Lesotho	66.9	103.4	36.3	61.7	60.4	38.2	22.5	63.9	123.6	31.5	52.0	48.1	48.0	27.3
Myanmar	8.6	319.4	13.6	68.4	27.2	31.6	7.4	2.8	121.9	37.3	70.3	90.2	29.7	33.8
Djibouti	220.0	83.5	41.0	80.4	71.4	19.6	12.1	213.7	121.2	37.4	80.3	73.3	19.7	11.5
Cape Verde	237.3	73.8	26.6	70.1	68.6	29.9	22.3	311.1	115.6	32.1	67.5	66.8	32.5	21.5
Eritrea	-	-	-	-	-	-	-	25.7	82.1	17.3	45.4	42.5	17.0	16.2
Gambia	93.5	70.7	29.1	56.1	52.1	43.8	24.2	73.6	75.0	35.4	48.3	53.3	51.7	24.9
Bhutan	16.8	25.0	48.9	36.4	31.0	63.6	54.1	37.1	64.6	41.6	62.9	63.1	37.1	28.6
Sao Tome and Principe	142.5	15.5	23.7	35.3	34.1	64.6	42.7	416.1	53.2	28.1	57.4	51.0	42.6	18.0
Comoros	102.5	45.3	27.3	60.5	45.0	39.5	23.8	78.6	45.2	39.0	52.8	54.3	47.2	31.3
Equatorial Guinea	82.1	25.6	30.4	45.0	40.5	55.1	34.6	119.5	45.0	43.1	64.1	62.5	35.9	22.9
Solomon Islands	136.5	36.6	36.7	68.3	61.0	31.7	16.4	124.7	44.8	47.8	77.0	71.1	23.0	15.6
Samoa	164.4	25.8	36.6	66.0	64.5	34.0	20.9	275.0	44.8	41.4	69.9	70.4	30.1	13.2
Vanuatu	250.2	32.8	52.8	83.9	83.2	16.1	13.6	251.3	40.5	58.2	82.7	82.0	17.2	11.7
Maldives	84.4	15.6	38.0	64.7	57.5	35.3	23.8	139.2	33.8	29.4	54.3	53.2	45.7	18.3
Kiribati	236.6	15.6	37.4	87.4	87.4	12.7	11.8	234.4	17.9	48.2	81.2	81.2	18.7	17.8
Tuvalu	994.2	8.0	31.7	91.0	91.0	9.9	9.4	777.2	7.4	47.5	84.8	84.8	15.1	14.3
All LDCs	22.3	10 032.0	23.4	64.6	52.1	35.4	17.0	24.2	15 551.9	22.7	56.8	55.4	43.2	21.5
All developing countries	9.5	34 553.9	26.0	74.4	55.2	25.6	13.2	13.0	56 809.5	29.4	69.6	60.5	30.4	16.8

Source: UNCTAD secretariat estimates, mainly based on data from the OECD/DAC secretariat.

a Ranked in descending order of total ODA received in 1990–1997.

27. External debt (at year end) and debt service, by source of lending
(Millions of dollars)

	External debt (at year end)					% of total		Debt service					% of total	
	1985	*1990*	*1995*	*1996*	*1997*	*1985*	*1997*	*1985*	*1990*	*1995*	*1996*	*1997*	*1985*	*1997*
I. Long-term	**65 107**	**103 746**	**126 373**	**123 295**	**119 636**	**91.4**	**94.2**	**4 139**	**4 288**	**5 821**	**3 572**	**4 023**	**90.2**	**92.0**
A. Concessional	37 787	69 938	84 261	85 917	84 797	53.1	66.7	1 010	1 463	1 975	1 874	2 073	22.0	47.4
(a) OECD countries	9 759	17 928	19 531	18 265	16 805	13.7	13.2	262	497	532	541	477	5.7	10.9
(b) Other countries	14 444	20 685	14 204	15 930	16 243	20.3	12.8	343	388	259	18	243	7.5	5.6
(c) Multilateral agencies	13 584	31 325	50 526	51 722	51 749	19.1	40.7	405	578	1 184	1 315	1 353	8.8	30.9
B. Non-concessional	27 320	33 808	42 111	37 378	34 839	38.3	27.4	3 129	2 825	3 846	1 698	1 950	68.2	44.6
(a) OECD countries	12 709	15 648	15 270	15 683	16 465	17.8	13.0	1 932	1 370	1 092	1 101	1 448	42.1	33.1
(i) official/officially guaranteed	9 685	12 880	12 736	13 241	13 573	13.6	10.7	1 442	854	740	844	1 265	31.4	28.9
(ii) financial markets	3 024	2 768	2 534	2 442	2 892	4.2	2.3	490	516	352	257	183	10.7	4.2
(b) Other countries	8 315	11 597	22 304	17 354	14 355	11.7	11.3	192	231	8	175	105	4.2	2.4
(c) Multilateral agencies	6 296	6 563	4 537	4 341	4 019	8.8	3.2	1 005	1 224	2 746	422	397	21.9	9.1
II. Short-term	**6 165**	**11 083**	**6 631**	**6 243**	**7 422**	**8.6**	**5.8**	**450**	**497**	**410**	**406**	**351**	**9.8**	**8.0**
Total	71 272	114 830	133 004	129 538	127 058	100	100	4 589	4 785	6 231	3 978	4 374	100.0	100.0
Of which: use of IMF credit	4 938	5 063	6 212	6 073	5 850	6.9	4.6	837	840	2 587	449	414	18.2	9.5

Source: UNCTAD secretariat calculations, based on information from the OECD secretariat.

Note: Figures for total debt and total debt service cover both long-term and short-term debt as well as the use of IMF credit.

28. Total external debt and debt service payments of individual LDCs
(Millions of dollars)

Country	Debt (at year end)					Debt service				
	1985	1990	1995	1996	1997	1985	1990	1995	1996	1997
Afghanistan	2 275	5 086	5 472	5 508	5 467	47	115	8	31	11
Angola	3 045	8 061	9 362	6 280	6 991	372	328	496	606	692
Bangladesh	6 781	12 212	16 690	16 422	15 400	396	634	655	640	792
Benin	774	1 351	1 738	1 761	1 760	38	48	41	44	53
Bhutan	9	82	107	104	115	-	6	9	15	14
Burkina Faso	545	1 098	1 567	1 565	1 539	32	36	58	62	56
Burundi	472	1 017	1 223	1 175	1 151	26	54	38	32	32
Cambodia	715	1 785	1 955	2 000	2 028	14	37	38	38	17
Cape Verde	108	139	224	215	220	6	7	8	7	13
Central African Republic	354	860	1040	1013	915	30	36	17	15	16
Chad	172	583	986	1091	1111	15	15	17	27	31
Comoros	135	210	243	239	226	2	3	3	2	3
Dem. Republic of the Congo	5 795	10 380	9 291	8 818	9 070	654	555	144	145	167
Djibouti	237	211	310	322	312	40	28	13	13	13
Equatorial Guinea	111	197	247	245	250	12	7	4	6	7
Eritrea	-	-	38	45	75	-	-	-	-	1
Ethiopia	4 091	3 713	9 458	9 555	9 419	153	189	135	125	105
Gambia	241	391	446	481	470	13	35	25	25	29
Guinea	1 355	2 608	3 204	3 074	3 345	82	174	118	99	154
Guinea-Bissau	380	557	819	826	807	17	8	17	22	12
Haiti	732	873	826	947	1 090	45	34	73	37	39
Kiribati	11	15	10	10	11	1	1	1	1	-
Lao People's Dem. Republic	1 142	1 765	2 200	2 312	2 434	14	10	28	17	31
Lesotho	168	471	1 217	1 121	1 089	22	29	52	49	92
Liberia	1 400	1 746	1 299	1 298	1 168	87	71	56	59	67
Madagascar	2 139	3 868	3 713	3 605	3 737	145	265	91	91	216
Malawi	1 027	1 536	2 290	2 400	2 269	120	116	97	93	91
Maldives	59	74	189	205	200	12	10	12	13	30
Mali	1 448	2 592	3 051	3 107	3 259	56	80	83	114	90
Mauritania	1 469	2 088	2 196	2 221	2 312	115	151	121	125	114
Mozambique	2 276	4 356	5 479	5 487	5 723	184	125	158	124	122
Myanmar	2 976	4 761	5 873	5 252	4 998	274	105	178	158	159
Nepal	607	1 687	2 490	2 462	2 473	24	75	86	80	84
Niger	1 238	1 789	1 656	1 601	1 649	124	136	65	44	51
Rwanda	352	806	1 092	1 081	1 131	27	32	23	21	25
Samoa	74	93	171	178	169	7	6	5	5	6
Sao Tome and Principe	86	130	246	240	273	4	2	3	4	6
Sierra Leone	632	685	937	1 002	1 007	43	28	52	19	19
Solomon Islands	294	152	185	141	164	16	12	16	9	7
Somalia	1 884	2 165	2 080	2 041	2 056	56	35	16	9	12
Sudan	8 346	11 487	9 718	9 598	9 287	281	236	69	168	58
Togo	970	1 465	1 421	1 414	1 335	78	124	32	47	59
Tuvalu	-	1	-	123	-	-	-	-	4	4
Uganda	1 156	2 443	3 364	3 452	3 464	150	121	127	124	200
United Republic of Tanzania	3 393	5 463	5 428	5 544	5 897	112	177	237	252	223
Vanuatu	128	484	107	93	92	17	26	11	9	8
Yemen	5 148	5 812	5 834	5 813	3 115	406	218	115	124	112
Zambia	4 521	5 482	5 512	6 051	5 985	219	246	2 584	227	232
Total LDCs	71 271	114 830	133 004	129 538	127 058	4 589	4 785	6 231	3 978	4 374

Source: UNCTAD secretariat calculations, based on information from the OECD secretariat.
Note: Figures for total debt and total debt service cover both long-term and short-term debt as well as the use of IMF credit.

29. Debt and debt service ratios
(Percentage)

Country	Debt/GDP					Debt service/exports[a]				
	1985	1990	1995	1996	1997	1985	1990	1995	1996	1997
Afghanistan	62	..	..	..	..	7	-	-	-	-
Angola	45	88	185	82	91	15	8	13	11	13
Bangladesh	43	55	44	41	37	32	31	16	14	16
Benin	74	73	87	80	82	11	12	8	8	10
Bhutan	5	29	35	31	30	-	7	9	12	12
Burkina Faso	38	40	67	62	70	20	10	19	20	17
Burundi	41	90	122	130	120	20	60	30	62	33
Cambodia	..	160	67	64	67	67	54	4	5	2
Cape Verde	101	51	53	51	52	19	11	10	7	10
Central African Republic	50	66	91	93	90	17	16	7	8	7
Chad	24	48	68	67	69	16	6	5	10	11
Comoros	118	84	113	112	117	10	9	6	5	6
Dem. Republic of the Congo	81	-	147	150	149	33	24	8	8	12
Djibouti	70	50	63	66	62	27	10	7	6	6
Equatorial Guinea	139	149	151	95	51	50	17	4	3	2
Eritrea	..	..	7	7	11	..	..	..	..	..
Ethiopia	61	43	172	160	152	25	32	17	16	10
Gambia	111	118	117	123	115	15	21	14	11	13
Guinea	99	93	87	79	86	16	21	17	13	21
Guinea-Bissau	241	236	322	305	304	94	42	72	77	22
Haiti	36	29	31	32	39	13	11	38	20	18
Kiribati	48	47	21	18	20	11	9	3	13	1
Lao People's Dem. Republic	48	203	124	123	139	19	10	7	4	7
Lesotho	68	78	143	130	115	54	29	25	19	30
Liberia	128	..	..	..	..	19	14	..	..	..
Madagascar	75	126	118	90	105	41	56	12	11	28
Malawi	91	83	156	106	90	44	26	23	18	15
Maldives	69	51	70	68	58	13	6	4	3	7
Mali	137	105	124	117	129	24	19	16	22	14
Mauritania	215	205	206	203	211	29	32	24	23	25
Mozambique	89	302	283	239	208	129	55	38	26	25
Myanmar	..	..	..	..	..	72	33	14	12	11
Nepal	24	48	57	55	50	8	18	8	8	6
Niger	86	72	100	95	104	42	26	20	13	17
Rwanda	20	31	82	78	61	17	22	31	25	17
Samoa	84	64	110	102	87	27	14	7	7	8
Sao Tome and Principe	246	241	543	536	626	44	25	30	36	52
Sierra Leone	53	76	108	106	122	27	13	41	15	21
Solomon Islands	184	72	57	39	44	20	13	8	4	3
Somalia	215	236	..	..	..	44	38	..	..	..
Sudan	81	127	131	114	91	34	47	10	25	9
Togo	127	90	109	96	91	21	19	5	7	9
Tuvalu	..	..	..	..	..	..	..	..	..	..
Uganda	33	57	59	56	53	40	68	19	17	24
United Republic of Tanzania	61	141	117	95	85	26	33	19	18	19
Vanuatu	108	197	45	37	37	30	35	10	8	6
Yemen	83	85	158	113	55	131	15	5	5	4
Zambia	201	167	158	183	155	25	18	187	20	18
All LDCs	69	81	96	85	79	29	22	22	13	13

Source: UNCTAD secretariat, mainly based on information from the OECD secretariat, the World Bank and the IMF.

Note: Debt and debt service are defined as in table 27.

a Exports of goods and services (including non-factor services).

30. LDCs' debt reschedulings with official creditors, 1990–1998

Country		Date of meeting	Cut-off date	Consolidation period (months)	Percentage of principal and interest consolidated[a]	Terms	Arrears	Rescheduling of previously rescheduled debt	Goodwill clause	Estimated amounts rescheduled ($ million)
Benin	II[b]	Dec. 1991	31/3/89	15	100	London terms	Yes	Yes	Yes	160
	III[b]	June 1993	31/3/89	29[c]	100	London terms	Yes	No	Yes	25
	IV[d]	Oct. 1996	31/3/89	-	-	Naples terms (67%)[e]	Yes	Yes	No	209
Burkina Faso	I[f]	Mar. 1991	1/1/91	15	100	Toronto terms	Yes	No	Yes	63
	II[b]	May 1993	1/1/91	32[c]	100	London terms	Yes	No	Yes	36
	III[d]	June 1996	1/1/91	-	-	Naples terms (67%)[e]	No	Yes	No	64
Cambodia	III[d]	Jan. 1995[g]	31/12/85	30[c]	100	Naples terms (67%)	No	Yes	No	249
Central African Republic	V[f]	June 1990	1/1/83	12	100	Toronto terms	No	Yes	No	4
	VI[b]	Apr. 1994	1/1/83	12	100	London terms	Yes	Yes	Yes	33
	VII	Sep 1998	1/1/83	34	100	Naples terms (67%)	Yes	Yes	Yes	26
Chad	II[d]	Feb. 1995[g]	30/6/89	12	100	Naples terms (67%)	Yes	Yes	No	24
	III[d]	June 1996[g]	30/6/89	32	100	Naples terms (67%)	Yes	Yes	No	..
Equatorial Guinea	III[b]	Apr. 1992[g]	..	..	..	London terms	Yes	Yes	Yes	32
	IV[b]	Feb. 1994[g]	..	..	..	London terms	Yes	Yes	Yes	51
Ethiopia	I[b]	Dec. 1992	31/12/89	37[c]	100	London terms	Yes	..	Yes	441
	II[d]	Jan. 1997	31/12/89	34[c]	100	Naples terms (67%)	Yes	No	Yes	184
Guinea	III[b]	Nov. 1992	1/1/86	..	100	London terms	Yes	Yes	Yes	203
	IV[d]	Jan. 1995	1/1/86	12	100	Naples terms (50%)	Yes	Yes	Yes	156
	V[d]	Feb. 1997	1/1/86	36[c]	100	Naples terms (50%)	Yes	Yes	Yes	..
Guinea-Bissau	III[d]	Feb. 1995	31/12/86	36[c]	100	Naples terms (67%)	No	Yes	Yes	195
Haiti	I[d]	May 1995	1/10/93	13	100	Naples terms (67%)	Yes	No	Yes	117
Madagascar	VII[f]	July 1990	1/7/83	13	100	Toronto terms	No	Yes	Yes	139
	VIII[d]	Mar. 1997	1/7/83	35[c]	100	Naples terms (67%)	Yes	Yes	Yes	247
Mali	III[b]	Oct. 1992	1/1/88	35[c]	100	London terms	Yes	No	Yes	20
	IV[d]	May 1996	1/1/88	-	-	Naples terms (67%)[e]	No	Yes	No	33
Mauritania	V[b]	Jan. 1993	31/12/84	24[c]	100	London terms	Yes	Yes	Yes	218
	VI[d]	June 1995	31/12/84	36	100	Naples terms (67%)	No	Yes	Yes	66
Mozambique	III[f]	June 1990	1/2/84	30[c]	100	Toronto terms	Yes	Yes	Yes	719
	IV[b]	Mar. 1993	1/2/84	24[c]	100	London terms	Yes	Yes	Yes	440
	V[d]	Nov. 1996	1/2/84	32[c]	100	Naples terms (67%)	Yes	Yes	Yes	664
	VI[h]	May 1998	1/2/84	32[c]	100	Lyon terms	Yes	Yes	Yes	n.a.
Niger	VII[f]	Sep. 1990	1/7/83	28[c]	100	Toronto terms	Yes	Yes	Yes	116
	VIII[b]	Mar. 1994	1/7/83	15	100	London terms	Yes	Yes	Yes	160
	IX[d]	Dec. 1996	1/7/83	31[c]	100	Naples terms (67%)	Yes	Yes	Yes	128
Rwanda	I	July 1998	31/12/94	35	100	Naples terms (67%)	Yes	..	Yes	64

Table 30 (cont.)

Country		Date of meeting	Cut-off date	Consolidation period (months)	Percentage of principal and interest consolidated[a]	Terms	Arrears	Rescheduling of previously rescheduled debt	Goodwill clause	Estimated amounts rescheduled ($ million)
Sierra Leone	V[b]	Nov. 1992	1/7/83	16	100	London terms	Yes	Yes	Yes	164
	VI[b]	July 1994	1/7/83	17	100	London terms	Yes	Yes	Yes	42
	VII[d]	Mar. 1996	1/7/83	24	100	Naples terms (67%)	No	Yes	Yes	39
Togo	VIII[f]	July 1990	1/1/83	24[c]	100	Toronto terms	No	Yes	No	88
	IX[b]	June 1992	1/1/83	24[c]	100	London terms	No	Yes	Yes	52
	X[d]	Feb. 1995	1/1/83	33[c]	100	Naples terms (67%)	No	Yes	Yes	239
Uganda	V[b]	June 1992	1/7/81	18	100	London terms	Yes	Yes	Yes	39
	VI[d]	Feb. 1995[g]	1/7/81	-	-	Naples terms (67%)[e]	No	Yes	No	110
	VII	Apr. 1998	1/7/81	-	-	Lyon terms (67%)[i]	No	Yes	No	110
United Rep. of Tanzania	III[f]	Mar. 1990	30/6/86	12	100	Toronto terms	Yes	Yes	Yes	200
	IV[b]	Jan. 1992	30/6/86	30[c]	100	London terms	Yes	Yes	Yes	691
	V[d]	Jan. 1997	30/6/86	36[c]	100	Naples terms (67%)	Yes	Yes	Yes	608
Yemen	I[d]	Sep. 1996	1/1/93	10	100	Naples terms (67%)	Yes	..	Yes	113
	II[d]	Nov. 1997	1/1/93	36[c]	100	Naples terms (67%)	Yes	No	Yes	..
Zambia	IV[f]	July 1990	1/1/83	18	100	Toronto terms	Yes	Yes	Yes	963
	V[b]	July 1992	1/1/83	33[c]	100	London terms	Yes	Yes	Yes	917
	VI[d]	Feb. 1996	1/1/83	36[c]	100	Naples terms (67%)	Yes	Yes	Yes	566

Source: Paris Club Agreed Minutes.

Note: Roman numerals indicate the number of debt reschedulings for the country since 1976.

a Terms of current maturities.
b Beneficiary of new terms going beyond the Toronto terms following the Trinidad proposal (1990), and the London Summit recommendations of 1992.
c Multi-year rescheduling.
d Naples terms; number in brackets indicates the percentage of reduction applied.
e Stock reduction.
f Beneficiary of the concessional debt relief measures agreed upon at the Toronto summit.
g Dates of informal meeting of creditors on the terms to be applied in the bilateral agreements, as creditors did not call for a full Paris Club meeting.
h Amendment to the November 1996 agreement.
i Additional stock reduction ("Topping up") on previously rescheduled debt.

31. Arrangements in support of structural adjustment in LDCs
(As of December 1998)

Millions of SDRs (except where otherwise indicated)

	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	Period	Amount	Period	Amount	Date of approval	IDA	African Facility[1]	Co-financing[2]	Date of approval	IDA	African Facility [1]	Co-financing [2]	Purpose
Bangladesh	July 1979 - July 1980 Dec. 1980 - Dec. 1983[3] March 1983 - Aug. 1983 Dec. 1985 - June 1987	85.0 800.0[4] 68.4 180.0	Feb. 1987 - Feb. 1990	201.3					June 1987	147.8			Industrial policy reform
									Apr. 1989	137.0		Germany (DM 26m)	Energy sector
									Oct. 1989	1.8[6]			"
			Aug. 1990 - Sep. 1993	345[5]					June 1990	132.7		USAID (18.2)	Financial sector
									Nov. 1990	2.5[6]			"
									Nov. 1991	2.2[6]			"
									May 1992	109.3			Public resource management
									Oct. 1992	72.2			Industry
									Dec. 1992	2.5[6]			"
									Feb. 1994	175.0			Jute sector
									May 1994	2.4[6]			"
									Dec. 1994	2.3[6]			"
									Dec. 1995	2.3[70]			"
									Nov. 1996	2.0			"
Benin			June 1989 - June 1992 Jan. 1993 - May 1996	21.9[7] 51.9[5]	May 1989 June 1991 May 1995	33.5 41.3 25.8							
									Nov. 1993	3.7		DANIDA (4); ACBF (2)	Economic management
			Aug. 1996 - Aug. 1999	27.2[5]									
Burkina Faso									Feb. 1985	13.8		France/CCCE (3.2); Netherlands (2.1); Germany/GTZ (2); France/FAC (1.7);	Fertilizers
			Mar. 1991 - Mar. 1993	22.1[8]	June 1991	60.0		EC (30); AfDB (20); France (17); Canada (13); Germany (12)	Feb. 1992	49.6		EDF (99); AfDB (60.6); CIDA (29.8); Germany (28.6); West African Development Fund (10.2); BADEA (8.5); CCCE & FAC (7.8); IsDB (5.5); BOAD (3.1); UNDP (0.6);	Transport sector
									June 1992	20.6		France (21); EC (20); AfDB (13)	Agriculture
			Mar. 1993 - Mar. 1996 June 1996 - June 1999	53.0[5] 39.8[5]					Mar. 1994	18.0			Economic recovery
Burundi	Aug. 1986 - March 1988	21.0	Aug. 1986 - Aug. 1989	29.9	May 1986	13.2	14.3	Japan (11); Switzerland (7.7);					
					June 1988	64.9		Japan (18.1); Germany (6); Saudi Arabia (2.9)					
			Nov. 1991 - Nov. 1994	42.7[5]	June 1992	22							
Cape Verde									Dec. 1997	21.8			Economic reforms support
Central African Republic	Feb. 1980 - Feb. 1981 April 1981 - Dec. 1981 April 1983 - April 1984 July 1984 - July 1985 Sep.1985 - March 1987	4.0 10.4[9] 18.0[10] 15.0 15.0[11]			Sep. 1986	12.3	14						
	June 1987 - May 1988	8.0	June 1987 - May 1990	21.3					July 1987	11.5		Saudi Arabia (2); Japan (6)	Cotton sector
					June 1988 June 1990	28.9 34.5		ADF (25)					
	Mar. 1994 - Mar. 1995	16.5											

Table 31 (cont.)

Country	IMF arrangements: Stand-by/Extended Facility: Period	Amount	IMF arrangements: SAF/ESAF: Period	Amount	World Bank loans and credits: Structural adjustment: Date of approval	Amount: IDA	Amount: African Facility[1]	Amount: Co-financing[2]	World Bank loans and credits: Sector and other adjustment: Date of approval	Amount: IDA	Amount: African Facility [1]	Amount: Co-financing [2]	Purpose
Chad			Oct. 1987 - Oct. 1990	21.4					July 1988	11.9	(16.2)		Public finance and cotton sector
									April 1989	45.4		USAID (23) Germany (22.7): CCCE (13.1); ADF (11.3); BDEAC (10.6); EDF (4.8); OPEC Fund for Int.Dev.(4.5); FAC (3.3); UNDP (0.5)	Transport sector
	Mar. 1994 - Mar. 1995	16.5							Mar. 1994	14.4			Economic recovery
			Sep. 1995 - Aug. 1998	49.6[5]									
					Feb. 1996	20.2							
					June 1997	18.0							Public sector
Cambodia			May 1994 - Aug. 1997	84.0[5]					July 1988	11.9	(16.2)		
									Sep.1995	25.4			Economic rehabilitation
Comoros			June 1991 - June 1994	3.2					June 1991	6.0	ADF (17); UNDP (1)		Macroeconomic reform and capacity-building
Dem. Republic of the Congo	Aug. 1979 - Feb. 1981	118.0[59]											
	June 1981 - June 1984[21]	912.0[60]											
	Dec. 1983 - March 1985	228. 0[61]											
	April 1985 - April 1986	162.0											
	May 1986 - Mar. 1988	214.2[62]							June 1986	17.6	(60)		Industrial sector
			May 1987 - May 1990	203.7[63]					June 1987	42.2	(94.3)	Japan (15.7)	Agricultural and rural dev.
	May 1987 - May 1988	100.0[64]											
	June 1989 - June 1990	116.4[65]	June 1996 - June 1999	69.5									
Djibouti	April 1996 - June 1997	4.6											
Equatorial Guinea	July 1980 - June 1981	5.5											
	June 1985 - June 1986	9.2[12]											
			Dec. 1988 - Dec. 1991	12.9[13]									
			Feb. 1993 - Feb. 1996	12.9[5]									
Ethiopia	May 1981 - June 1982	67.5											
			Oct. 1992 - Nov. 1995	49.4	June 1993	176.5							
					Jan. 1994	0.3[6]							
					Dec. 1994	0.1[6]							
			Oct. 1996 - Oct. 1999	88.5[5]									
Gambia	Nov. 1979 - Nov. 1980	1.6											
	Feb. 1982 - Feb. 1983	16.9											
	April 1984 - July 1985 15	12.8[14]											
	Sep.1986 - Oct. 1987	5.1	Sep.1986 - Nov. 1988	12.0[16]	Aug. 1986	4.3	9.9	United Kingdom (4.5); ADF (9)					
			Nov. 1988 - Nov. 1991	20.5[5]	June 1989	17.9		ADF (6); Netherlands (2.5)					
Guinea	Dec. 1982 - Nov. 1983	25.0[17]											
	Feb. 1986 - March 1987	33.0[18]			Feb. 1986	22.9	15.6	France (26.7); Germany (9.4); Japan (27.8); Switzerland (4.8)					
	July 1987 - Aug. 1988	11.6	July 1987 - July 1990	40.5[19]									
					June 1988	47.0		ADF (12); Japan (11.2)					
									June 1990	15.4			Education sector
			Nov. 1991 - Nov. 1996	57.9[5]									
			Jan. 1997 - Jan. 2000	70.8	Dec. 1992	0.1[6]							
					Dec. 1997	50.8							Public sector

Table 31 (cont.)

	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	Period	Amount	Period	Amount	Date of approval	IDA	African Facility[1]	Co-financing[2]	Date of approval	IDA	African Facility [1]	Co-financing [2]	Purpose
Guinea-Bissau									Dec.1984	10.1		Switzerland (SwF 4.5 m)	Economic recovery programme[21]
			Oct. 1987 - Oct. 1990	5.3[20]	May 1987	8	4	Switzerland (5.2); Saudi Arabia (3.2); ADF (11.3); IFAD (5.3)					
					May 1989	18		Netherlands (4.8); USAID (4.5); ADF (12.0) [22]					
			Jan. 1995 - Jan. 1998	9.0[5]									
Haiti	Oct. 1978 - Oct. 1981[24]	32.2[23]											
	Aug. 1982 - Sep. 1983	34.5											
	Nov. 1983 - Sep. 1985	60.0[25]											
			Dec.1986 - Dec. 1989	30.9[26]					Mar.1987	32.8			Economic recovery
	Sep.1989 - Dec.1990	21.0[18]											
									Dec. 1994	26.8			"
	Mar. 1995 - Mar.1996	20.0											
			Oct.1996 - Oct. 1999	91.1[5]									
Lao People's Dem. Republic	Aug. 1980 - Aug. 1981	14.0											
			Sep.1989 - Sep. 1992	20.5	June 1989	30.8							
					Oct. 1991	30.0							
			June 1993 - June 1997	35.2[5]									
					Feb. 1996	26.9							
Lesotho			June 1988 - June 1991	10.6									
			May 1991 - Aug. 1994	18.1[5]									
	Sep.1994 - Sep. 1995	8.4											
	July 1995 - July 1996	7.2											
			Sep.1996 - Sep. 1997	7.2									
Madagascar	June 1980 - June 1982	64.5[27]											
	April 1981 - June 1982	76.7[28]											
	July 1982 - July 1983	51.0[14]											
	April 1984 - Mar. 1985	33.0											
	April 1985 - April 1986	29.5							May 1986	19	(33)	KfW (4); Japan (3)	Agricultural sector
	Sep.1986 - Feb. 1988	30.0	Aug. 1987 - May 1989	46.5[29]									
									June 1988	90.5		ADF (40); Switzerland (8)	Public sector
	Sep.1988 - July 1989	13.3[30]											
			May 1989 - May 1992	76.9[5]					Mar.1989	1.1[6]			Public sector
									Oct.1989	0.9[6]			"
									Nov.1990	1.2[6]			"
									Nov.1991	1[6]			"
									Dec.1992	1[6]			"
			Nov. 1996 - Nov. 1999	81.4[5]	Mar. 1997	48.6							Multisector rehabilitation
					Mar. 1997	0.4							
Malawi	Oct. 1979 - Dec. 1981[31]	26.3											
	May 1980 - March 1982	49.9[32]			June 1981	36.7[33]							
	Aug. 1982 - Aug. 1983	22.0							April 1983	4.6		IFAD (10.3)	Smallholder fertilizers
	Sep.1983 - Sep. 1986	81.0[34]			Dec. 1983	51.9							
					Dec. 1985	28.0	37.3	Germany/KfW (6.4); Japan/ OECF (22.6); USAID (15)					
	March 1988 - May 1989	13.0	July 1988 - Mar. 1994	67.0[5]									
			Oct.1995 - Oct. 1998	46[5]	Jan. 1987		8.4	Japan (17.7); United Kingdom (7.5); Germany (5)	June 1988	50.6		OECF (30); USAID (25); ADF (19.5); EEC (16)	Industrial and trade policy adjustment
									Mar. 1989	4.0[6]			"
									Oct. 1989	3.8[6]			"
									April 1990	52.6		USAID (25); United Kingdom (16.5); Netherlands (5); Germany, EEC and Japan (6.1)	Agriculture
									Nov. 1990	5.1[6]			Industry and trade

Table 31 (cont.)

	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	Period	Amount	Period	Amount	Date of approval	IDA	African Facility[1]	Co-financing[2]	Date of approval	IDA	African Facility [1]	Co-financing [2]	Purpose
Malawi (cont.)									Nov. 1991	4.0[6]			Agriculture
									June 1992	85.4		AfDB (13.4)	Entrepreneurship dev. & drought recovery
									Dec. 1992	4.3[6]			"
	Nov. 1994 - June 1995	15.0							Nov. 1994	27.6[6]			"
									Dec. 1994	3.2[6]			"
			Oct. 1995 - Oct. 1998	45.8[5]									
									April 1996	70.3			Fiscal restructuring & deregulation programme
									April 1996	2.9[70]			"
					Nov. 1996	2.4[70]							"
Mali	May 1982 - May 1993	30.4							June 1988	29.4		Japan (38.7); Saudi Arabia (5.9); ADF (45)	Public enterprise sector
	Dec. 1983 - May 1985	40.5											
	Nov. 1985 - March 1987	22.9[36]											
	Aug. 1988 - June 1990	12.7	Aug. 1988 - Aug. 1991	35.6[14]									
					Dec. 1990	50.3		EC (20); AfDB (18)	June 1990	40.7		FAC/CCCE (50.8); SDC (6.9); Netherlands (5.2); Germany (2.9)	Agricultural sector/ investment
			Aug. 1992 - March 1996	79.2[5]					Mar. 1994	18.2			Economic recovery
									Jan. 1995	34.3			Education
			April 1996 - April 1999	62.0[5]					June 1996	41.6			Economic management
Mauritania	July 1980 - March 1982[38]	29.7[37]											
	June 1981 - March 1982	25.8											
	April 1985 - April 1986	12.0											
	April 1986 - April 1987	12.0	Sep.1986 - May 1989	23.7[39]									
	May 1987 - May 1988	10.0			June 1987	11.7	21.4	Saudi Arabia (4.8); Germany (2.8)					
			May 1989 - Jan. 1995	50.9[5]									
									Feb. 1990	19.4		CCCE (8); Germany (2); WFP (1);	Agricultural sector/ investment
									June 1990	30.7		Japan (50); SFD (19.8); KFAED (13.7); AFESD (10.3); Abu Dhabi Fund (6.1); Spain (5); Germany (4)	Public enterprises
									Nov. 1990	2.9[6]			Public enterprises
									Nov. 1991	1.9[6]			"
			Jan. 1995 - Jan. 1998	42.8[5]					Dec. 1992	1.6[6]			"
									Jan. 1994	1.0[6]			"
									Nov. 1996	0.4[6]			"
									Dec. 1997	0.3			Public resource management
Mozambique									May 1985	45.5			Economic rehabilitation programme I
			June 1987 - June 1990	42.7					Aug. 1987	54.5	(18.6)	Switzerland (11.2)	Economic rehabilitation programme II
									May 1989	68.2		United Kingdom (17.5); Switzerland (12.8); Germany (10.9); Sweden (9.4); Finland (8.9)	Economic rehabilitation programme III
			June 1990 - Dec. 1995	130.1[5]									
									June 1992	132		Switzerland (6)	Economic recovery
									June 1994	141.7			Economic recovery II
			June 1996 - June 1999	75.6[5]	Feb. 1997	69.1							"
Myanmar	June 1981 - June 1982	27.0											
Nepal	Dec. 1985 - April 1987	18.7											
			Oct. 1987 - Oct. 1990	26.1	Mar. 1987	40.9							
					June 1989	46.2		KfW (5)					
			Oct. 1992 - Oct. 1995	33.6[5]									

Table 31 (cont.)

	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	Period	Amount	Period	Amount	Date of approval	IDA	African Facility[1]	Co-financing[2]	Date of approval	IDA	African Facility [1]	Co-financing [2]	Purpose
Niger	Oct. 1983 - Dec. 1984	18.0											
	Dec. 1984 - Dec. 1985	16.0											
	Dec. 1985 - Dec. 1986	13.5	Nov. 1986 - Dec. 1988	23.6[40]	Feb. 1986	18.3	36.6						
	Dec. 1986 - Dec. 1987	10.1											
									June 1987	46	15.4		Public enterprises
			Dec. 1988 - Dec. 1991	47.2[41]									
	Mar. 1994 - Mar. 1995	18.6							Mar. 1994	18.2			Economic recovery
			June 1996 - June 1999	58[5]									
					Mar. 1997	21.6							Public sector
Rwanda	Oct. 1979 - Oct. 1980	5.0[42]											
			April 1991 - April 1994	30.7[26]	June 1991	67.5		Switzerland (SwF 10m); Belgium (BF 400m)					
									Jan. 1995	34.3			Emergency recovery
Samoa	Aug. 1979 - Aug. 1980	0.7[42]											
	June 1983 - June 1984	3.4											
	July 1984 - July 1985	3.4											
Sao Tome and Principe					June 1987	3.1	2.3	ADF (8.5);					
			June 1989 - June 1992	2.8[43]	June 1990	7.5		ADF(12);					
								IMF (2.6)					
Sierra Leone	Nov. 1979 - Nov. 1980	17.0											
	March 1981 - Feb. 1984[45]	186.0[44]											
	Feb. 1984 - Feb. 1985	50.2[46]							June 1984	20.3		IFAD (5.4)	Agriculture
	Nov. 1986 - Nov. 1987	23.2	Nov. 1986 - Nov. 1989	40.5[47]									
									April 1992	31.4			Reconstruction Imports
									April 1992	0.2[6]			"
									Dec. 1992	0.2[6]			"
					Oct. 1993	35.9							
			Mar. 1994 - Mar. 1995	27.0	Jan. 1994	0.1 [6]							
			Mar. 1994 - Dec. 1997	101.9[5]	Dec. 1994	0.2 [6]							
					Dec. 1995	0.2 [70]							
					Nov.1996	0.1							
Somalia	Feb. 1980 - Feb. 1981	11.5[48]											
	July 1981 - July 1982	43.1											
	July 1982 - Jan. 1984	60.0											
	Feb. 1985 - Sep.1986	22.1											
	June 1987 - Feb.1989	33.2	June 1987 - June 1990	30.9[26]					June 1989	54.2		ADF (25); BITS (0.5)	Agriculture
Sudan	May 1979 - May 1982[49]	427.0											
	Feb. 1982 - Feb. 1983	198.0[50]											
	Feb. 1983 - March 1984	170.0							June 1983	46.4			Agricultural rehabilitation
	June 1984 - June 1985	90.0[51]											
Togo	June 1979 - Dec. 1980	15.0[52]											
	Feb. 1981 - Feb. 1983	47.5[53]											
	March 1983 - April 1984	21.4			May 1983	36.9							
	May 1984 - May 1985	19.0											
	May 1985 - May 1986	15.4			May 1985	28.1							
					Aug. 1985		9.7						
	June 1986 - April 1988	23.0											
	Mar. 1988 - April 1989	13.0	Mar. 1988 - May 1989	26.9[54]	Mar. 1988	33.0		ADF (17.3); Japan (20.8)					
			May 1989 - May 1993	46.1[5]	Mar. 1989	0.1[6]							
					Oct. 1989	0.2[6]							
					Dec. 1990	39.6							
									Feb. 1991	10.2			Population and health
			Sep.1994 - Sep. 1997	65.2[5]									
									April 1996	32.2			Economic recovery and adjustment

Table 31 (cont.)

	IMF arrangements				World Bank loans and credits								
	Stand-by/Extended Facility		SAF/ESAF		Structural adjustment				Sector and other adjustment				
						Amount				Amount			
Country	*Period*	*Amount*	*Period*	*Amount*	*Date of approval*	*IDA*	*African Facility*[1]	*Co-financing*[2]	*Date of approval*	*IDA*	*African Facility* [1]	*Co-financing* [2]	*Purpose*
Uganda	Jan. 1980 - Dec. 1980	12.5											
	June 1981 - June 1982	112.5											
	Aug. 1982 - Aug. 1983	112.5											
									Feb. 1983	63.5		Italy/DCD (10)	Agricultural rehabilitation
	Sep.1983 - Sep. 1984	95.0[55]											
									May 1984	47.2			Reconstruction
			June 1987 - April 1989	69.7[56]					Sep.1987	50.9	18.8	United Kingdom/ODA (16)	Economic recovery
			April 1989 - June 1994	219.2[57]					Mar. 1989	1.3[6]			"
									April 1989	19[6]			"
									Oct. 1989	1.2[6]			"
									Feb. 1990	98.1	(12.8)		"
									Nov. 1990	1.5[6]			"
									Dec. 1990	69.5			Agriculture
					Dec. 1991	91.9			Nov. 1991	1.2[6]			Economic recovery
			Sep. 1994 - Nov. 1997	120.5[5]	Dec. 1992	1.0[6]			May 1993	72.8			Finance
					May 1994	57.8			Jan. 1994	0.8[6]			"
					Dec.1994	0.4[6]							
					June 1997	90.4							
			Nov. 1997 - Nov. 2000	100.4					Mar. 1998	59.2			Education sector
United Republic of Tanzania	Sep.1980 - June 1982	179.6[58]											
	Aug. 1986 - Feb. 1988	64.2							Nov. 1986	41.3	38.2	Germany (17.3); Switzerland (9.2); United Kingdom (7.3);	Multisector rehabilitation
			Oct. 1987 - Oct. 1990	74.9									
									Jan. 1988	22.5	(26.0)	Saudi Arabia (4); ADF (24);	Multisector rehabilitation
									Dec. 1988	97.6		United Kingdom (15); Switzerland (14); Netherlands (10)	Industrial rehabilitation and trade adjustment
													"
													"
									Mar. 1989	9.7[6]			Industrial rehabilitation
									Oct. 1989	8.3[6]			Industry and trade adjustment
									Mar. 1990	150.4		Netherlands (40) United Kingdom (20)	Agriculture
									Dec. 1990	11.5[6]			Agriculture
			July 1991 - July 1994	181.9[5]					Nov. 1991	8.6[6]			"
									Nov. 1991	150.2		United Kingdom (16.8); Switzerland (6.6)	Finance
									Dec. 1992	8.2[6]			"
			Nov. 1996 - Nov. 1999	161.6[5]	June 1997	93.2[70]							
					Dec. 1997	1.8							
Yemen	Mar. 1996 - June 1997	132.4							April 1996	53.7			Economic recovery
			Oct. 1997 - Oct. 2000	264.8	Nov. 1997	58.9							Financial sector
Zambia	April 1978 - April 1980	250.0											
	May 1981 - May 1984[24]	800.0[66]											
	April 1983 - April 1984	211.5[67]											
	July 1984 - April 1986	225[68]							Jan. 1985	24.7	(10)	AfDB (23.4); CIDA (6.8); USAID (5); Switzerland (4.8); Germany (18.8)	Agricultural rehabilitation
	Feb. 1986 - Feb. 1988	229.8[69]											
									Mar. 1991	149.6			Economic recovery
									Mar. 1991	19.4[6]			"
									May 1992	7.6[6]			"
									June 1992	146			Privatization and industry
									Dec. 1992	15.1[6]			"
									June 1993	72.1			"
									Aug. 1993	7.0[6]			"
									Jan. 1994	12.1[6]			"
									Mar.1994	108.9			Economic and social adjustment
									Dec. 1994	9.7[6]			"
									June 1995	19.1			"
			Dec. 1995-Dec. 1998	701.7[5]					July 1995	90.0			Economic recovery and investment promotion
									Dec. 1995	8[70]			"
									June 1996	16.0			"
					Aug. 1996	62.4							Economic and social adjustment
					Nov. 1996	5.4							

Sources: IMF, *Annual Report* (various issues); *IMF Survey* (various issues); World Bank, *Annual Report* (various issues); *World Bank News* (various issues).
m = million

1. Special Facility for Sub-Saharan Africa; amounts in parentheses are expressed in millions of dollars.
2. Including special joint financing and bilateral support; amounts are in millions of dollars unless stated otherwise.
3. Extended Facility arrangement, cancelled as of June 1982.
4. SDR 580 m not purchased.
5. ESAF.
6. Supplemental credit.
7. SDR 6.3 m not purchased.
8. SDR 15.8 m not purchased.
9. SDR 2.4 m not purchased.
10. SDR 13.5 m not purchased.
11. SDR 7.5 m not purchased.
12. SDR 3.8 m not purchased.
13. SDR 3.7 m not purchased.
14. SDR 10.2 m not purchased.
15. Cancelled as of April 1985.
16. SDR 3.4 m not purchased.
17. SDR 13.5 m not purchased.
18. SDR 6.0 m not purchased.
19. SDR 11.6 m not purchased.
20. SDR 1.5 m not purchased.
21. Supported by IMF; (SDR 1.88 m purchased in first credit tranche).
22. Additional financing.
23. SDR 21.4 m not purchased.
24. Extended Facility arrangement.
25. SDR 39 m not purchased.
26. SDR 22.1 m not purchased.
27. Cancelled as of April 1981; SDR 54.5 m not purchased.
28. Augmented in June 1981 with SDR 32.3 m; SDR 70 m not purchased at expiration of arrangement.
29. SDR 33.2 m not purchased.
30. Cancelled as of May 1989; SDR 10.5 m not purchased.
31. Cancelled as of May 1980; SDR 20.9 m not purchased.
32. SDR 9.9 m not purchased.
33. IBRD loan.
34. Original amount decreased from SDR 100 m; SDR 24 m not purchased.
35. Extended Facility arrangement; cancelled as of August 1986.
36. SDR 6.6 m not purchased.
37. SDR 20.8 m not purchased.
38. Cancelled as of May 1981.
39. SDR 6.8 m not purchased.
40. SDR 6.7 m not purchased.
41. ESAF; original amount decreased from SDR 50.6 m.
42. Not purchased.
43. SDR 2 m not purchased.
44. Including an increase of SDR 22.3 m in June 1981. SDR 152 m not purchased.
45. Extended Facility arrangement; cancelled as of April 1982.
46. SDR 31.2 m not purchased.
47. SDR 29 m not purchased.
48. SDR 5.5 m not purchased.
49. Extended Facility arrangement; cancelled as of February 1982; SDR 176 m not purchased.
50. SDR 128 m not purchased.
51. SDR 70 m not purchased.
52. SDR 1.75 m not purchased.
53. SDR 40.3 m not purchased.
54. SDR 19.2 m not purchased.
55. SDR 30.0 m not purchased.
56. SDR 19.9 m not purchased.
57. ESAF; original amount increased from SDR 179.3 m.
58. SDR 154.6 m not purchased.
59. SDR 9.0 m not purchased.
60. Cancelled as of June 1982; SDR 737 m not purchased.
61. SDR 30 m not purchased.
62. Cancelled as of April 1987; SDR 166.6 m not purchased.
63. SDR 58.2 m not purchased.
64. SDR 75.5 m not purchased.
65. SDR 41.4 m not purchased.
66. Cancelled as of July 1982; SDR 500 m not purchased.
67. SDR 67.5 m not purchased.
68. Cancelled as of February 1986; SDR 145 m not purchased.
69. Cancelled as of May 1987; SDR 194.8 m not purchased.
70. From IDA reflows.