MEDIA SUMMARY

EMBARGO
The contents of this Report must not be quoted or summarized in the press, on radio or on television before **12 October 2000**
22:00 hrs GMT

Note to editors: list of LDCs follows. Pls. note availability of 3 related press releases, on economic and social trends (TAD/INF/2863), problems with current aid policy (TAD/INF/2864), and solutions proposed by UNCTAD (TAD/INF/2865).

LEAST DEVELOPED COUNTRIES 2000 REPORT

Two thirds of the 48 developing nations designated by the United Nations as the world's least developed countries (LDCs) lost ground to other developing and low-income countries in the 1990s. More than 45% of the LDCs experienced economic stagnation or regress, and three fourths of their population live on less than US$2 per day. By the year 2015, only eight LDCs are on target to reach the United Nations goal of universal primary education, and only four will reduce infant mortality by two thirds.

- A radical rethinking of aid policy has been launched in the last five years, with multilateral and bilateral aid agencies increasingly linking economic adjustments to poverty reduction. These changes are not "business as usual" but, in the case of the LDCs, many of the central tenets influencing them are misguided. This is because of the continued international commitment to a "two-speed liberal economic order" in which policies to facilitate the free movement of goods and capital are pursued whilst equivalent measures to facilitate the free movement of labour are discouraged.

- Many LDCs are caught in a trap in which slow growth and low income impede increases in savings rates, which in turn has a negative impact on domestic investment and growth. The only way to escape the trap of low economic development is through external finance.

- In real per capita terms, net ODA to LDCs has dropped by 45% since 1990 and is now back to the levels of the early 1970s. Private capital inflows into the LDCs have been increasing.

- …but significant increases in private capital inflows are concentrated in a few LDCs, and the scale of the increase is insufficient to offset the decline in aid. Thus, real per capita long-term capital inflows – which are indispensable for economic development in the LDCs, given the limited scope for domestic resource mobilization – have dropped by at least 30% since 1990.

- Both LDCs and their official creditor-donors are "wed in an aid-and-debt trap" in which high debt levels impede effective aid, and ineffective aid prevents a solution to the debt problem. Uncoordinated aid flows have contributed to financial uncertainty and distorted government finances in many LDCs. In addition, the aid system has eroded state capacity, undermining the possibility of genuine national ownership.

- The process of economic liberalization in many LDCs outpaced that in other developing countries during the 1990s. But these policy reforms have had serious design weaknesses in relation to LDC-type economies because they neglected the impact of structural constraints, lack of social and economic infrastructure, weakness of market development, thinness of the entrepreneurial class, and low private-sector production capabilities.

- In the LDC context, more aid is a precondition for effective aid, and effective aid is necessary for economic growth, poverty reduction and sustainable development. But the conditions for effective aid do not lie only at the national level; they also depend on the nature of the international relationships between LDCs and their development partners. The synergies between aid policy, the international trade regime, debt relief and measures to promote private capital inflows are crucial as well.

- Two thirds of the LDCs have an external debt burden that is unsustainable according to international criteria. But even the enhanced HIPC Initiative may fail to provide a durable exit from the problem, as it is based on over-optimistic medium-term forecasts, making current expectations as to its benefits "unrealistic". It is not just that the debt relief being provided is coming too late and too slowly, but that the magnitude of assistance is quite simply too little.

- What poor countries in general, and the LDCs in particular, need is not simply debt relief. Rather, they need a "New Deal" in international

- development cooperation. UNCTAD's analysis suggests five key elements of a New Deal for the LDCs:

    (1) Reorienting national policies to develop productive capacities, international competitiveness and economic diversification;

    (2) Ensuring adequate aid flows;

    (3) Implementing partnership based on genuine national ownership, which entails local control over aid funds, participation in the formulation of policy agendas, and political accountability;

    (4) Undertaking adequate debt relief; and

    (5) Increasing systemic policy coherence, in particular by enhancing the synergies between aid and debt relief policies.

UNCTAD's proposal for a New Deal will be at the forefront of discussions at the Third United Nations Conference on the Least Developed Countries, to be held at Brussels from 14 to 20 May 2001.

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