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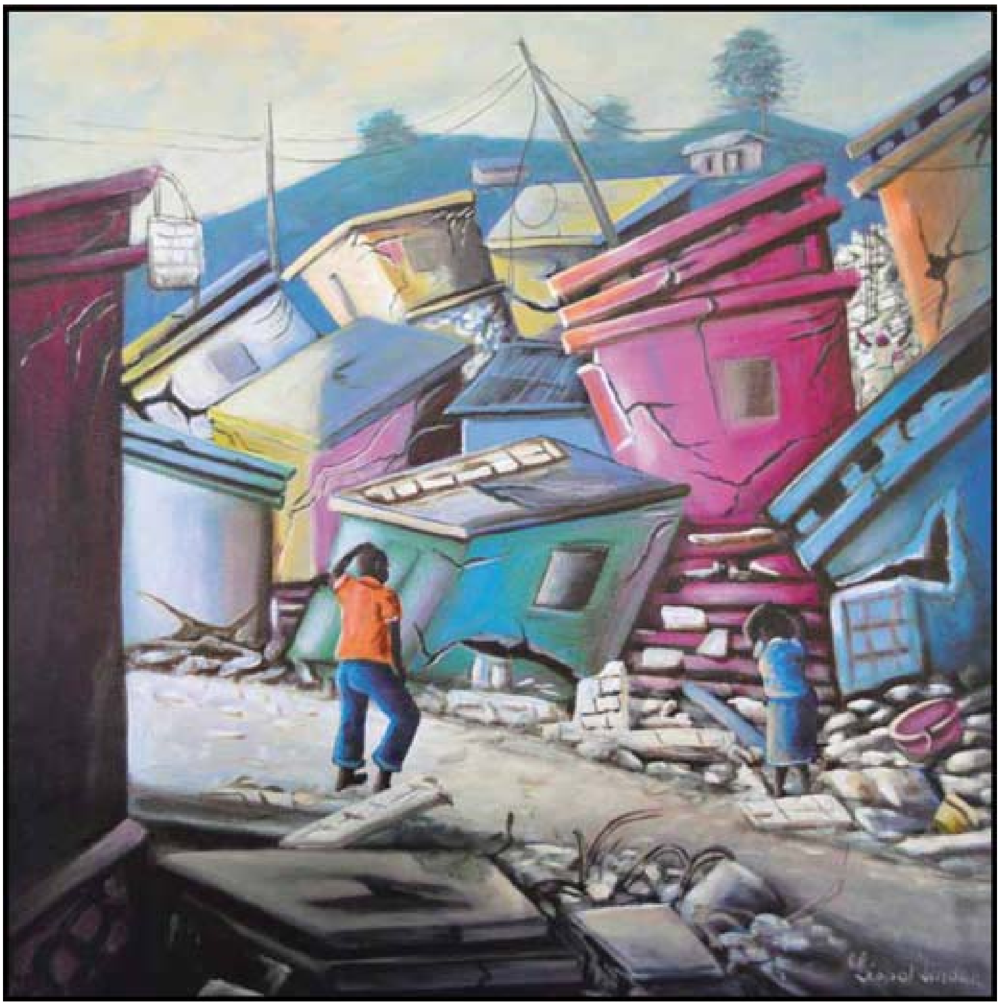
Towards a New International Development Architecture for LDCs

CHAPTER 1

THE GLOBAL FINANCIAL CRISIS AND RECENT BOOM-BUST CYCLE IN THE LDCs



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The Global Financial Crisis and Recent Boom-Bust Cycle in the LDCs

Chapter 1

A. Introduction

During the past three years, the world economy has been rocked by the bursting of a financial "super-bubble" which had formed in the aftermath of the 2001 dotcom crisis, as housing and other asset prices, all interlinked on a global scale, had become over-inflated owing to speculation, excessive leverage, loose macroeconomic policy and weak regulation. After the bankruptcy of the United States investment bank, Lehman Brothers, in September 2008, stock markets collapsed throughout the world and global financial markets froze as banks stopped lending to each other because of mutual distrust about their level of assets and liabilities. For about five months, global industrial production and trade then plummeted at rates similar to those following the Great Depression of 1929. Although since March 2009 financial markets, industrial production and trade started to recover, global output still was down by 2.2 per cent in 2009, with most countries in the world, including LDCs, experiencing an economic downturn. The United Nations, the International Monetary Fund (IMF) and the World Bank believe that global economic recovery is now under way. But the recovery is fragile and uneven, and serious downside risks remain. Moreover, analysts caution that the global financial and economic crisis is likely to have long-lasting adverse effects on actual and potential output in both developed and developing countries.

During the past three years, the world economy has been rocked by the bursting of a financial "super-bubble", which resulted in a contraction of global output by 2.2 per cent in 2009.

This chapter examines the impact of the global financial and economic crisis on the least developed countries (LDCs) with a view to identifying its policy implications. The chapter argues that the effects of the crisis in the LDCs are best understood in terms of a boom-bust cycle which has been typical of their development experience over the long term. The major policy implication is that LDCs need to promote new development paths and that a new international development architecture is required to facilitate this.

The effects of the crisis in the LDCs are best understood in terms of a boom-bust cycle which has been typical of their development experience.

The chapter shows that during the period 2002–2007, the LDCs experienced a strong economic boom, but their high rates of GDP growth were largely driven by external factors associated with a pattern of global expansion that was economically unsustainable and a pattern of national expansion which was not inclusive. The pattern of global expansion was unsustainable because it was founded on increasing global imbalances, widening income inequality, rising levels of private debt (household and corporate) and the growing financialization of economic activity.[1] Such financialization is a process in which "corporate profits [are] increasingly made through the provision (or transfer) of liquid capital in expectation of future interest, dividends or capital gains rather than through investments to expand capital stock to increase future production or facilitate commodity exchange" (Kripner, 2005: 174). In LDCs, economic growth translated only weakly into poverty reduction and was not underpinned by the development of productive capacities. Indeed, the

LDCs actually became even more vulnerable to external shocks during the boom period, as their export concentration and dependence on commodities and external resources increased. In this respect, UNCTAD's *LDC Report 2008* warned that the growth process in these countries was very fragile and unlikely to be sustainable — a judgment that is supported by recent events.

The fallout of the global economic crisis was transmitted to LDCs mainly through the collapse of international trade, falling FDI inflows, and in some cases also declining remittances.

When the global economy fell into the deepest recession since the Great Depression, the LDCs as a group also experienced a sharp economic slowdown. Although these countries' contribution to global production and global trade is marginal, international trade and external finance, particularly foreign direct investment (FDI) and ODA, account for significant shares of their economies. The fallout of the global economic crisis was thus transmitted to LDCs mainly through the collapse of international trade, falling FDI inflows, and in some cases also declining remittances. However, given that different LDCs are integrated into the global economy in dissimilar ways, the impacts of the crisis have varied considerably among them according to their structural characteristics. The slowdown in 2009 was particularly sharp in the oil- and mineral-exporting LDCs, in a few (but not all) LDC exporters of manufactures and in some tourism-dependent island LDCs.

The impacts of the crisis have varied considerably among LDCs according to their structural characteristics.

Despite the slowdown, in 2009 the LDCs as a group actually achieved a higher GDP growth rate than either the group of other developing countries (ODCs) or developed countries. But the chapter argues that the apparent macroeconomic resilience of the LDCs during the crisis can be largely attributed to a number of external factors. Notably, 2009 saw a substantial increase in assistance from the IMF, the World Bank and regional development banks, which partly offset the decline in private capital flows. In addition, there was a recovery of international commodity prices during the year, associated mainly with growing demand from large emerging economies, and the focus of LDC exporters of manufactures on low-end products benefited from the growing demand for these products through the recession. Finally, workers' remittances to the LDCs that are the most dependent on them continued unabated.

The analysis in this chapter suggests that there are major risks to the medium-term outlook for LDCs. Generally, the recent increase in official lending by multilateral development banks has tended to take the form of bringing forward the funding which had been programmed for delivery over a longer period. On top of that, as donors strived to adopt adequate countercyclical responses, the increase in development assistance has also strained their financial resources. Current projections by the Organisation for Economic Co-operation and Development of donors' forward spending plans indicate only a marginal increase in country programmable aid for LDCs in 2010 and 2011 (OECD, 2009). Thus, as the joint World Bank/IMF Global Monitoring Report 2010 states, "[a]bsent increased resources, these essential steps to provide desperately needed resources at the height of the crisis will imply a substantial shortfall in concessional financing over the next couple of years" (World Bank 2010c: 142). In addition, 20 LDCs remain in a situation of debt distress, or at high risk of debt distress, while debt vulnerabilities are likely to worsen in the wake of the global economic crisis in some others (IMF; 2010b). Against this background, it is not surprising that existing economic forecasts estimate that, while the slowdown in LDCs in 2009 was smaller than in other developing countries, the recovery in 2010 will also be slower. Indeed their economic recovery is expected to be the most anaemic of all country groups. It will depend particularly on whether the global recovery is sustained, and whether ODA continues to be provided in forms which boost investment and maintain consumption per capita.

It is difficult to gauge the overall social impact of the global economic crisis on the LDCs because only a few country studies on this issue have been conducted so far. However, this chapter argues that while protecting poor people in the face of the global recession is important, the basic problem in the LDCs is long-standing and persistent mass poverty, which is associated with their very low per capita income. According to one estimate, the economic crisis may have resulted in an additional 9.5 million people living in extreme poverty in the LDCs than would have been the case in the absence of a crisis (Karshenas, 2009). But whilst this is important, it is equally important that the number of people living in extreme poverty in LDCs continued to increase by over 3 million people per year, even during the period of high GDP growth rates of 2002–2007, reaching an estimated 421 million in 2007.

Existing economic forecasts estimate that, while the slowdown in LDCs in 2009 was smaller than in other developing countries, the recovery will also be slower.

It is clear from the data that during the 2000s there was some improvement in poverty reduction rates and progress in compliance with the MDGs. However, the basic problem for policymakers is that poverty reduction has been slow despite the rapid rates of economic growth. As section D of this chapter shows, the majority of LDCs are not on track to achieve most of the Millennium Development Goals (MDGs), testifying the limited inclusiveness of economic growth during the years of the boom. If the global economic crisis has more lasting effects in LDCs and the rather bleak medium-term outlook materializes, even the modest achievements in poverty reduction between 2000 and 2007 will be jeopardized and the number of people living in extreme poverty in LDCs will rise. Indeed if poverty reduction rates over the next five years fall to those of the 1990s, there could be an additional 77 million people living in extreme poverty by 2015 than if the poverty reduction rates of the period 2000–2007 were to be maintained.

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The evidence of the chapter, which underpins these findings is organized in three main sections. Section B discusses growth trends in LDCs during the boom-bust cycle. It assesses the extent to which the pattern of economic growth during the boom period was associated with the development of productive capacities, which are fundamental to resilience, and it shows how different LDCs fared after the bust, during the global recession of 2009. Section C identifies the major channels through which the negative spillover effects of the crisis affected the real economies of the LDCs and it examines the national and international policy responses, which together have attenuated the negative impacts of the crisis. It also considers some factors affecting the medium-term economic outlook for these countries. Section D considers poverty and human development trends during the boom-bust cycle. It examines long-term trends in income poverty in LDCs using a new set of poverty estimates prepared for this Report. It also describes progress towards the MDGs, and considers possible future poverty reduction and human development scenarios if the global financial and economic crisis has long-lasting effects on the LDCs and slows down rates of progress in terms of key social indicators.

B. The anatomy of the boom-bust cycle

1. The economic boom of 2002–2007

During the period 2002–2007, the real gross domestic product (GDP) of the LDCs as a group grew by more than 7 per cent per annum. This was the strongest and longest growth acceleration achieved by this group of countries since 1970, and a much better macroeconomic performance than in the 1990s (table 1). Not all LDCs experienced the boom. Indeed, in just over a quarter of the LDCs (14 countries), GDP per capita declined or grew sluggishly. Moreover, because of the high rate of population growth in the LDCs, per capita GDP growth rates, which matter more for human well-being, remained slightly lower than in other developing countries. Nevertheless, the target growth rate of the Brussels Programme of Action for the LDCs for the decade 2001–2010 was achieved in the LDCs as a group and also in 16 LDCs over this boom period (table 2).

During the period 2002–2007, the real gross domestic product of the LDCs as a group grew by more than 7 per cent per annum.

The economic boom of 2002–2007 in LDCs was underpinned by a significant increase in external resources available to LDCs compared with those available in the 1990s. World demand and world trade were booming, commodity prices were rising and transnational corporations (TNCs) were increasingly seeking raw materials during this period. The total volume of exports from the LDCs almost doubled between 2000 and 2008, with African LDCs leading the expansion as new oil and mineral resources came on-stream (chart 1A and 1B). Though the growth in LDCs' export volume was slower than that of other developing countries during this period, the LDCs experienced much-improved terms of trade, owing essentially to the surge in primary commodity prices. This benefited resource-rich African LDCs in particular (chart 1E and 1F). As a result, the purchasing power of LDCs' exports almost tripled between 2000 and 2008, rising even faster than the corresponding index for other developing countries (chart 1G). While LDCs in all regions benefited from some improvements, African LDCs benefited the most, the purchasing power of their exports growing almost fourfold between 2000 and 2008 (chart 1H).

The total volume of LDCs exports and imports increased rapidly during the boom: they benefited from improved terms of trade, and there was a significant, though unevenly distributed, surge in external financing in the form of ODA, FDI and remittances.

Given their level of underdevelopment, LDCs' economies tend to be import-sensitive, in the sense that both the full utilization and the development of their productive capacities depend on imported inputs and capital goods. With the alleviation of their foreign exchange constraint as a result of the increase in the purchasing power of their exports, there was an increase in their import volumes, particularly in African and island LDCs where imports doubled in eight years (chart 1C and 1D).

The economic boom in the LDCs was also underpinned by a significant, though unevenly distributed, surge in external financing in its various forms (chart 2):

- After the disappointing decade of the 1990s, when net ODA disbursements to LDCs (excluding debt relief) declined by roughly 30 per cent in real terms, those disbursements doubled in real terms from 2000 to 2008, reaching $37 billion in 2008.

Table 1

Comparison of GDP growth rates in LDCs before and during the boom period, 1991–2008

(Percentage growth rates in constant 2000 dollars)

	Real GDP growth			Real GDP per capita growth		
	1991–2001	2002–2007	2008	1991–2001	2002–2007	2008
LDCs	3.9	7.4	6.9	3.1	4.9	4.4
African LDCs and Haiti	3.0	7.5	7.9	1.3	4.6	5.1
Asian LDCs	5.1	7.3	5.5	0.2	5.4	3.8
Island LDCs	3.8	8.2	4.5	2.8	-1.4	2.1
Other developing countries	4.8	6.5	5.3	1.9	5.1	4.0

Source: UNCTAD secretariat calculations, based on UNCTAD's *GlobStat* database.
Note: Real GDP data has been rebased using an implicit GDP deflator.

Table 2

Real GDP and real GDP per capita growth rates of LDCs, 2002–2008

	Export specialization	Real GDP growth (constant 2000 dollars)		Real GDP per capita (constant 2000 dollars)		Fragile States according to WB CPIA score for 2004
		Average 2002–2007	2008	Average 2002–2007	2008	
Countries with real GDP growth > 6% in 2002–2007						
Afghanistan	Agricultural	18.6	3.4	14.4	-0.1	“2004-fragile”
Equatorial Guinea	Oil	16.7	15.2	13.5	12.2	
Angola	Oil	14.3	14.8	10.9	11.8	“2004-fragile”
Myanmar	Mixed	13.2	4.5	12.4	3.6	“2004-fragile”
Chad	Oil	11.8	0.3	8.1	-2.3	“2004-fragile”
Cambodia	Manufactures	10.3	6.0	8.5	4.3	“2004-fragile”
Sudan	Oil	10.2	7.6	7.9	5.2	“2004-fragile”
Sierra Leone	Minerals	9.5	5.5	5.6	2.9	“2004-fragile”
Mauritania	Minerals	8.8	2.2	5.9	-0.2	“2004-fragile”
Bhutan	Manufactures	8.7	6.6	5.8	4.9	
Ethiopia	Services	8.2	11.3	5.4	8.5	
Mozambique	Minerals	8.0	7.0	5.2	4.5	
Maldives	Services	8.0	5.8	6.5	4.3	
United Rep. of Tanzania	Services	7.2	7.5	4.3	4.4	
Uganda	Agricultural	7.2	9.5	3.7	6.0	
Lao People's Dem. Rep.	Mixed	7.0	7.5	5.2	5.5	“2004-fragile”
Sao Tome and Principe	Services	6.7	5.8	4.9	4.1	“2004-fragile”
Malawi	Agricultural	6.3	7.4	3.4	4.5	
Dem. Rep. of the Congo	Minerals	6.2	6.2	3.0	3.3	“2004-fragile”
Countries with real GDP growth between 3% and 6% in 2002–2007						
Bangladesh	Manufactures	5.9	6.2	4.2	4.7	
Rwanda	Services	5.8	11.2	3.7	8.2	
Burkina Faso	Agricultural	5.8	4.5	2.3	1.0	
Solomon Islands	Agricultural	5.3	6.0	2.7	3.4	“2004-fragile”
Zambia	Minerals	5.3	6.3	2.9	3.7	
Mali	Minerals	5.0	4.7	2.5	2.3	
Niger	Minerals	4.9	5.9	1.2	1.8	
Senegal	Mixed	4.7	2.5	2.0	-0.2	
Vanuatu	Services	4.3	5.7	1.6	3.1	“2004-fragile”
Samoa	Services	4.2	-3.4	4.1	-3.4	
Yemen	Oil	4.1	3.9	1.2	1.0	
Lesotho	Manufactures	4.0	3.5	2.9	2.6	
Madagascar	Mixed	3.9	5.0	1.0	2.3	
Nepal	Manufactures	3.8	5.6	1.7	3.7	
Benin	Agricultural	3.6	5.0	0.2	1.8	
Djibouti	Services	3.5	5.8	1.7	3.9	“2004-fragile”
Countries with real GDP growth < 3% in 2002–2007						
Tuvalu	Agricultural	3.0	2.0	2.5	1.6	
Timor-Leste	Oil	2.8	6.8	-1.2	3.5	“2004-fragile”
Burundi	Minerals	2.7	4.5	-0.2	1.5	“2004-fragile”
Somalia	Agricultural	2.6	2.6	0.2	0.4	“2004-fragile”
Gambia	Services	2.6	4.9	-0.5	2.1	“2004-fragile”
Togo	Mixed	2.5	1.1	-0.1	-1.4	“2004-fragile”
Guinea	Minerals	2.4	4.0	0.4	1.7	“2004-fragile”
Comoros	Services	1.8	1.0	-0.4	-1.3	“2004-fragile”
Kiribati	Agricultural	1.6	6.3	-0.1	4.7	“2004-fragile”
Guinea-Bissau	Agricultural	1.0	3.1	-1.4	0.8	“2004-fragile”
Eritrea	Services	0.7	1.0	-3.1	-2.0	
Haiti	Manufactures	0.4	1.3	-1.2	-0.3	“2004-fragile”
Central African Rep.	Minerals	0.4	2.2	-1.4	0.3	“2004-fragile”
Liberia	Agricultural	-2.3	7.1	-5.5	2.4	“2004-fragile”

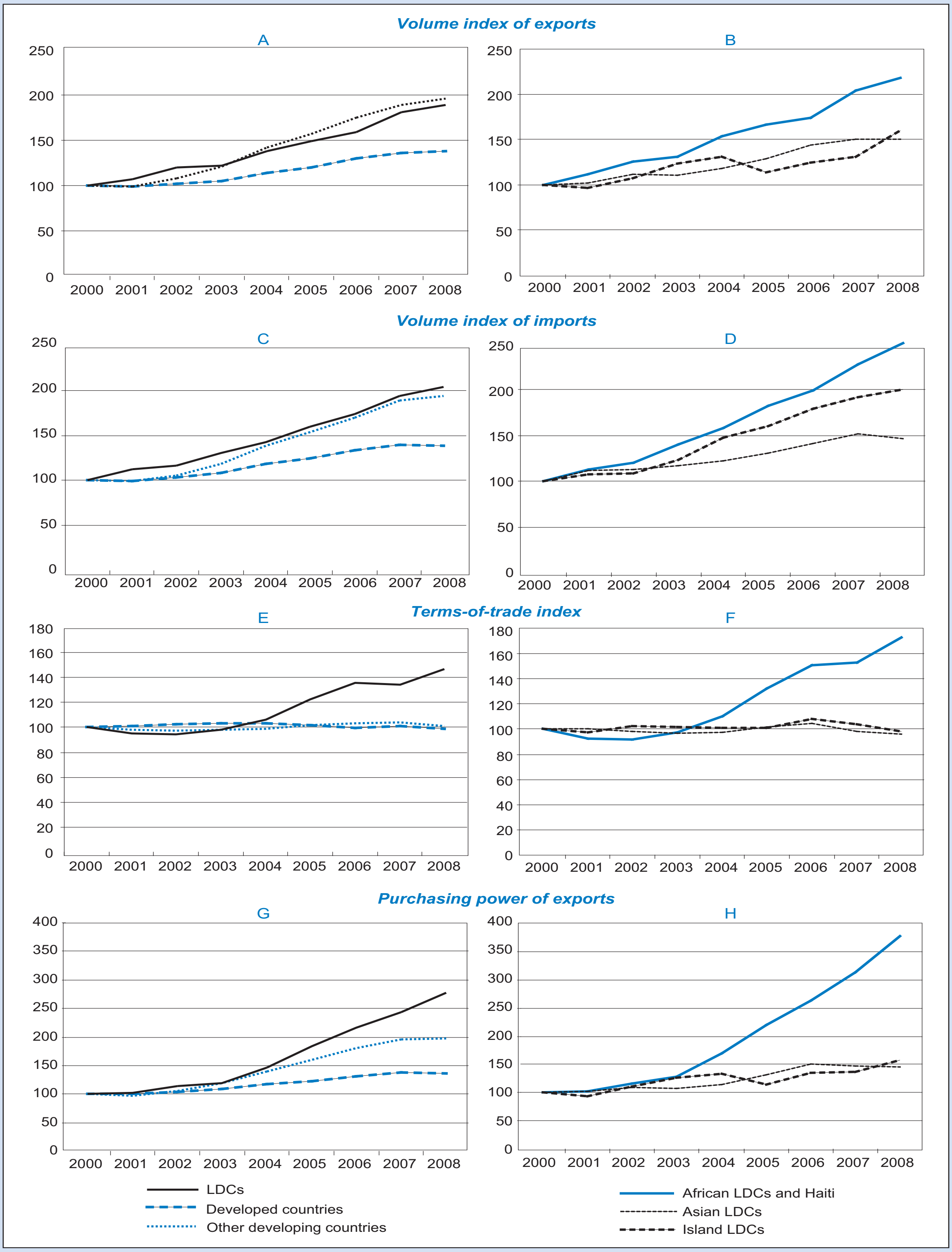
Source: UNCTAD secretariat calculations, based on UNCTAD's *GlobStat* database, and World Bank (WB), Country Policy and Institutional Assessment (CPIA) score, online .

Note: Real GDP data has been rebased using an implicit GDP deflator.

Chart 1

Merchandise trade indices, 2000–2008

(Indices, 2000=100)



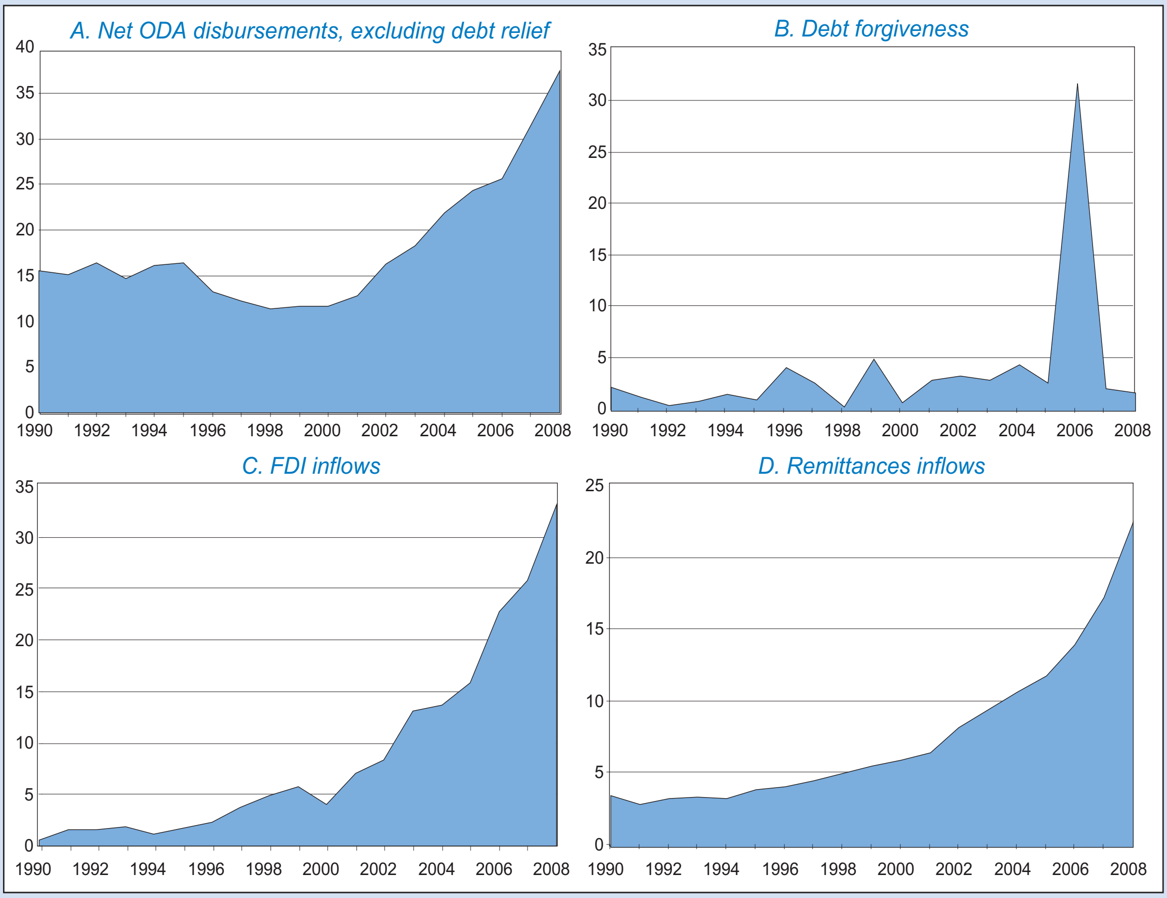
Source: UNCTAD secretariat calculations, based on UNCTAD's *GlobStat* database.

- The improvement in LDCs' external accounts has also been bolstered by debt relief, which increased considerably as a result of two initiatives: the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI). These initiatives have substantially reduced the debt-to-GDP and debt-to-export ratios of a significant subset of countries

Chart 2

Capital inflows and remittances to LDCs, 1990–2008

($ billion)



Source: OECD, *International Development Statistics* database (online); World Bank 2010b, and *Global Development Finance 2010* (online); UNCTAD FDI/TNC database.

in the LDC group, improving the overall sustainability of their debt and freeing considerable amounts of resources that were previously earmarked for debt servicing (UNCTAD, 2010a).

- FDI flows to LDCs, although still lower than net ODA disbursements, also grew spectacularly during the 2000s. Between 2000 and 2008 they increased sixfold, exceeding $32 billion in 2008. Over 80 per cent of these flows went to natural-resource-rich African LDCs, though a number of island LDCs have also received growing inflows relating to investments in tourism and transport services.
- Finally, workers' remittances, which increased fourfold between 2000 and 2008, also contributed to the rise in LDCs' foreign exchange. However, these inflows were also unevenly distributed across countries, with the three largest recipients (Bangladesh, followed by Sudan and Nepal) accounting for almost two thirds of total remittances to LDCs.

The improvement in LDCs' external accounts has also been bolstered by debt relief, which increased as a result the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI).

Most LDC Governments also made a major policy effort during this period to sustain and deepen the economic reforms undertaken in the 1990s. They also sought to add a more explicit social and poverty reduction dimension through the formulation and implementation of Poverty Reduction Strategy Papers. In conjunction with the rapid increase of export earnings and external finance, these policies brought some improvements to LDCs' macroeconomic

Compared to the previous decade, current-account deficits shrunk in a number of LDCs, debt burdens fell and foreign reserves grew.

However, with the kinds of national policies pursued in the 2000s, the LDCs were unable to make the most of the opportunities presented by the boom. In particular, they were unable to promote a pattern of catch-up growth based on the development of productive capacities

The export-led growth model did not result in much of an increase in investment and capital formation in many LDCs.

fundamentals, though these were unevenly distributed across countries according to their structural conditions. In the median LDC, inflation rates during the first half of the 2000s (until late 2007) were about half their level of the 1990s. Compared to the previous decade, current-account deficits shrunk in a number of LDCs, debt burdens fell and foreign reserves grew. Some improvements in the mobilization of government revenues were also achieved by several LDCs, including some in Africa (e.g. Benin, Lesotho, Madagascar and Mali).[2]

Some observers contend that good national economic policies and improved national governance embodied in economic reforms were the key factors contributing to the economic boom in the LDCs. But it is difficult to isolate the respective roles of national policies and the international environment. One indication of the primacy of external factors is the very weak association between countries that were designated as "fragile States" during the boom and their growth performance. The notion of a "fragile State" is very controversial and has not been endorsed in UNCTAD's analyses of LDCs. But using the World Bank Country Policy and Institutional Assessment scores, based on their definition of weakness of policies and institutions, and focusing on those countries that were classified by the World Bank as "fragile States" in 2004, an interesting pattern emerges. Almost all the LDCs that displayed weak economic performance during the boom period of 2002–2007 were "fragile States" in 2004, but at the same time, more than half the LDCs that performed the best, including half of those which reached the 7 per cent growth target of the Brussels Programme of Action, were also classified as "fragile States". Thus, although weak economic performance is associated with weak economic policies and institutions according to these criteria, having such policies and institutions in place is *not* a necessary condition to achieve good economic performance over the short-to-medium run. LDCs identified as "fragile States" in 2004 were as likely to display very good economic performance as weak performance during the boom.

With the kinds of national policies pursued in the 2000s, the LDCs were unable to make the most of the opportunities presented by the boom. In particular, they were unable to promote a pattern of catch-up growth based on the development of productive capacities which would increase the resilience of their economies and set them on a more inclusive growth path. From a long-term perspective, after the prolonged decline of the 1980s and early 1990s, the LDCs started the new millennium with approximately the same level of real per capita income that they had in 1970 (see Box 1). Since then, although their per capita GDP was increased significantly in real terms, their productivity gap with other developing countries continues to widen (see also below).

The export-led growth model, which implicitly or explicitly underpinned most LDCs' development strategies during this period, did not result in much of an increase in investment and capital formation in many of them. These countries also became more vulnerable to a global slowdown as international trade became increasingly important to them and their commodity dependence, export concentration and food imports increased. The export-led growth model was also associated with growing sectoral imbalances, as agricultural productivity lagged far behind the expansion of exports and GDP. This mounting disproportion has led to rising food import bills, and has had significant negative consequences for both the robustness and inclusiveness of the LDC development path. The problems of the weak development of productive capacities and increasing vulnerability to a global

Box 1. The economic boom of 2002–2007 in a long-term perspective

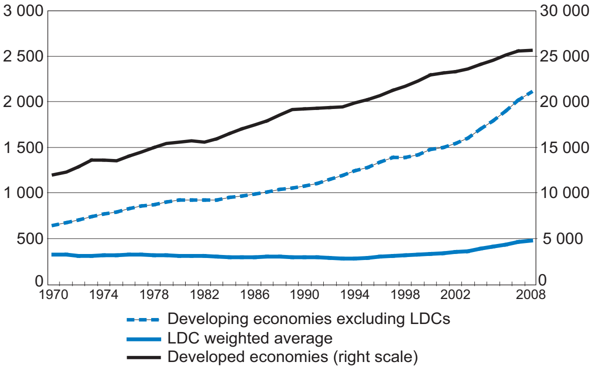
It is instructive to put the economic boom which occurred in the LDCs in the period 2002–2007 in a longer-term perspective. Box Chart 1a shows trends in real GDP per capita over the last forty years. The real GDP per capita of the LDCs was actually declining from 1970 up to 1994. It has been growing since then at a rate faster than in developed countries, but even during the five years of the boom, per capita growth in LDCs did not outpace the average of other developing countries.

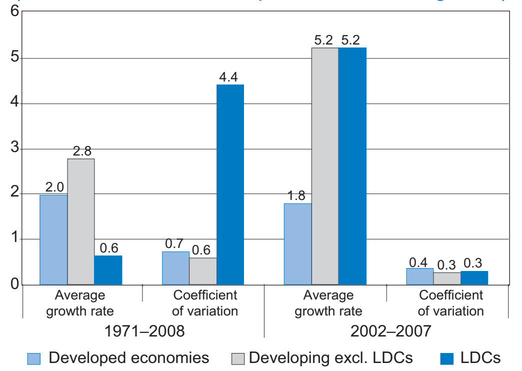
In a long-term perspective, the gap in income per capita between LDCs and other developing countries was still larger in 2008 than it had been in the early 1970s. The real GDP per capita in the LDCs was 2.5 per cent of that in developed countries in the early 1970s, declined to 1.4 per cent of their GDP per capita in 1994, and at the end of the boom in 2008 it had reached a mere 1.9 per cent of their GDP per capita. The comparison with other developing countries is even starker, though in absolute term the gap in real income is of course lower. Real GDP per capita in the LDCs fell from 45 per cent of that in other developing countries in the early 1970s to 22 per cent in 2006-2008 (roughly the same level touched in 1994). These gaps are smaller if they are estimated in purchasing power parity terms but the trends remain the same.

Box Chart 1b shows that not only have LDCs grown the least in per capita terms over the long term, but their economic growth has been far more volatile from one year to the other. Taking the period as a whole, the overall coefficient of variation for the LDCs as group was 4.4, compared to 0.6 in other developing countries and 0.7 in developed ones. During the boom period, volatility was much lower and comparable to other developing countries — though there was then a major growth slowdown in the LDCs after the global financial crisis.

Focusing on the frequency of growth accelerations and decelerations using methodology developed by Arbache and Page (2007), it is apparent that growth accelerations are less frequent in the LDCs than in other groups of countries, while growth decelerations are more frequent. LDCs' tendency to growth reversal can be inferred quite clearly also on a short-term perspective, from the frequency with which they experienced negative growth in real GDP per capita. The inspection of historical data at country level reveals that the median LDC has experienced 11 years of negative real growth between 1980 and 2008. In other words, in 39 % of the 1384 country/year observations available, LDCs have experienced a real decline in GDP per capita. Similar figures are even more worrying since negative shocks appear on average to permanently reduce the level of output, as documented by Cerra and Saxena (2005). As a consequence, LDCs proneness to growth collapses could be closely associated with their long-term income divergence from other country-groups.

Box chart 1
GDP per capita growth in LDCs and other groups of countries





Source: UNCTAD secretariat calculations, based on UNCTAD's *GlobStat* database.

Box table 1
Growth accelerations and decelerations in different groups of countries

	Growth acceleration		Growth deceleration	
	Frequency (country years)	*GDP per capita growth rate (%)*	*Frequency (country years)*	*GDP per capita growth rate (%)*
High-income OECD countries	0.54	3.31	0.03	-2.32
High-income non OECD countries	0.42	5.90	0.02	-4.62
Developing countries	0.46	4.33	0.14	-3.87
LDCs	0.36	4.36	0.26	-2.99

Source: UNCTAD secretariat calculations, based on World Bank, *World Development Indicators* database; and World Bank, 2010c.

growth slowdown are taken up in the next section, while the failure of this growth pattern to achieve substantial poverty reduction and progress towards the MDGs is discussed later in the chapter.

During the 2000s, investment in the LDCs as a group increased from 19.5 per cent of GDP at the beginning of the decade to 23.2 per cent in 2008.

2. Weak development of productive capacities during the boom period

National productive capacities develop through the interrelated processes of capital accumulation, structural change and technological progress. As argued in LDCR 2006, these processes have been historically weak in the LDCs. But the evidence shows that they have continued to be generally weak even during the boom years, despite the rapid rates of economic growth achieved by the LDCs.

(a) Capital accumulation

During the 2000s, investment in the LDCs as a group increased from 19.5 per cent of GDP at the beginning of the decade to 23.2 per cent in 2008. However, more than a third of this increment was due to changes in inventories, and did not involve a genuine expansion of productive capital. Gross fixed capital formation (GFCF) rose at a slower pace, but still remains significantly lower than the corresponding share for other developing countries. Even more worryingly, GFCF has actually fallen since the early 2000s in 19 LDC, mostly African and island LDCs where investment in fixed capital was already rather low. The unprecedented period of economic growth thus brought only limited improvements in LDCs' chronic shortfalls of investment, while they continued to suffer from a significant infrastructural gap and the widespread presence of supply-side bottlenecks. This is particularly the case for African LDCs, which lack infrastructure and social overhead capital, and where investment ratios remain far lower than in Asian and island LDCs.

Excluding oil exporters, domestic savings in LDCs have remained constant at a very low level of around 10 per cent of GDP.

As shown in the first two panels of chart 3, both oil and non-oil exporters have witnessed a moderate rise in investments, and the latter have invested a slightly higher share of their GDP. But what clearly distinguishes oil- from non-oil exporters throughout the 2000s is the dynamic of domestic savings. Excluding oil exporters, domestic savings in LDCs have remained constant at a very low level of around 10 per cent of GDP. The windfall in export revenues, which dramatically increased domestic savings in the 6 oil-exporting LDCs is what has driven an apparent increase in domestic savings in the LDCs as a group.

Once domestic savings are adjusted for the cost of depleting stocks of fossil fuels, minerals and other forms of environmental capital, it is clear that the unprecedented growth rate of the LDCs has been accompanied by a steady decline in net adjusted savings.

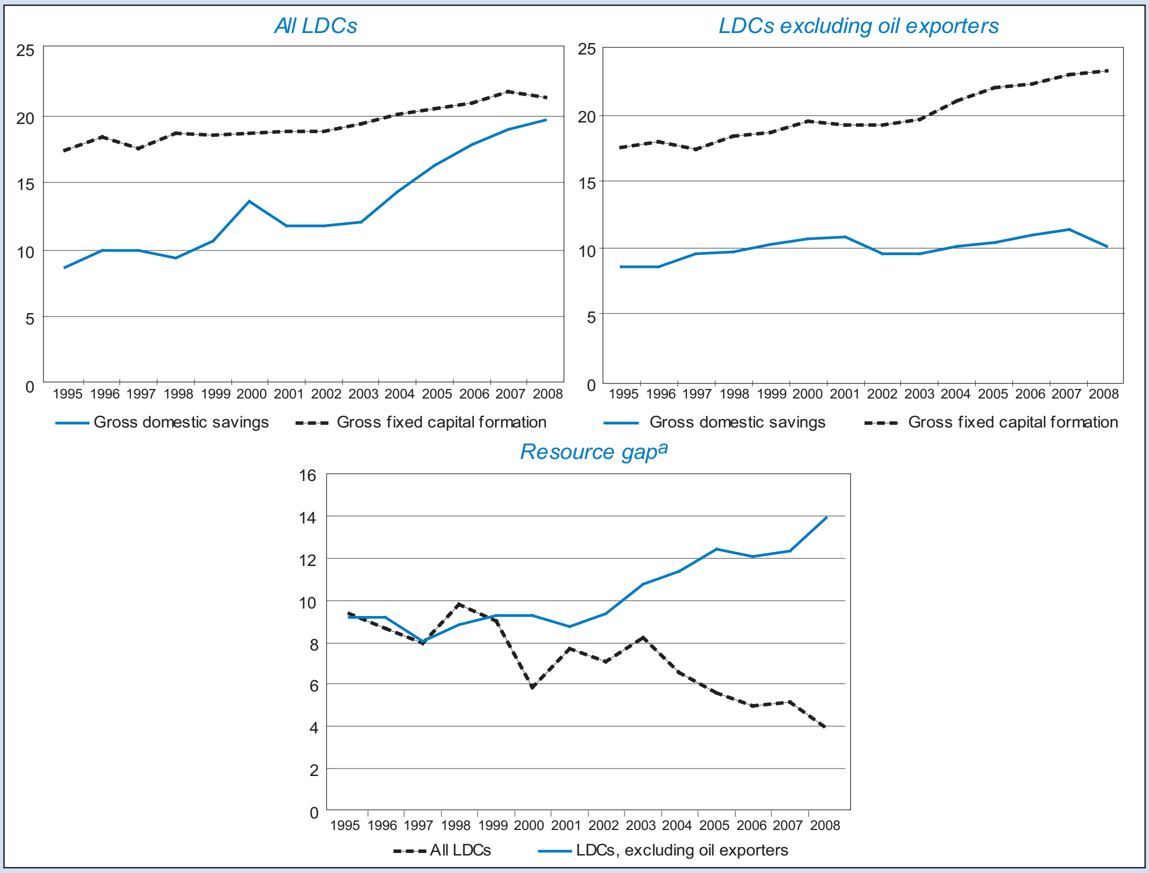
The combination of trends in investment and savings implies that the external resource gap for the LDCs as a group has shrunk markedly in the recent past. However, this is mainly due to the higher savings in the oil-exporting LDCs. If these countries are excluded, the external resource gap, reflecting a reliance on foreign savings, increased from 9 per cent of GDP in 2001 to 14 per cent in 2008 (chart 3).[3]

Moreover, the centrality of natural-resource-intensive sectors within the economic boom of the LDCs raises issues of sustainability owing to the irreversible depletion of natural resources. Once domestic savings are adjusted for the cost of depleting stocks of fossil fuels, minerals and other forms of environmental capital, it is clear that the unprecedented growth rate of the LDCs has been accompanied by a steady decline, rather than any increase, in net adjusted savings. The net adjusted savings of the LDCs as group have always been very low as a percentage of GDP, but they reached close to zero in 2008 (chart 4).[4]

Chart 3

Investment and savings in LDCs, 1995–2008

(Percentage of GDP)



Source: UNCTAD secretariat calculations, based on UNCTAD's *GlobStat* database.

a Resource gap = Gross fixed capital formation – gross domestic savings.

(b) Structural change and technological progress

Since the economic boom in LDCs was not accompanied by any significant structural change in the composition of output, productivity growth and technological progress were also sluggish. Indeed, the productivity gap between LDCs and other developing countries further widened, while the gap vis-à-vis developed economies, at the technological frontier, remained abysmal.

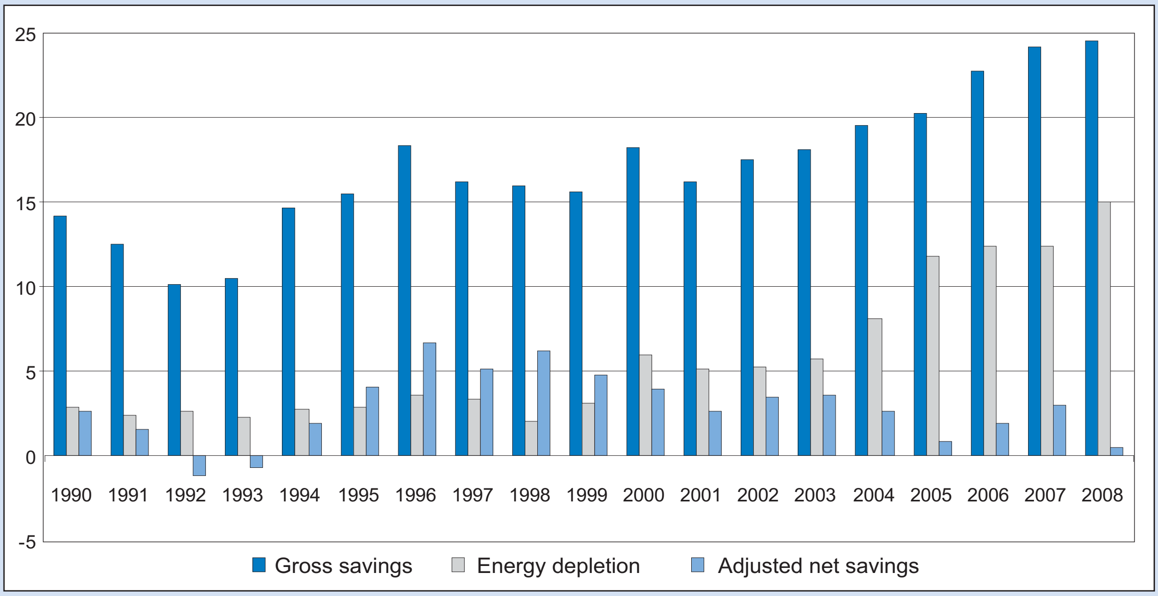
Since the economic boom in LDCs was not accompanied by any significant structural change in the composition of output, productivity growth and technological progress were also sluggish.

For LDCs as a group, the major feature of the pattern of structural change during the boom has been the relative decline in the contribution of agriculture to GDP and the relative increase in the contribution of non-manufacturing industries such as mining, utilities and construction (table 3). Even though the share of agriculture in GDP fell to 26 per cent during the period 2006–2008, this sector continues to be the main source of employment, absorbing two thirds of the labour force during that span. The manufacturing sector contributed 10 per cent of GDP in 2006–2008, the same level as at the start of the boom and in 2000–2002. Within the overall pattern, there is considerable variation among the LDCs. The expansion of mining and utilities is more visible in African LDCs, reflecting their relatively richer endowments of mineral resources, while the share of manufacturing in GDP has increased modestly in some Asian LDCs. But at the other end of the spectrum, 27 LDCs experienced some degree of deindustrialization (reflected in the declining

Chart 4

Savings and depletion of natural resources in LDCs, 1990–2008

(Percentage of GNI)



Source: UNCTAD secretariat calculations, based on World Bank, *World Development Indicators*, online.

share of manufactures in their GDP). Finally, the smallest decline in the share of agriculture was in the slowest growing LDCs; indeed, in some of these countries, a number of which were affected by conflict, the share of agriculture in GDP actually increased.

27 LDCs experienced some degree of deindustrialization between 2000 and 2008.

The employment challenge, which is the key to substantial poverty reduction, is closely related to the pattern of structural change. The LDCs generally have very high population growth rates, and consequently the number of young people entering the labour market is increasing each year. Agriculture typically employs a large share of the labor force in LDCs, but agricultural productivity remains very low and the majority of farms are small, with the result that living standards for most peasants tend to be at or near subsistence levels. The sector is also less able now to absorb labour owing to decreasing farm sizes and lack of investment, including poor soil management. People are often being forced to cultivate more ecologically fragile land. As a consequence, more and more people are seeking work outside agriculture, but most LDCs have simply been unable to generate sufficient productive employment opportunities for the young population in the manufacturing and services sectors. The non-manufacturing industries whose contribution to GDP has grown the most tend to be capital-intensive rather than labour-intensive. Thus the majority of young people are finding work in informal

The employment challenge, which is the key to substantial poverty reduction, is closely related to the pattern of structural change.

Table 3

Structural change in the composition of output in LDCs, 2000–2008

	Agriculture		Manufacturing		Industry, excl. Manufacturing		Services	
	2000–2002	*2006–2008*	*2000–2002*	*2006–2008*	*2000–2002*	*2006–2008*	*2000–2002*	*2006–2008*
LDCs total	30.7	26.8	10.0	10.0	15.2	20.6	44.2	42.6
LDCs: Africa and Haiti	32.0	28.0	7.8	7.8	17.4	24.4	42.8	39.9
LDCs: Asia	29.1	25.0	12.9	14.0	12.6	14.3	45.5	46.8
LDCs: Islands	21.4	21.5	7.4	6.0	7.0	8.5	64.2	64.0

Source: UNCTAD Secretariat calculations, based on UNCTAD's *GlobStat* database.

activities, most of which are characterized by low capital accumulation and limited productivity, and hence offer a narrow scope for economic growth.

The overall and ongoing pattern of structural change in the LDCs can be described as a "blocked structural transition". More and more people are seeking work outside agriculture, but the pattern of structural change in output means that they cannot find productive and decent work. In 2008, own account and contributing family workers, mainly engaged in informal economic activities, represented about 80 per cent of the workforce in the LDCs (UNDP, 2010). Precisely because the boom reinforced the existing specialization in (mostly non-agricultural) primary commodities, instead of spurring the expansion of labour-intensive manufactures and services, economic growth failed to translate into broad-based employment creation. In turn, the slackness of job creation outside an agricultural sector with low productivity has been a major reason for the relatively weak effects of growth on poverty reduction and on progress in meeting the MDGs. The employment challenge is particularly severe in sub-Saharan Africa, where demographic pressure on the labour market is combined with sluggish, if any growth in manufacturing and services (UNECA, 2010).

Most LDCs have simply been unable to generate sufficient productive employment opportunities in the manufacturing and services sectors.

In the long-term, this pattern of structural change and jobless growth also diminishes the effective return to human capital accumulation, as people who invested in skill-acquisition are increasingly unable to find adequate employment opportunities. From this perspective, LDCs' growth trajectory in the 2000s represented a lost opportunity to foster a stronger demand for "human capital deepening", which would have helped trigger a shift towards more knowledge-intensive activities.

LDCs' growth trajectory in the 2000s represented a lost opportunity to foster a stronger demand for "human capital deepening".

In addition to structural change, productive capacities are acquired and expanded by means of technical progress. Here it is worth noting that investment in new capital equipment, which is generally imported, is a major channel for technological upgrading and innovation in LDCs. The trend in imports of machinery and equipment indicates that the bulk of technological development through such investment occurred in oil-exporting LDCs, whereas access to imported and presumably more efficient technologies by other LDCs increased only marginally (chart 5). This suggests that not only was structural change slow during the economic boom, but also that technological progress was minimal.

Owing to the limited availability of capital and the slow absorption of new technologies, labour productivity has been growing very slowly in LDCs, and it remains very low. A slight acceleration occurred in the 2000s in the LDCs as a group, but their GDP per worker has actually fallen further behind that of middle-income countries (chart 6).

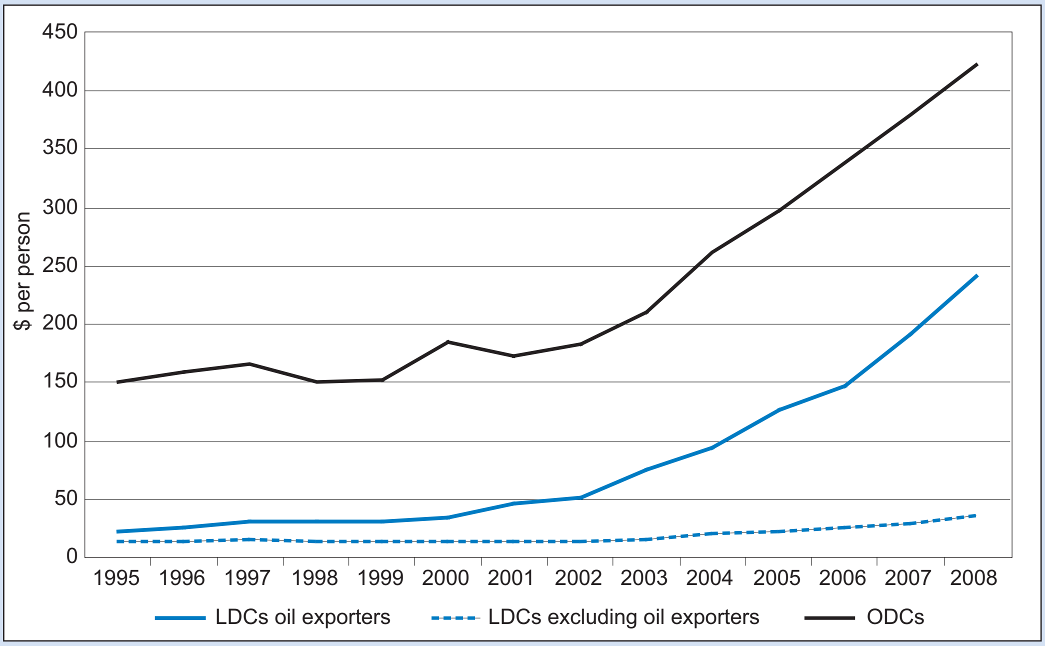
Productivity in the agricultural sector continued to stagnate even during the boom.

A similar stagnation of productivity is apparent in the agricultural sector. As discussed in the *LDC Report 2009*, LDCs have experienced decades of prolonged underinvestment in key infrastructure, lack of appropriate research and development (R&D) and the dismantling of the few institutions capable of conducting agricultural policies. As a result of the low availability of capital, and the limited use of fertilizers and high-yielding crop varieties, stagnating labour productivity in the primary sector stands out clearly in the first panel of chart 7, as does the marked divergence of LDCs from middle- and high-income countries. Similarly, cereal yield per hectare in LDCs has increased only marginally over the last 20 years, and at a much slower rate than the world average (second panel of chart 7).

Chart 5

Per capita imports of machinery and transport equipment

($ per person)

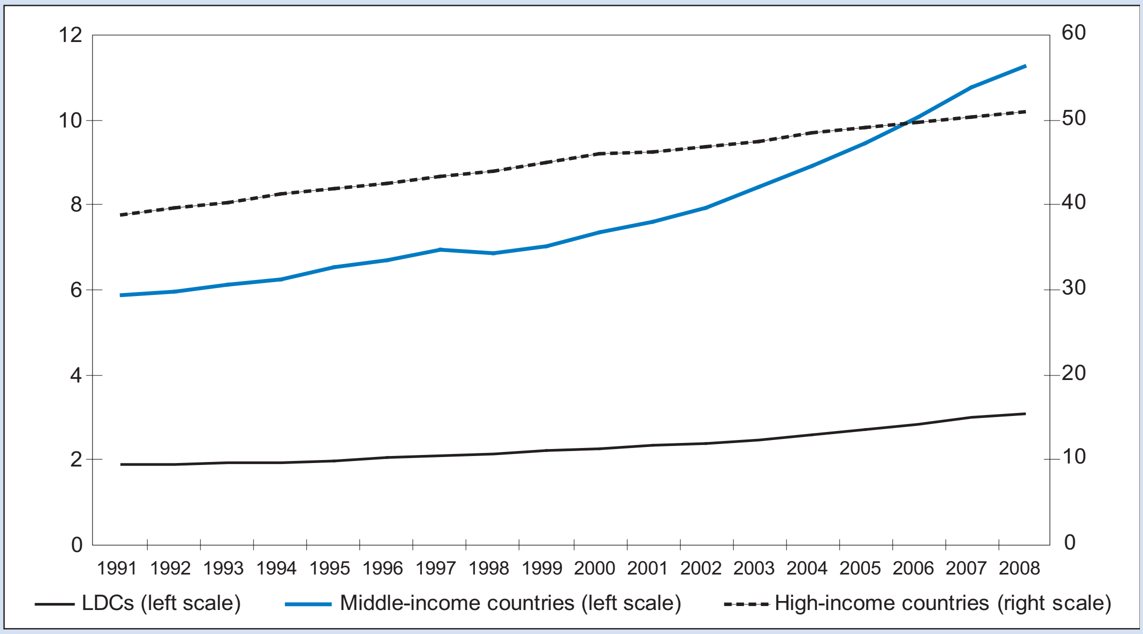


Source: UNCTAD secretariat calculations, based on UNCTAD's *GlobStat* database.

Chart 6

GDP per person employed, 1991–2008

(Thousand constant 1990 PPP dollars)

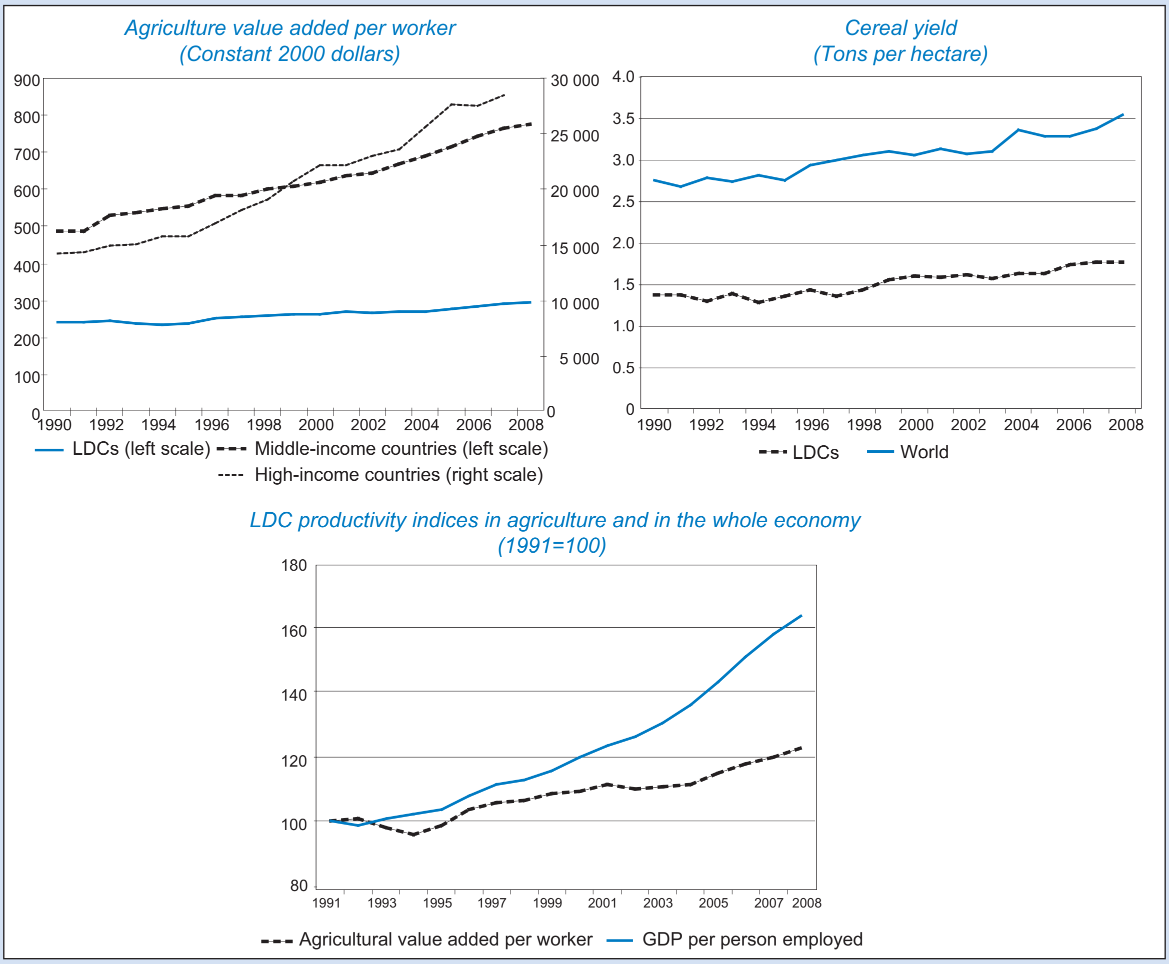


Source: UNCTAD secretariat calculations, based on World Bank, *World Development Indicators*, online.

A comparison between labour productivity indices for the primary sector and for the economy as a whole reveals the extent to which agriculture has been bypassed by technological progress and capital accumulation in LDCs. Over the past 20 years, agricultural value added per worker has grown at a third of the speed of GDP per worker, with the gap widening precisely in the boom

Chart 7

Agricultural productivity in LDCs, 1990–2008



Source: UNCTAD secretariat calculations, based on FAO's *FAOSTAT* database, and World Bank, *World Development Indicators*, online.

period. While the recent emphasis on the importance of the agricultural sector, particularly for African LDCs, is welcome, data do not bear any evidence of structural breaks in LDCs' agricultural performance. These findings reinforce the view that the growth acceleration preceding the 2008-2009 crisis had extremely fragile foundations, as it relegated to a marginal role precisely that sector which offers the greatest scope for increasing returns and technological catching up (i.e. manufacturing) as well as the one employing the majority of the labour force (i.e. agriculture).

The growth acceleration preceding the 2008-2009 crisis had extremely fragile foundations, as it relegated to a marginal role both the manufacturing and the agricultural sectors.

(c) Increasing vulnerability to external economic shocks through international trade

Because stronger domestic resource mobilization and economic diversification increase the resilience of an economy, the weak development of productive capacities in LDCs during the boom years meant that there was no improvement in their economic resilience during this period. Indeed, their vulnerability to external economic shocks actually increased because of the changing form of their integration into the world economy.

Most LDCs undertook rapid and comprehensive trade liberalization in the 1990s, resulting in a steady increase in the share of trade in their economies.

The share of exports and imports of goods and services in their GDP increased from 52 per cent in 2000–2002 to 62 per cent in 2006–2007 (UNCTAD Handbook of Statistics). But this greater trade openness and the deeper integration into the global economy have been associated with increased commodity dependence and export concentration.

Greater trade openness and deeper integration into the global economy have been associated with increased commodity dependence and export concentration.

The increase in the volume of oil exports from some LDCs, and the generalized rise in commodity prices have been the driving forces behind LDCs increased commodity dependence. According to the World Trade Organization (WTO, 2010), fuels and minerals accounted for 43 per cent of LDCs' total exports in 2000, and their share increased to 67 per cent in 2007. Half of this increase can be attributed to a price effect, and the rest to the increase in volume. On the other hand, LDCs' exports of processed manufactures (iron, steel, chemicals, pharmaceuticals and other semi-manufactures) fell from 8 per cent of total exports in 2000 to only 4 per cent in 2007.

Dependence on a few export products — particularly primary commodities — which is a long-standing feature of LDCs' export structure, increased during the economic boom. Measured by the Herfindahl-Hirschmann index, the export concentration of LDCs is much higher than that of other developing countries, not to mention developed countries (chart 8). In addition, LDCs have substantially increased their export concentration according to this index, from 0.23 in 1995 to 0.33 in 2000 and 0.54 in 2008. The overall increase in export concentration has been essentially due to trends in African LDCs, while the Asian ones, although still focused on a few export products, have managed to reduce their export concentration (UNCTAD, 2010b). Of all LDCs, oil exporters exhibit the highest export concentration, followed by agricultural, mineral and services exporters, and then by exporters of manufactures and finally by mixed exporters (which have a more diversified productive structure). Data show that, on average, three main export products of LDCs account for three quarters of total exports, while in eight countries, this proportion is higher than 95 per cent.

According to the World Trade Organization, fuels and minerals accounted for 43 per cent of LDCs' total exports in 2000, and their share increased to 67 per cent in 2007.

A final aspect of the vulnerability of the LDCs is their increasing dependence on food imports. Given that domestic supply responses have been rather weak, the expansion of LDC economies has been accompanied by a simultaneous increase in the food import bill, which went up from over $9 billion in 2002 to $24 billion in 2008. This trend is important to consider because one of the key mechanisms through which successful countries have achieved development is through strong rural-urban linkages. As a result of such linkages, growing demand for local food and agricultural raw material supplies, partly associated with urbanization, stimulates agricultural growth, which in turn creates a powerful demand stimulus for local industries and services. Urbanization certainly accelerated in the LDCs during the boom period, but the rising food imports have seriously undermined the potential for a strong demand-stimulated rural-urban growth nexus.

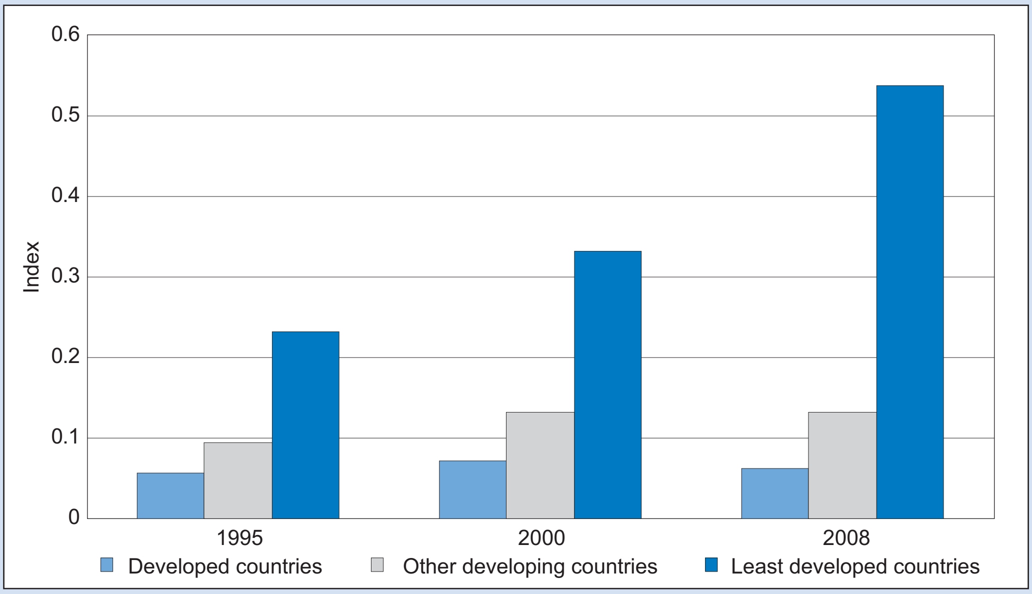
LDCs' food import bill went up from over $9 billion in 2002 to $24 billion in 2008.

3. The scale and pattern of the bust

The previous analysis has shown that the thriving of LDCs during the 2002–2007 period was by and large underpinned by exceptionally favourable external conditions, but also that the underlying shifts in their form of integration into the global economy increased their exposure to external shocks. In particular, their pattern of economic growth was associated with: (i) a greater reliance on external finance in the process of capital formation,

Chart 8

Concentration indices of exports of country groups, 2009



Source: UNCTAD secretariat calculations, based on UNCTAD's *GlobStat* database.

(ii) a higher degree of dependence on commodity exports, and food and fuel imports, and (iii) increasing openness, coupled with a lack of diversification.

Against this background, it is not surprising that the LDCs were severely affected by the financial crisis and global recession. Although estimates of GDP growth for 2009 and 2010 should be treated with caution, they indicate that the LDCs have experienced a drastic slowdown of growth, but have so far weathered the storm better than both developing and developed countries. According to IMF latest available estimates, prior to the crisis the LDC group started from a higher growth rate compared with emerging and developing economies, and maintained a somewhat faster pace throughout 2009. Average GDP growth in LDCs reached 4.3 per cent in 2009, compared with 2.3 per cent in emerging and developing economies, and -3.2 in developed economies. The expected recovery in 2010 is however likely to be weaker in LDCs than in emerging and developing economies: the former are forecast to grow at a rate of 5.4 per cent, compared with 6.3 per cent for the latter (chart 9).[5]

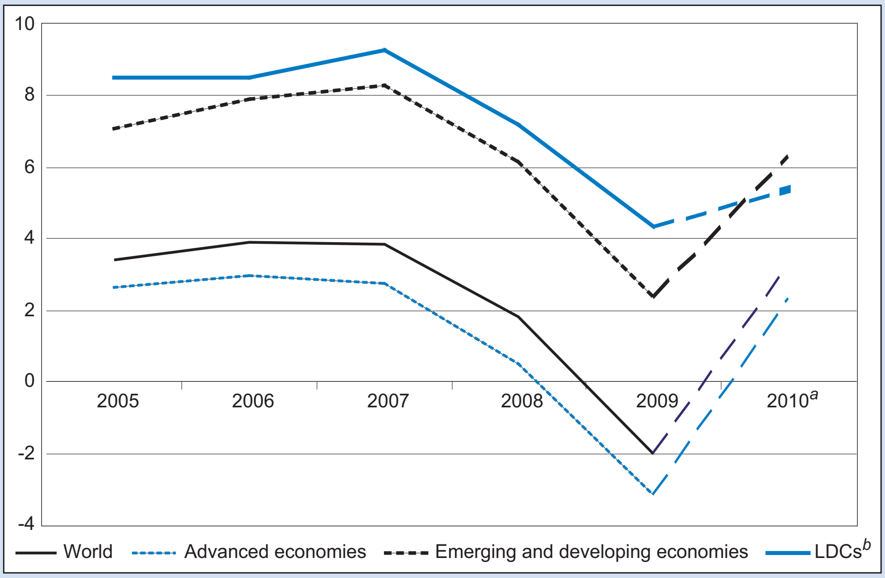
In 2009 the LDCs suffered a drastic growth slowdown, and GDP per capita declined in 19 of them.

Within this overall pattern there is considerable variation. An overwhelming majority of LDCs (32 out of the 47 for which data were available) experienced a growth slowdown in 2009 compared to the boom period, and GDP per capita declined in 19 of them (table 4). This slowdown was quite severe in a third of LDCs, including most countries that had grown rapidly during the boom period, namely the oil and mineral exporters, as well as some Asian and Island LDCs. In 16 other LDCs, some deceleration in the growth rates of real GDP also occurred, but to a lesser extent. Finally in 15 LDCs, growth rates for 2009 exceeded those of the 2002–2007 period. Interestingly, many of these countries, such as Guinea-Bissau, Eritrea, Haiti, the Central African Republic and Liberia, were growing at a slow pace before the crisis, at an annual rate of less than 1.5 per cent, even during the boom period. Ten out of the 15 LDCs which managed to continue to grow during 2009 are classified by the World Bank as "fragile States". [6]

Recovery in 2010 is likely to be weaker than in other developing countries.

Chart 9

LDCs' output growth, 2005–2010
(Annual percentage change)



Source: UNCTAD secretariat calculations, based on IMF, *World Economic Outlook* (April 2010).
a Forecast.
b For the LDC group output growth is calculated as the weighted average of each country's real growth.

Table 4

Impact of the crisis on country growth

	Countries with slowdown in real GDP >3%	Countries with slowdown in real GDP between 0% and 3%	Countries with no slowdown in real GDP
Countries with positive growth in real GDP per capita in 2009	Equatorial Guinea (5.3; -12.0)	Bangladesh (5.4; -0.6)	Afghanistan (22.5; +10.1)
	Myanmar (4.8; -8.2)	Bhutan (6.3; -2.9)	Burundi (3.5; +0.5)
	Rwanda (4.1; -3.4)	Burkina Faso (3.2; -2.5)	Djibouti (5.0; +1.3)
	Sierra Leone (4.0; -6.9)	Gambia (4.6; -0.2)	Eritrea (3.6; +2.8)
	Sudan (4.5; -3.1)	Mali (4.5; -0.4)	Ethiopia (9.9; +2.7)
		Mozambique (6.3; -1.5)	Guinea-Bissau (3.0; +1.5)
		Sao Tome and Principe (4.0; -2.9)	Haiti (2.9; +2.2)
		Uganda (7.0; -0.9)	Lao People's Dem. Rep. (7.6; +0.4)
		United Rep. of Tanzania (5.5; -1.7)	Malawi (8.0; +2.8)
		Vanuatu (3.3; -0.5)	Nepal (4.7; +1.5)
		Yemen (3.9; -0.1)	Timor-Leste (7.4; +4.8)
			Zambia (6.3; +1.0)
Countries with negative growth in real GDP per capita in 2009	Angola (-0.4; -15.2)	Benin (2.7; -1.1)	Central African Rep. (1.7; +1.2)
	Cambodia (-2.5; -12.4)	Comoros (1.1; -0.9)	Liberia (4.6; +5.0)
	Chad (-1.6; -12.4)	Guinea (-0.3; -2.8)	Togo (2.5; +0.1)
	Dem. Rep. of Congo (2.8; -3.1)	Lesotho (1.4; -1.5)	
	Kiribati (-0.7; -3.5)	Senegal (1.5; -2.8)	
	Madagascar (-5.0; -8.1)		
	Maldives (-3.0; -10.6)		
	Mauritania (-1.1; -6.0)		
	Niger (-0.9; -5.7)		
	Samoa (-4.9; -9.2)		
	Solomon Islands (-2.2; -7.5)		

Source: Based on IMF, *World Economic Outlook* (April 2010).
Note: Numbers in brackets indicate the rate of real GDP growth in 2009, and the difference in percentage points between real GDP growth in 2009 and in the 2002-2007 boom period. Notice that IMF growth estimates differ slightly from those drawn from UNCTAD's *GlobStat*, reported in Table 2.

C. How the financial crisis and global recession affected LDCs

The strong but heterogeneous growth slowdown experienced by LDCs in the wake of the global financial and economic crisis is the result of various countervailing forces. On the one hand, LDCs were adversely affected through direct financial contagion effects, but also, and more seriously, through the collapse of international trade, the sharp decline in FDI inflows and with few exceptions also of workers' remittances. On the other hand, the increased assistance from multilateral donors — particularly in the wake of the food and fuel crisis - enabled several LDCs to partly offset the negative impact of falling exports and private capital inflows. The net effect of these two countervailing forces was that the growth slowdown for the LDC group was slightly less severe than for other developing countries as a group, but it also implies a weaker recovery in 2010, as forecast by the United Nations Department of Economic and Social Affairs (UNDESA, 2010a). In addition, the medium-term outlook for LDCs is fraught with challenges as the fallout from the financial crisis and the global recession could adversely affect future ODA flows and debt sustainability.

The direct financial contagion from the global crisis was acute, but had a more limited impact on LDCs than on other developing countries.

1. Negative spillover effects

(a) Direct financial contagion

Although the LDCs economies are quite open to international trade, their integration into the global financial market is rather weak. As a result, the direct financial contagion from the global crisis was acute, but had a more limited impact on them than on other developing countries. As a result of the slowdown in economic activity, there have been some severe deteriorations in the quality of loan portfolios (IMF, 2009b). In Zambia, for example, the proportion of non-performing loans in total assets increased from 7 per cent to 13 per cent over the first three quarters of 2009; similar trends have also been reported in Sudan and to a lesser extent in Cambodia (ODI, 2010).

In general, the financial systems in LDCs are both underdeveloped and risk-averse. Thus, even before the global financial crisis most private enterprises faced a permanent credit crunch. For instance, between 2006 and 2008, credit extended to the private sector amounted to only 15 per cent of GDP in the median LDC, and it was higher than 30 per cent only in Bangladesh, Maldives, Nepal, Samoa and Vanuatu. Evidence suggests that bank credit to the private sector had started to grow slowly before the crisis, but this positive development came to a halt in 2009 owing to supply constraints and lower demand for credit. Indeed, the IMF (2009b) documents a tightening of credit conditions in all 12 LDCs for which data were available, particularly in Cambodia and Liberia. A major reason for this outcome is that the banking systems of LDCs are generally dominated by foreign-owned banks, many of which withdrew their funds in the wake of the turmoil in order to restructure their balance sheets or simply acquire safer assets (UNCTAD, 2010a).

Bank credit to the private sector had started to grow slowly before the crisis, but this positive development came to a halt in 2009.

The few portfolio investment flows to LDCs plummeted between the last quarter of 2008 and the beginning of 2009, especially in countries where there is significant participation of foreign institutional investors. For example, the All Share Index of the Uganda Stock Exchange fell by 29.4 per cent from

September 2008 to February 2009, before bottoming out and starting a slow recovery in subsequent months. A similar collapse, followed by a relatively faster recovery, was also observed in Zambia. Although these swings have been quite severe, they have had relatively circumscribed effects on the rest of the economy due to the limited size of stock markets in LDCs.[7] But the generalized tightening of financing conditions had far-reaching consequences for LDCs' macroeconomic policies. For instance, international bond issues had to be postponed in Uganda, the United Republic of Tanzania and Zambia in early 2009, thereby constraining the scope for countercyclical spending. Interest rate spreads declined only later in the year, and this allowed Senegal to issue its first international bond in December 2009.

The major channel through which the global financial and economic crisis has affected LDCs is through falling export revenues.

(b) Lower export revenues

The major channel through which the global financial and economic crisis has affected LDCs is through falling export revenues. In 2009, world trade declined by 14 per cent in volume terms (World Bank 2010a), and the LDCs were necessarily affected by this reversal of the previous growth trend. LDC export revenues were adversely affected by both falling external demand and also falling export prices. The latter effect was particularly important because of the high degree of dependence of these countries on a narrow range of commodity exports. The economic boom in the LDCs in the early 2000s was largely driven by a commodity boom that the World Bank (2009: 3) described as "the most marked of the past century in terms of the magnitude, duration and the number of commodity groups whose prices have increased". The commodity boom, however, was followed by the most serious bust of the last four decades, though its overall negative impact (between the peak in early-2008 and the trough at the end of the year) was muted by the recovery of prices in 2009 (table 5).

According to preliminary estimates by the WTO, between 2008 and 2009, LDCs' merchandise exports fell by 26 per cent, from \$176 billion to \$126 billion.

According to preliminary estimates by the WTO, between 2008 and 2009, LDCs' merchandise exports fell by 26 per cent, from \$176 billion to \$126 billion (WTO, online database). However, the degree of the fall varied by country, and 13 LDCs (Burkina Faso, Burundi, Comoros, Djibouti, the Gambia, Haiti, Malawi, Mali, Niger, Sao Tome and Principe, Tuvalu, Uganda and Vanuatu) recorded positive growth in merchandise exports in 2009. The International Trade Centre of UNCTAD/WTO (ITC, 2009; 2010a and 2010b)

Table 5

Peak and trough world commodity price indices 2008-2009

(price index 2000=100)

	Peak 2008		Trough 2008/2009		Dec. 2009	% change Trough value over Peak value	% change Dec 2009 over trough value
	Index value	Date	Index value	Date			
Price Index - All groups (in current dollars)	298.6	April 2008	186.0	Dec. 2008	245.2	-37.7	31.8
All food	278.5	April 2008	185.0	Dec. 2008	235.2	-33.6	27.1
Food and tropical beverages	270.2	April 2008	186.3	Dec. 2008	235.1	-31.1	26.2
Food	280.6	April 2008	190.1	Dec. 2008	238.4	-32.3	25.4
Tropical beverages	206.7	July 2008	152.4	Nov. 2008	206.7	-26.3	35.6
of which: Coffee	193.7	Aug. 2008	160.4	Dec. 2008	194.5	-17.2	21.3
Vegetables oilseeds and oils	370.5	June 2008	174.1	Dec.2008	235.7	-53.0	35.4
Agricultural raw materials	223.5	July 2008	139.0	Mar. 2009	203.5	-37.8	46.4
of which: Cotton	135.4	mar. 2008	86.9	Mar. 2009	128.3	-35.8	47.6
Minerals ores and metals	391.6	April 2008	175.9	Feb. 2009	289.3	-55.1	64.5
of which: Copper	479.0	April 2008	169.4	Dec. 2008	385.0	-64.6	127.3
Crude petroleum	469.5	July 2008	147.1	Dec. 2008	265.4	-68.7	80.4

Source: UNCTAD Secretariat calculations, based on UNCTAD's *GlobStat* database.

reports similar findings, on the basis of mirror data from LDCs' major trade partners. According to ITC (2010), LDC exports to major partners plummeted by 34 per cent in 2009, representing a greater slump than world and developing-country exports, which fell by 24 and 25 per cent, respectively, on a year-on-year basis.[8] These figures are however dominated by the sharp swings in oil prices; if oil is excluded, LDC exports to major partners fell by 9 per cent below their 2008 levels. ITC (2010) data also underscore the variations in the scale of export declines among different LDCs: whereas non-oil exports to major partner countries fell by more than a quarter in 14 LDCs, they actually rose in 17 others (chart 10).[9]

The structural composition of exports has been a major determinant of differences in the impact of the crisis on LDC exports.

Since price and demand shocks have varied largely by product, the structural composition of exports has been a major determinant of differences in the impact of the crisis on LDC exports (Meyn and Kennan, 2009, Cali' and Kennan, 2009; World Bank, 2009 and ITC, 2010). In particular:

- Exporters of oil and minerals (excluding gold) were the worst hit due to the combined effect of large adverse price movements, as well as declining demand;
- Exporters of manufactures also faced deteriorating world demand, but in general did not experience a large fall in prices;
- Conversely, food and agricultural exporters witnessed a slump in prices (albeit less severe than for other commodities), but weathered the storm relatively well owing to the inelastic demand they face;
- Finally, exporters of gold and other precious metals benefited modestly from the growing appetite for safe assets, which boosted prices throughout 2009.

LDCs whose exports were directed to developed and transition economies were more adversely affected than those engaged in South-South trade.

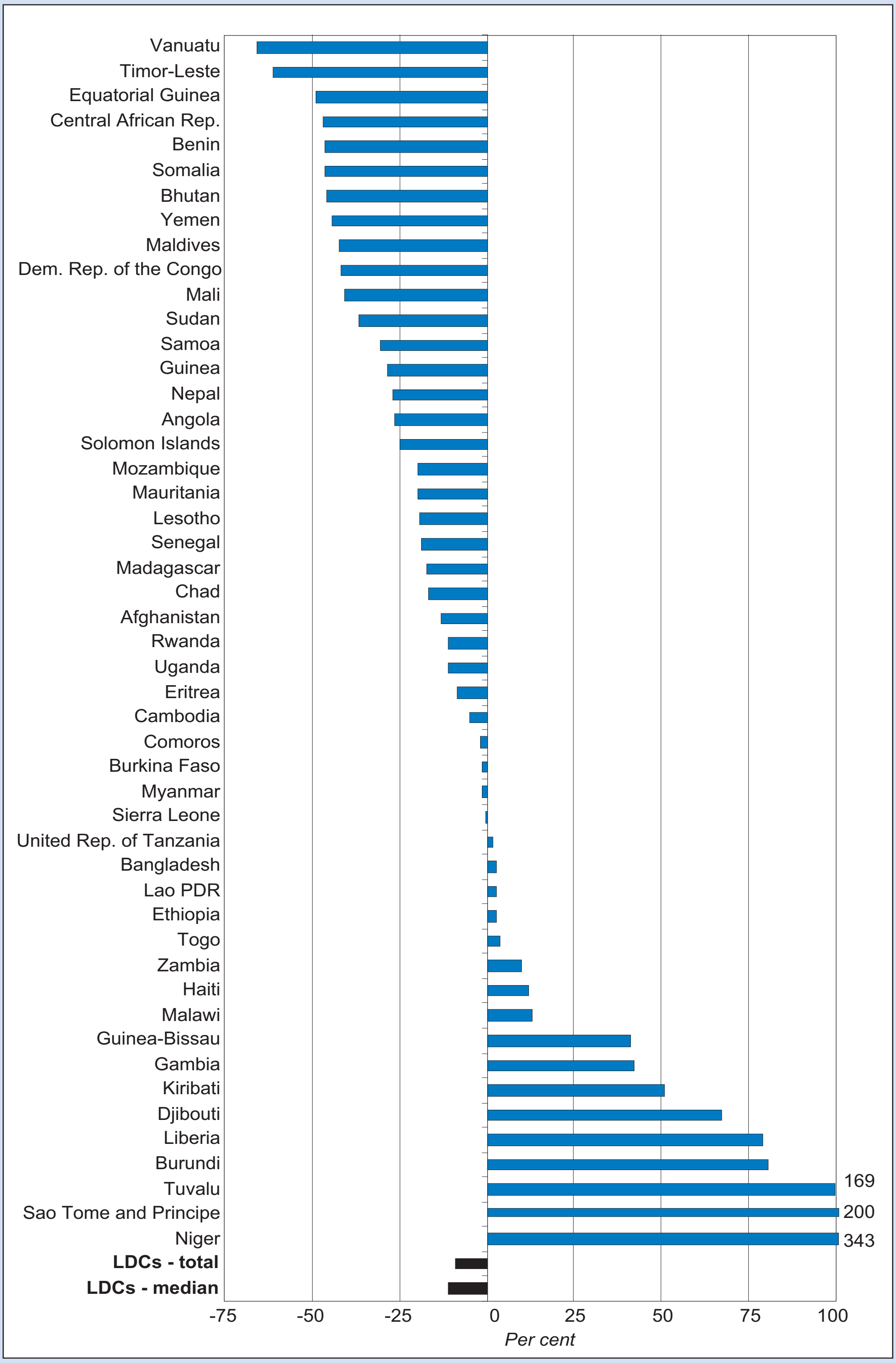
The direction of trade has also been an important determinant of the extent of the trade shock. LDCs whose exports were predominantly directed to developed and transition economies typically were more adversely affected than those more deeply engaged in South-South trade. For example, the crisis had less of an effect on Uganda because it depends more on regional trade.[10] Country case studies also indicate the importance of market positioning, at least for manufactures, in explaining the size of the trade shock. In this respect, the comparison between United States garment imports from Bangladesh and Cambodia is quite insightful: Bangladeshi garment exports to the United States – which are concentrated in low-end products — benefited from the so-called "Wal-Mart effect" and expanded even during the trough of the crisis; conversely, Cambodian exports, which aim at higher value niche markets, plunged over the same period, as those markets contracted disproportionately more (Chhibber, Ghosh and Palanivel, 2009; ODI, 2009).

Tourism and maritime transport — two of the drivers of LDCs services exports — stand out among the sectors most visibly affected by the downturn.

Although there are fewer data available on services trade than on merchandise trade, it is clear that this is also a sector that has been adversely affected, particularly island LDCs. Tourism and maritime transport — two of the key drivers of LDCs services exports — stand out among the sectors most visibly affected by the downturn. According to World Bank estimates, for instance, over the first quarter of 2009 tourist arrivals in the Gambia declined by almost one third, in Senegal by 6 per cent and in the United Republic of Tanzania by more than 10 per cent compared with the same quarter of 2008. A comparable fall is reported by the Overseas Development Institute (ODI, 2009) for Cambodia. Similarly, the Rwanda Development Board has reported that revenues from the tourism sector fell by 6 per cent in 2009.

Chart 10

Percentage change in LDCs non-oil merchandise exports to main trade partners, 2008–2009



Source: UNCTAD secretariat calculations, based on ITC, 2010.

(c) Falling FDI inflows

FDI inflows into developing countries suffered a serious slump in 2009, declining by 24 per cent after six years of uninterrupted growth (UNCTAD, 2010c). Available data indicate that although LDCs receive a negligible share of total world FDI inflows, these inflows fell less steeply, by 13 per cent: from their peak of $32 billion in 2008 to less than $28 billion in 2009. As with the trade shock, the decline in inflows varied considerably among LDCs: the most severely affected were Asian LDCs, where inflows contracted by half, African LDCs experienced a much smaller shortfall of around 8 per cent, and island LDCs even witnessed an increase compared with the previous year.

Oil and mineral exporters were particularly affected by the decline in FDI inflows, as plummeting commodity prices led to a temporary freeze or downsizing of investment projects. For instance, in 2009 FDI inflows declined by more than 35 per cent compared with 2008 in the Central African Republic, the Democratic Republic of the Congo, Guinea, Timor-Leste, Mali, Mauritania, Sierra Leone and Yemen. Even in Angola, which receives approximately half of the FDI directed to LDCs, inflows fell by 21 per cent. The crisis also led to a sharp fall in FDI inflows to several exporters of manufactures, such as Bangladesh, Cambodia (box 2) and Lesotho, and to some mixed exporters such as Madagascar, the Lao People's Democratic Republic and Senegal, as well as on some services exporters such as Djibouti and Eritrea (table 6).

FDI flows into LDCs fell from their peak of $32 billion in 2008 to less than $28 billion in 2009.

Notable exceptions to the declining pattern of inflows are Chad, Equatorial Guinea, Mozambique, Niger and the Sudan. As argued later in this Report, this is because of the growing involvement of China and other developing countries in natural resource exploitation in these LDCs. Besides these few resource-rich countries, some small FDI recipients such as Guinea-Bissau, Sao Tome and Principe, Solomon Island, Togo and Tuvalu also recorded larger inflows in 2009, despite the global recession.

Table 6

Rates of change of FDI inflows to LDCs between 2008 and 2009

	Countries with increasing FDI	Change *(Per cent)*	Countries with declining FDI	Change *(Per cent)*
Countries with FDI inflows of < 4% of GDP in 2008	Bhutan	22	Afghanistan	-38
	Burkina Faso	25	Bangladesh	-34
	Comoros	21	Benin	-47
	Eritrea	115	Burundi	-27
	Guinea-Bissau	134	Ethiopia	-14
	Haiti	27	Malawi	-64
	Kiribati	13	Maldives	-20
	Myanmar	14	Mali	-39
	Nepal	3 716	Mauritania	-111
	Niger	31	Samoa	-90
	Rwanda	15	Sierra Leone	-37
	Sudan	17	Timor-Leste	-52
	Togo	110	Yemen	-92
Countries with FDI inflows of > 4% of GDP in 2008	Chad	98	Angola	-21
	Equatorial Guinea	306	Cambodia	-35
	Liberia	89	Central African Republic	-64
	Mozambique	49	Dem. Rep. of the Congo	-45
	Sao Tome and Principe	10	Djibouti	-57
	Solomon Islands	129	Gambia	-32
	Uganda	1	Guinea	-63
	Zambia	2	Lao People's Dem. Republic	-31
			Lesotho	-14
			Madagascar	-54
			Senegal	-24
			United Republic of Tanzania	-5
			Vanuatu	-17

Source: UNCTAD secretariat calculations based on UNCTAD, 2010b.

(d) Declining workers' remittances

Remittance inflows to LDCs grew significantly during the boom years, but the growth rate is estimated to have fallen to 8 per cent between 2008 and 2009.

Worker's remittances, which have recently become an important and stable source of external financing for a number of LDCs, with significant economic implications for both small and medium-sized enterprises (SMEs) and poor households (IFAD, 2009; Karshenas, 2009; Anyanwu and Erhijakpor, 2010), were also affected by the crisis. The World Bank (2010b) estimates suggest that, whereas remittance inflows to developing countries declined by 6 per cent in 2009, LDCs only experienced a slowdown in their growth. As indicated earlier, remittance inflows to LDCs grew significantly during the boom years, but the growth rate is estimated to have fallen to 8 per cent between 2008 and 2009.

However, the aggregate picture masks a more nuanced reality: only 8 LDCs, including 2 of the largest recipients (Bangladesh and Nepal), saw an increase in remittance inflows during 2009, whereas such inflows declined in all the other LDCs. If these two countries are excluded, remittances to LDCs fell by more than 2 per cent in 2009. Taking into account both the annual percentage change and the dependence of individual countries on remittances, chart 11 shows LDCs exposure to decline in such inflows during 2009. Considering these two dimensions, Haiti and Samoa seem to have been the worst hit by the fallout from the crisis, while, the Gambia, Kiribati, Liberia, Sierra Leone and Uganda appear to have been less dramatically affected.[11]

2. Policy responses

(a) National policies

One of the key channels of transmission of the crisis to LDC economies was the loss of public revenues.

One of the key mechanisms through which the global financial crisis could have major negative consequences for the LDCs is through reduced government spending following the recession-induced loss of public revenues. The fall in revenues resulted from lower import tariffs and ad valorem taxes on commodity exports, and lower indirect tax proceeds owing to the slowdown of growth. Country case studies show that the contraction has been particularly severe in countries where a substantial proportion of government revenues are derived from the oil and mineral sectors (ODI, 2009 and 2010). IMF data for 29 LDCs in sub-Saharan Africa broadly confirm this picture, but also reveal a very mixed picture in the region (IMF, 2010). In 2009, the ratio of government revenues (excluding grants) to GDP declined in 14 countries compared to the previous year, but it actually increased in 14 other, mostly small, economies (box 3)

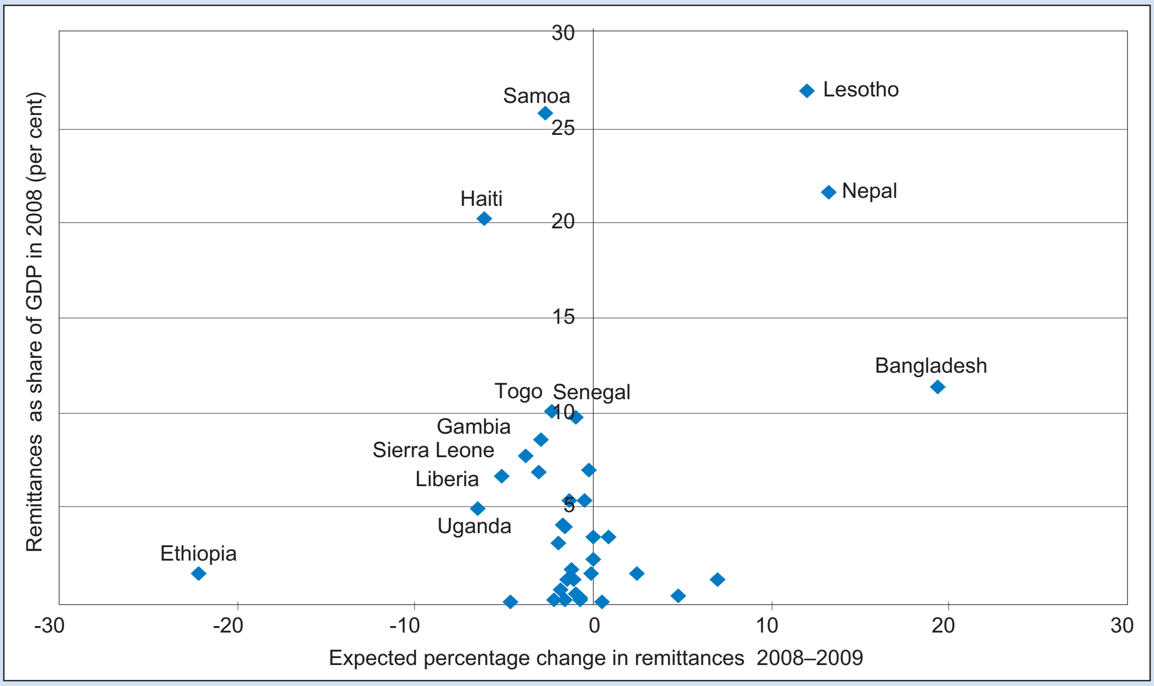
With limited fiscal space, only some LDCs have implemented discretionary countercyclical interventions, and even when adopted, they have been relatively small.

Although full evidence is not yet available, it appears that many LDC Governments managed to sustain public spending in 2009, a number of them with substantial support from multilateral donors (see below). But with limited fiscal space, only some LDCs have implemented discretionary countercyclical interventions, and even when adopted, they have been relatively small. Generally speaking, Asian LDCs have tended to be more proactive than other LDCs, taking advantage of the larger financial resources at their disposal, and preferring spending over tax measures. Bangladesh, for instance, enacted three distinct stimulus packages in the wake of the crisis, devoting resources mainly to the agricultural sector, to the extension of safety-net programmes and to the support of SMEs and the apparel industry (ODI, 2010). Similarly, Cambodia allowed its target budget deficit for 2009 to increase to over 4 per cent of GDP, combining both spending measures — including for social protection — and tax breaks for the garment industry and the agricultural sector.

Chart 11

Change in remittances to LDCs, 2008–2009

(Per cent)



Source: UNCTAD secretariat calculations, based on World Bank, 2010b.

In African LDCs, discretionary fiscal responses to the global economic crisis have been rather modest, with typically small ad hoc stimulus packages where adopted, (African Development Bank and World Bank, 2009). In 2009, the ratio of government expenditure to GDP increased by approximately 2 percentage points in the median LDC in sub-Saharan Africa (IMF, 2010b). However, the expenditure-to-GDP ratio declined in a third of the LDCs in this subregion, suggesting that their fiscal policy has been procyclical (box 3).

The United Republic of Tanzania approved a stimulus package worth $1.3 billion, primarily directed to farming and the manufacturing sector, and simultaneously reduced the value added tax (VAT) rate. It also provided limited and time-bound support to banking institutions whose loan portfolios had deteriorated (ODI, 2010). Other African countries, such as Angola, Lesotho, Mozambique and Sierra Leone, expanded their public works programmes on an ad hoc basis, mainly to improve infrastructure and sustain aggregate demand through cash-for-work or food-for-work initiatives largely funded by multilateral donors (UNFPA, 2010). At the other end of the spectrum, countries like Ethiopia and several island LDCs maintained a fairly conservative macroeconomic policy in spite of the global recession, refraining from discretionary fiscal measures and in some cases even cutting public services (ODI, 2010; Green, King and Miller-Dawkins, 2010).

In terms of monetary policy, several LDCs adopted moderately accommodating policies to foster a faster recovery.

In terms of monetary policy, several LDCs where inflation had declined in the wake of the global downturn adopted moderately accommodating monetary policies to foster a faster recovery.[12] While monetary expansion, where adopted, has certainly been helpful (UNECA, 2010; IMF, 2010b), it may be argued that it can have only a limited effect in LDCs, given their relatively low degree of financial development (hence the little effect of credit easing on investment) and the small size of their secondary bond markets. In

Box 2. A tale of two slowdowns: Cambodia and Mozambique

A close comparison of country case studies offers a wealth of information to assess the impact of the crisis on LDCs, and disentangle the channels through which external shocks were transmitted to the domestic economies. In this respect, Cambodia and Mozambique provide two representative examples of the differences and commonalities between an Asian exporter of manufactures, and an African exporter of minerals.

Cambodia

Cambodia experienced one of the most severe slowdowns among LDCs as a result of the global crisis. Its real GDP growth rate plunged from 10 per cent per annum in the period 2002–2007 to -2.5 per cent in 2009. Its domestic financial sector remained largely unaffected by the turmoil, but the impact from the global recession was particularly strong. Largely as a consequence of a fall in international demand, garment exports plummeted by almost 20 per cent in the first nine months of 2009, compared with the same period of 2008 (ODI, 2010). According to Chhibber, Ghosh and Palanivel (2009), this slump caused the net closure of at least 50 factories and the temporary closure of many more, resulting in the laying off of more than 62,000 full-time workers (18 per cent of the total workforce in the garment sector).

After a decade of double-digit growth, tourism has also recorded a sharp slowdown since the fourth quarter of 2008, owing to problems in the country's key tourist markets: Japan and the Republic of Korea, bore the brunt of the crisis and Thailand experienced political tensions. Beyond direct effects on the tourism industry, the slowdown of arrivals and receipts has had far-reaching secondary effects on industries that provide tourism-related services, such as massage shops, beauty parlours, souvenir shops, local transport providers, mobile food stalls and laundries.

The severe impact of the crisis on Cambodia's traditional growth sectors contributed to the sharp decline in FDI, which fell by 35 per cent in 2009 (UNCTAD, 2010c). In turn, the retreat of foreign investors, coupled with the general tightening of credit and the bursting of the domestic real estate bubble, caused a contraction of the construction sector. It is estimated that 30 per cent of construction jobs disappeared between January and November 2009 (Chhibber, Ghosh and Palanivel, 2009).

While there is evidence of some reduction of imports, the resilience of workers' remittances and official flows moderated the deteriorating balance-of-payments situation resulting from the crisis. Nevertheless, the contraction of key labour-intensive sectors has resulted in massive layoffs, which exacerbate the social costs of the crisis in spite of the expansionary fiscal and monetary policies adopted by the Cambodian Government (*ibidem*).

Mozambique

Unlike Cambodia, Mozambique suffered smaller growth deceleration compared with the boom years, and its economy continued to grow in real terms throughout 2008 and 2009. As in Cambodia, the fall in export revenues was the key channel through which the global recession affected the domestic economy, but with one important difference. Consistent with Mozambique's specialization in mineral commodities, the bulk of the export decline was attributable less to the fall in demand for its exports, and more to the adverse terms of trade caused by the plunge in aluminium prices since the end of 2008. In 2009, the exports-to-GDP ratio fell by approximately 10 percentage points, worsening the current account in spite of the growing remittance inflows and the modest fall in imports. With an expected 10 per cent decline in FDI inflows (Van Waeyenberge, Bargawi and McKinley, 2010) and the announced reduction of budget support, the response of multilateral donors has been crucial in helping Mozambique weather the storm. The IMF provided $176 million through its External Shock Facility (ODI, 2010), plus an allocation of 108 millions SDR to boost the country's foreign exchange reserves.

Meanwhile, the Government of Mozambique relaxed its fiscal stance, and the deceleration in imported inflation opened up space for depreciating the currency without strong pressures on domestic prices, thereby favouring a gradual adjustment of the balance of payments. Moreover, at the domestic level, the substantial increase in agricultural output due to a good harvest season enabled that sector to sustain the economy, while manufacturing output contracted only marginally, by 0.1 per cent (ODI, 2010).

Although policy responses in Mozambique have been crucial in cushioning the downturn so that there have not been major adverse effects on growth or excessive balance-of-payments difficulties, it should be pointed out that they have increased the country's external debt. According to the IMF (2010a), Mozambique's external debt owed to official creditors increased from 21.4 per cent of GDP in 2008 to 27.8 per cent in 2009, and it is expected to rise further to 39.9 per cent in 2011.

2009 several LDCs with floating (or managed-floating) exchange rate regimes allowed their nominal exchange rates to depreciate (experienced substantial depreciations) against major currencies in order to facilitate an adjustment of their current accounts and sustain the tradable sector. This was notably the case in a few large commodity exporters such as the Democratic Republic of the Congo and Zambia, and to a lesser extent in countries such as Ethiopia, Mozambique, the Sudan and Uganda. On the other hand, other LDCs that could utilize their stock of reserves accumulated before the crisis, such as

Box 3. Fiscal policy responses in Sub-Saharan African LDCs

The analysis of fiscal policies in sub-Saharan African LDCs shows a certain degree of proactive macroeconomic management in the wake of the global crisis, but in general a rather timid use of fiscal instruments. In some countries, this may be due to an explicit policy choice, and in others to erroneous growth forecasts (IMF, 2010a), but it also reveals the narrow policy space available to these countries due to both domestic factors and external conditions.

According to the IMF (2010a), in 2009 government revenues as a share of GDP fell in about half of the 29 countries for which data were available. Compared to 2008, oil and mineral exporters suffered the largest shortfalls, whereas countries like Burundi, the Gambia, and Lesotho managed to improve their revenue-to-GDP ratios, notwithstanding the international situation. Generally, in sub-Saharan African LDCs public expenditure increased by about 2 per cent of GDP compared with 2008. However, there are wide variations across countries: government expenditure as a proportion of GDP fell in 9 countries, while in Burundi it increased, but at a much slower rate than revenues. This implies that in one third of the countries in the sample, fiscal policy was contractionary, notwithstanding the global recession.

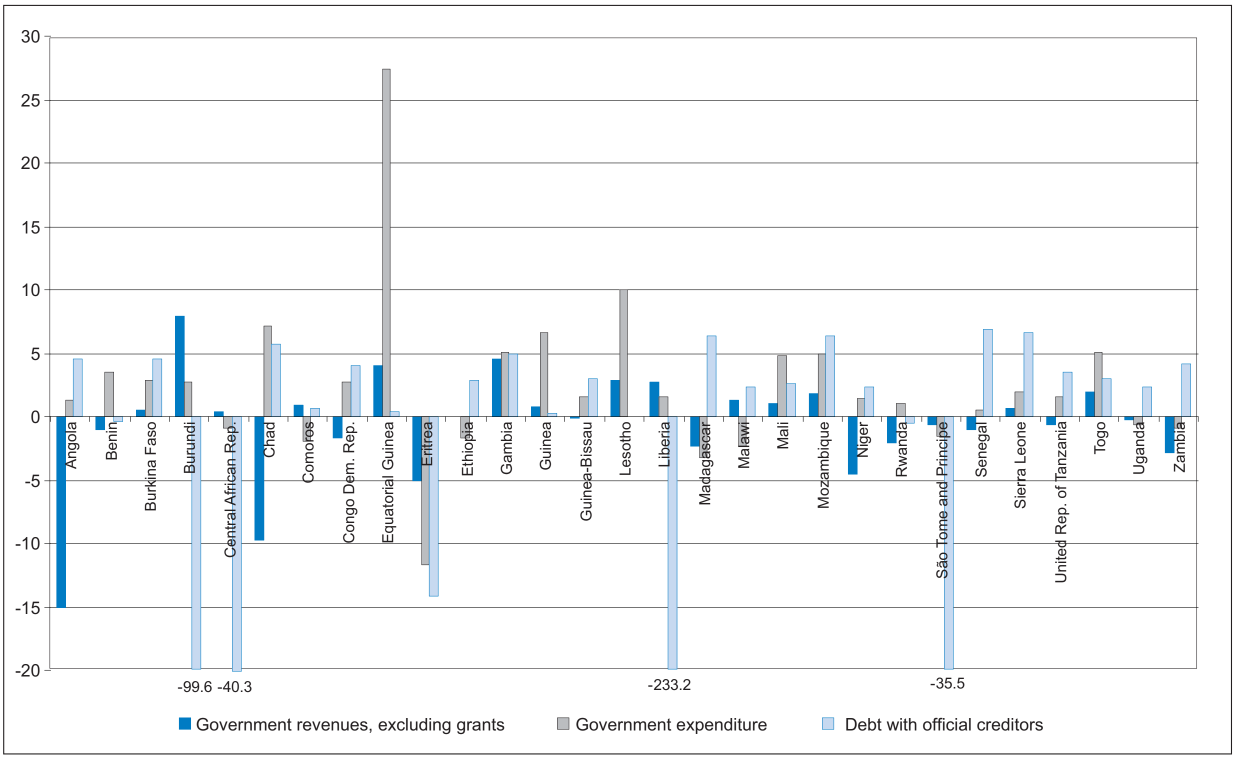
Besides, although LDCs' fiscal responses adopted in 2009 seem quite modest, in most of them, debt exposure to official creditors, relative to GDP, rose. In the median LDC in the sample, the external debt owed to official creditors increased by approximately 3 percentage points of GDP. The most notable exceptions to this pattern were countries which benefited from large debt relief operations in 2009, either because they reached the HIPC completion (e.g. Burundi and the Central African Republic), or because of bilateral debt write-off (e.g. Sao Tome and Principe), or following debt buy-back operations (e.g. Liberia). A large number of countries are likely to see their debt exposure rise further in 2010. Interestingly, even some countries that adopted contractionary fiscal policies, such as Comoros, Ethiopia, Madagascar, Malawi and Uganda, incurred larger debts.

Similarly, between 2008 and 2009 debt owed to official creditors increased faster than public expenditure in half of the countries considered in the sample. While this outcome need not necessarily follow from external conditionalities, the above findings appear to corroborate the argument, based on the survey of lending agreements concluded with the IMF during the global recession, that there has been very little fundamental change in IMF practices (Weisbrot et al., 2009; Van Waeyenberge, Bargawi and McKinley, 2010).

Box Chart 2

Changes in fiscal policy variables in selected LDCs, 2008–2009

(Percentage of GDP)



Source: UNCTAD secretariat calculations, based on IMF, 2010b.

Bangladesh, Cambodia and the United Republic of Tanzania, opted for maintaining a fairly stable exchange rate vis-à-vis the dollar (ODI, 2010).

In both 2008 and 2009, the World Bank, IMF and regional development banks increased their lending significantly to the LDCs.

(b) The response of the IMF, World Bank and regional development banks

The ability of LDCs to weather the storm created by the financial crisis and global recession has depended, and continues to depend, significantly on trends in official finance. In this regard, it is worth noting that net ODA disbursements to LDCs had increased rapidly in 2008, partly in response to the food and fuel crisis, reaching a record level of over 37 billions US dollars (excluding debt relief). Estimates of net ODA flows by Development Assistance Committee (DAC) donors to LDCs in 2009 are not yet available. However, what is clear is that in both 2008 and 2009, the World Bank, IMF and regional development banks increased their lending significantly to these countries, even though the overall international response to the global financial crisis was biased largely towards middle-income economies (Te Velde and Massa, 2009 and Ocampo et al., 2010).

IMF financing to LDCs increased from SDR 1,089 million in 2005–2007 to SDR 2,691 million in the period 2008–2010.

With the G-20 boosting its lending capacities, the IMF has undoubtedly led the response of multilateral donors. In sub-Saharan Africa, for instance, the Fund committed over $3.6 billion of concessional financing and $1.4 billion of stand-by and extended arrangements during 2009. This represented a fivefold increase in IMF commitments over 2008, part of which were made through its new Exogenous Shocks Facility. In addition, allocations of special drawing rights (SDRs) in August and September 2009 provided nearly $12 billion of reserve assets to sub-Saharan African countries. It can be estimated that IMF financing to LDCs increased from SDR 1,089 million in 2005–2007 to SDR 2,691 million in the period 2008–2010 (IMF, Monitoring of Fund Arrangements-MONA database).

The World Bank and regional development banks have also set up specific crisis-related facilities and frontloaded expenditures which had previously been planned to cover a longer period. World Bank financing to sub-Saharan Africa started to rise in 2007-2008 in response to the food and fuel crisis, and expanded even further in 2009, with new commitments of $8.2 billion in 2009 (IMF, 2010a: 52).[13]

The impact of the crisis on LDC economies has been significant, particularly for oil and mineral exporters. However, most of the LDCs have so far avoided strong reductions of their imports.

Available data from UNDESA, 2010b as well as national sources suggest that net official flows to the LDCs as a group were significantly higher in 2009 than in 2008. Furthermore, many LDCs experiencing a contraction in private financing flows during 2009, benefited from a simultaneous scale-up of official financing, which had — at least partly — an offsetting effect. As a consequence, in most cases the deterioration in LDCs' external financing position was partly attenuated in 2009. Increased official external financing has also been important in helping to counter the potential negative fiscal effects of the external shock, as it provided the necessary financing to enable the pursuit of a countercyclical policy in some LDCs, although, as will be discussed in chapter 5, policy conditionalities were in several cases pro-cyclical. At the same time such financing has increased the levels of external debt owed to official creditors (Box 3), and could lead to reinstituting a pattern of aid-debt relationships with the multilateral creditors which proved very detrimental to LDCs in the 1990s.

3. Overall impact and risks to the medium-term economic outlook

The overall picture is that the impact of the financial crisis and global recession on LDC economies has been significant, particularly for oil and mineral exporters. However, most of the LDCs have so far avoided strong reductions of their imports, and only some of them witnessed major fiscal contractions. This reflects, firstly, the fact that the crisis was not rooted in LDC economic fundamentals, but rather, the result of exogenous shocks which essentially reversed, at least partially, the exceptional conditions that had underpinned the previous boom. In addition, the deterioration in the external environment in 2009 was attenuated, particularly by the recovery of commodity prices during that year and the increase in official financial flows from the IMF, World Bank and regional development banks. As shown in table 7, the external accounts of oil-importing and food-importing LDCs had also worsened considerably in 2008 with sharp spikes in international prices of fuel and food, and the easing of these prices in 2009 dampened the negative macroeconomic effect of falling export revenues. Both oil- and mineral-exporting LDCs faced severe deteriorations in their current account balances in 2009. But in most other LDCs, the current account deteriorated significantly in 2008 but actually improved in 2009. This is due to lower food and fuel import prices which helped to offset the negative effects of falling export revenue.

The impact of the crisis on capital accumulation in LDCs is still unclear, though a slowdown in investment growth is a serious risk.

The global crisis has come on top of the food and fuel price spikes of 2008; thus its social costs are particularly serious.

Behind the apparent macroeconomic resilience of the LDCs, there is of course a more complex sectoral and social reality. The impact of the crisis on capital accumulation in LDCs is still unclear, though past experience would suggest that a slowdown in investment growth is a serious risk (Shafaeddin, 2009). Some sectors in particular countries have been very hard hit (box 2). On top of that, the growth slowdown has also had important negative social impacts, which have come on top of the effects of the food and fuel price spikes of 2008 and are particularly serious given the prevalence of mass poverty in the LDCs and the vulnerability of their population.

Table 7

Overall shock to LDCs current account

	2005	2006	2007	2008	2009
	Current account balance in $ billions				
Agricultural exporters	-1.846	-1.852	-1.77	-3.027	-2.342
Manufactures exporters	-0.329	0.87	1.01	0.643	2.362
Mineral exporters	-3.968	-1.753	-3.815	-7.126	-6.403
Mixed exporters	-1.145	-0.791	-2.978	-5.703	-3.904
Oil exporters	2.625	6.699	3.039	2.628	-14.75
Service exporters	-1.825	-3.29	-3.461	-5.076	-5.016
Total LDCs	**-6.488**	**-0.117**	**-7.975**	**-17.661**	**-30.053**
	Current account balance as percentage of GDP				
Agricultural exporters	-6.17%	-5.54%	-4.49%	-6.37%	-4.54%
Manufactures exporters	-0.40%	0.98%	0.99%	0.55%	1.85%
Mineral exporters	-10.43%	-3.82%	-7.28%	-11.21%	-10.54%
Mixed exporters	-3.74%	-2.25%	-6.54%	-9.63%	-6.81%
Oil exporters	2.94%	5.73%	2.06%	1.33%	-8.77%
Service exporters	-5.46%	-8.78%	-7.60%	-8.71%	-7.51%
Total LDCs	**-2.14%**	**-0.03%**	**-1.85%**	**-3.25%**	**-5.65%**

Source: UNCTAD Secretariat calculations, based on on IMF, *World Economic Outlook*, April 2010.
Note: For the classification of LDCs according to their export specialisation, see page xv.

The medium-term outlook for LDCs is also cause for major concern, as there are a number of downside risks which could dampen growth prospects. These include:

The medium-term outlook for LDCs is also cause for major concern, as there are a number of downside risks which could dampen growth prospects.

- A weakening or reversal of the global recovery;
- Declining official finance owing to continued recession and spending cuts in donor countries;
- Volatile commodity prices;
- Deterioration of domestic financial systems;
- Increased government indebtedness; and
- Civil unrest associated with the adverse social consequences of the crisis.

A major mechanism through which the financial crisis and global recession may exert long-lasting adverse impacts on LDC economies, is by forcing them to build up unsustainable external debt. The relationship between fiscal and external sustainability is particularly tight in the case of LDCs, since the bulk of external debt is publicly owned or publicly guaranteed. Moreover, since the overwhelming proportion of such debt is denominated in foreign currencies, exchange rate devaluations may well improve the current-account balance, but could prove more onerous for debt servicing.

The crisis has partially reversed the substantial gains made previously in terms of debt sustainability.

Even before the global crisis, many of the poorest countries continued to be prone to high debt vulnerabilities in spite of favourable economic conditions and the HIPC and MDRI debt relief initiatives (IDA and IMF, 2009). With the crisis, the combined effect of the economic slowdown and rising interest rate spreads has partially reversed the substantial gains made in terms of debt sustainability, and this is expected to result in permanently higher debt burdens and debt service ratios (IMF, 2010b). New multilateral lending may have partly cushioned the downturn, but it certainly contributed to the build-up of external debt. While debt owed to official creditors remains far below its level of the early 2000s, in the median African LDCs it increased by 1.5 per cent of GDP between 2008 and 2009, to reach 25 per cent of GDP (IMF, 2010a). By April 2010, a total of 10 LDCs were in a situation of debt distress (4 HIPCs at pre-decision point, 5 interim HIPCs and 1 non-HIPC), and other 10 were at high risk of debt distress (table 8).[14]

By April 2010, a total of 10 LDCs were in a situation of debt distress and other 10 were at high risk of debt distress.

Another critical issue is what happens to future trends in external assistance. In this regard, an OECD-DAC survey of disbursement plans for country programmable aid (CPA) shows an alarming trend.[15] OECD estimates for programmable aid flows to the LDC group reveal that disbursements in 2010 and 2011 are expected to be only marginally higher than in 2008. In real terms 24 LDCs are likely to receive less programmable aid in 2010 than they did in 2008, and this is expected to remain largely unchanged in 2011 (table 9). Similarly, CPA per capita to the LDC group is estimated to decline from $37.7 in 2008 to $36.3 in 2011.

D. Poverty trends and progress towards achieving the MDGs

The analysis so far has focused on economic trends, but an important issue is the degree to which economic growth is translating into improvements in

Table 8

Extent of debt vulnerability in LDCs

	HIPCs pre-decision point	Interim HIPCs	HIPCs post-completion point	Non-HIPCs
In debt distress	Comoros	Dem. Rep. of the Congo		Myanmar
	Eritrea	Guinea		
	Somalia	Guinea-Bissau		
	Sudan	Liberia		
		Togo		
At high risk of debt distress			Afghanistan	Djibouti
			Burkina Faso	Lao People's Dem. Rep.
			Burundi	Maldives
			Gambia	Yemen
			Haiti	
			Sao Tome and Principe	
At moderate risk of debt distress			Benin	Bhutan
			Central African Rep.	Cambodia
			Ethiopia	
			Rwanda	
			Sierra Leone	
At low risk of debt distress			Mali	Samoa
			Mozambique	
			Senegal	
			Zambia	

Source: UNCTAD secretariat compilation, based on IMF 2010b, covering LDCs with a post-crisis debt sustainability analysis, as of April 2010. The latest available debt sustainability analyses indicate that 7 other LDCs (Angola, Chad, Lesotho, Malawi, Mauritania, Nepal and Solomon Islands) are at moderate risk of debt distress, and 5 other LDCs (Bangladesh, Madagascar, Niger, Uganda and United Republic of Tanzania) are at low risk of debt distress.

human well-being. This section examines long-term trends in income poverty in African and Asian LDCs using a new set of poverty estimates prepared for this Report (box 4). It also analyses progress towards meeting the MDGs relating to poverty and human development. Finally, it considers the short-term impacts of the financial crisis and global recession on social trends, and possible future scenarios for MDG achievement. Overall, it shows that despite the economic boom during the period 2002–2007, poverty reduction has remained very slow in the LDCs, and, although efforts have improved since 2000, the majority of LDCs are not on track to meet most of the MDGs.

Despite the economic boom during the period 2002–2007, poverty reduction has remained very slow in the LDCs.

1. Long-term trends in income poverty

Although poverty reduction is at the heart of national and international development policies, internationally comparable data to identify and analyse poverty trends remain inadequate, particularly for the LDCs. Against this background, the *LDC Report* series have introduced innovations in the measurement of poverty, which have allowed it to present new insights into the depth and dynamics of poverty in the LDCs. The *LDC Report 2002: Escaping the Poverty Trap* used national accounts data to make the first internationally comparable estimates of $1-a-day and $2-a-day poverty in LDCs. These estimates were updated and refined in the *LDC Report 2008*, and the present Report further updates the estimates (Karshenas, 2010).

Trends in income poverty for 33 African and Asian LDCs for which data are available are shown in chart 12 and table 10. The main feature which is apparent is the all-pervasive and persistent nature of poverty in these LDCs. They are characterized by mass poverty. In 2007, 53 per cent of the population of LDCs was living in extreme poverty, on less than $1.25 a day, and 78 per cent was living on less than $2 a day. Extrapolating this to all the LDCs, it implies that there were 421 million people living in extreme poverty in LDCs that year. Moreover, the incidence of extreme poverty — the percentage of the total population living below the poverty line of $1.25 per day — was

In 2007, 53 per cent of the population of LDCs was living on less than $1.25 a day, and 78 per cent was living on less than $2 a day.

Table 9

Country programmable aid to LDCs, 2008–2011

(Millions of dollars)

	CPA in constant 2008 $			Change	
	Actual	Planned		Index (2008=100)	
	2008	*2010*	*2011*	*2010*	*2011*
Afghanistan	3 527	3 497	3 393	99	96
Angola	381	646	772	170	203
Bangladesh	2 243	2 189	2 084	98	93
Benin	538	486	447	90	83
Bhutan	89	83	80	93	90
Burkina Faso	918	689	677	75	74
Burundi	386	343	343	89	89
Cambodia	687	851	895	124	130
Central African Republic	193	156	160	81	83
Chad	251	212	200	84	80
Comoros	31	27	24	87	77
Dem. Rep. of the Congo	1 021	1 324	1 380	130	135
Djibouti	99	98	99	99	100
Equatorial Guinea	37	55	65	149	176
Eritrea	106	124	115	117	108
Ethiopia	2 502	2 530	2 814	101	112
Gambia	91	104	104	114	114
Guinea	241	219	205	91	85
Guinea-Bissau	109	86	91	79	83
Haiti	625	692	703	111	112
Kiribati	39	35	37	90	95
Lao People's Dem. Republic	389	375	377	96	97
Lesotho	124	139	143	112	115
Liberia	586	313	333	53	57
Madagascar	881	650	651	74	74
Malawi	822	808	851	98	104
Maldives	20	24	26	120	130
Mali	917	925	918	101	100
Mauritania	276	275	295	100	107
Mozambique	1 750	1 739	1 775	99	101
Myanmar	169	173	177	102	105
Nepal	667	721	748	108	112
Niger	468	470	451	100	96
Rwanda	770	833	865	108	112
Samoa	54	52	55	96	102
Sao Tome and Principe	42	54	62	129	148
Senegal	963	787	798	82	83
Sierra Leone	293	324	307	111	105
Solomon Islands	237	177	171	75	72
Somalia	175	194	204	111	117
Sudan	909	1 015	1 077	112	118
Timor-Leste	216	253	236	117	109
Togo	308	154	162	50	53
Tuvalu	14	12	12	86	86
Uganda	1 432	1 569	1 602	110	112
United Republic of Tanzania	2 191	2 424	2 532	111	116
Vanuatu	93	101	101	109	109
Yemen	373	477	408	128	109
Zambia	1 029	1 097	1 162	107	113
Total LDCs	**30 282**	**30 581**	**31 187**	**101**	**103**
African LDCs and Haiti	**21 392**	**21 480**	**22 301**	**100**	**104**
Asian LDCs	**8 144**	**8 366**	**8 162**	**103**	**100**
Island LDCs	**746**	**735**	**724**	**99**	**97**
All developing countries	**80 941**	**88 481**	**90 809**	**109**	**112**

Source: OECD, 2009b.

Box 4. The new poverty estimates

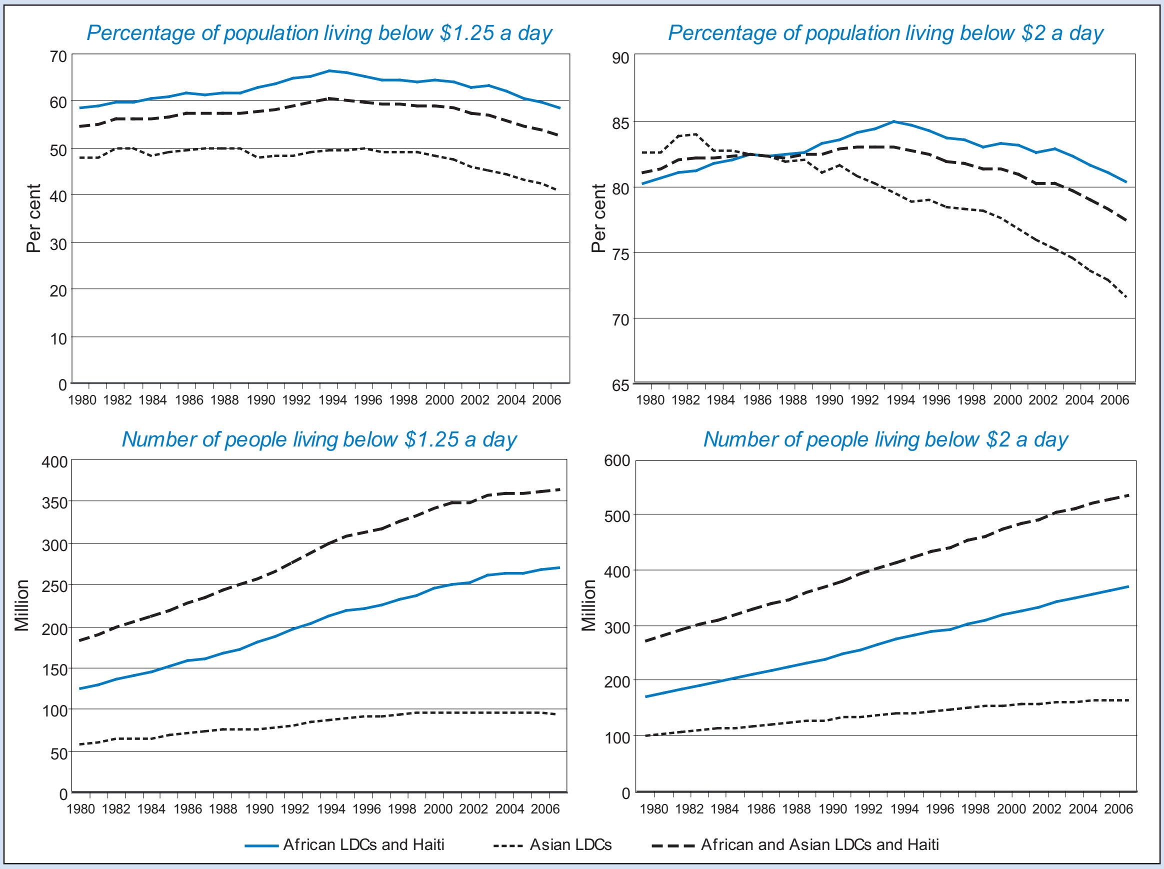
In the *LDC Report 2002*, poverty estimates were made on the basis of the close relationship between the level of private consumption per capita measured in constant PPP dollars and the incidence of $1-a-day and $2-a-day poverty. The closeness of this statistical relationship enabled the generation of poverty estimates using national accounts data for countries for which there existed estimates of private consumption in PPP dollars. The estimates in the *LDC Report 2008* followed the same logic, but they refined the method by establishing the relationship between household survey estimates of private consumption per capita and national accounts estimates of private consumption per capita, thus seeking to base the poverty estimates on "calibrated survey means" (Karshenas, 2008). This Report adopts the same method but uses the new $1.25/day poverty line which has now been adopted as the standard for "extreme poverty" and also the new PPP exchange rate estimates generated in 2005.

This new method enables the estimation of income poverty in 33 LDCs, which account for about 86 per cent of the population of all LDCs in 2007. The poverty estimates in these countries are therefore representative of the trends in poverty for the LDC group as a whole, though a few significant countries are missing because there have been no household surveys or there are no PPP exchange rate estimates for them and no estimates are made for island LDCs.

It should be noted that because national accounts estimates of per capita private consumption deviate from household survey estimates of per capita private consumption, this method results in internationally comparable poverty estimates which differ from those of the World Bank. For example, World Bank estimates suggest that the incidence of extreme poverty in LDCs fell from 63 per cent in 1990 to 53 per cent in 2005, and that two thirds of the increase has occurred since 2000 (UNDP, 2010). However, according to the new poverty estimates, the 1990 poverty rate was slightly lower (58 per cent), but progress since 2000 has also been slower, with a decline from 59 per cent to 53 per cent over a seven-year period. In general, cross-country results suggest, as the *LDC Report 2002* did, that current estimates of poverty based on household survey data, underestimate the incidence of poverty in the poorest countries.

Chart 12

Poverty trends in African and Asian LDCs, 1980–2007



Source: Karshenas, 2010.

Table 10

Poverty trends in individual LDCs, 1990–2007

Country	Poverty headcount ratio at $1.25 a day				Poverty headcount ratio at $2 a day			
	World Bank		New estimates		World Bank		New estimates	
	1990–1995	*2000–2007*	*1990*	*2007*	*1990–1995*	*2000–2007*	*1990*	*2007*
Angola	..	54.3			..	70.2		
Bangladesh	66.8	53.7	45.3	40.6	92.5	83.4	81.3	73.3
Benin	..	47.3	42.8	45.2	..	75.3	71.2	73.0
Bhutan	..	26.2			..	49.5		
Burkina Faso	71.2	56.5	65.6	49.8	85.8	81.2	83.2	75.6
Burundi	84.2	81.3	67.8	77.6	95.2	93.5	90.3	93.8
Cambodia	48.6	33.0	56.6	36.2	77.9	63.0	81.4	63.4
Comoros	..	46.1			..	65.0		
Dem. Rep. of the Congo	..	59.2	71.2	82.9	..	79.6	88.7	90.5
Chad	..	61.9	52.2	57.8	..	83.3	77.2	81.0
Central African Republic	82.8	62.4	64.5	63.4	90.8	81.9	81.1	83.2
Djibouti	..	18.8	13.1	39.0	..	41.2	37.9	68.2
Ethiopia	60.5	47.3	69.0	53.6	84.6	82.0	90.2	84.9
Gambia	..	34.3	59.3	56.5	..	56.7	78.8	76.9
Guinea	64.7	70.1	58.9	49.8	81.1	87.2	78.7	73.7
Guinea-Bissau	46.7	48.8	78.4	75.6	67.1	77.9	90.6	92.7
Haiti	..	54.9	40.7	50.6	..	72.2	53.9	62.2
Lao People's Dem. Rep.	55.7	44.0	49.2	27.1	84.8	76.9	81.9	60.0
Lesotho	52.0	43.4	58.4	39.9	66.0	62.3	75.1	58.1
Liberia	..	83.7	69.0	75.8	..	94.8	86.4	90.1
Madagascar	72.5	72.1	70.4	70.3	88.4	89.2	87.1	87.2
Malawi	..	73.9	76.8	73.9	..	90.5	90.8	91.3
Mali	86.1	56.3	54.4	49.7	93.9	79.6	78.9	75.9
Mauritania	42.8	21.2	32.3	24.2	68.6	44.1	59.3	51.4
Mozambique	..	74.7	69.5	60.0	..	90.0	86.8	79.6
Nepal	..	55.1	62.3	57.4	..	77.6	85.4	77.8
Niger	75.5	65.9	60.9	68.8	91.3	85.6	84.9	86.5
Rwanda	..	76.6	61.7	62.2	..	90.3	85.7	81.4
Sao Tome and Principe	..	28.4			..	56.6		
Senegal	60.0	38.8	52.3	34.7	80.5	65.8	69.7	63.9
Sierra Leone	..	53.4	67.0	68.5	..	76.1	85.9	86.7
Sudan	..	..	55.8	44.0	..	..	75.3	65.0
Timor-Leste	..	45.1			..	75.2		
Togo	..	38.7	50.8	56.1	..	69.3	79.6	83.0
Uganda	70.0	54.5	69.9	55.4	88.6	77.7	87.8	78.0
United Rep. of Tanzania	72.6	88.5	55.4	50.7	91.3	96.6	83.0	79.3
Yemen	4.5	17.5	42.1	28.8	15.4	46.6	71.4	61.4
Zambia	64.0	64.4	53.5	55.6	78.5	83.3	73.6	74.9

Source: World Bank, *World Development Indicators*, online (June 2010); New estimates: Karshenas, 2010.

significantly higher in African LDCs, at 59 per cent, than in Asian LDCs, at 41 per cent. For the $2/day poverty line, however, the difference is less marked: 80 per cent in African LDCs and 72 per cent in Asian LDCs.

The number of people living in extreme poverty in LDCs has continued to increase throughout the last 30 years, even during the period of economic boom.

Overall, three major periods can be identified in poverty trends in the LDCs between 1980 and 2007 (chart 12). From the 1980s to the mid-1990s, the incidence of poverty was on the rise in both African and Asian LDCs. Between 1994 and 2000 headcount rates began to decline, with such reduction accelerating after 2000. It should be stressed that this finding differs from that of the *LDC Report 2008*, which found that there was no significant change in the rate of poverty reduction between the 1990s and the period 2000–2005. This difference reflects the different definition of poverty ($1.25/day in 2005 purchasing power parity (PPP) dollars versus $1.08 in 1990 PPP dollars) as well as different PPP exchange rates used in the poverty estimates.

The LDC experience with poverty reduction is a major cause for concern: although the incidence of poverty has been falling since 1994, by 2005 it had only reached the level of 1980. Moreover, with rapidly rising populations, the number of people living in extreme poverty in LDCs has continued to increase throughout the last 30 years, and by 2007 it was twice as high as in 1980. Indeed, the number of extremely poor people living in the LDCs actually continued to increase during the period of economic boom. There is, nonetheless, a significant difference between African LDCs, where the number of people living in extreme poverty continued to rise, and Asian LDCs, where the trend reached a plateau after 2000.

Disaggregating the poverty trends by country (table 10), it is apparent that more than 50 per cent of the population live in extreme poverty in 20 out of 35 LDCs for which data were available using the new poverty estimates for 2007, and a slightly higher proportion — 22 out of 34 — using the World Bank estimates for 2005. The fact that a substantial majority of the population in the LDCs suffers from income poverty is of immense policy significance when compared to narrowly focused Poverty Reduction Strategies and restrictively targeted social policies (McKinley and Martins, 2010). As has been argued in earlier *LDC Reports*, reducing poverty in these conditions requires inclusive development strategies that are able to generate productive employment opportunities in particular, rather than adopting a narrow focus targeting “the poor”. Unfortunately, the current policy model has not been successful in translating the very favourable (though unsustainable) external conditions of the LDCs into substantial improvements in human well-being for the majority of the population, using income poverty as a measure of living standards.

One major problem in assessing progress towards MDGs in LDCs is the dearth of data.

2. Progress towards the MDGs before the crisis

One major problem in assessing progress towards MDGs in LDCs is the dearth of data (LDC Report 2008, chart 16). This section focuses on those poverty and human development targets for which aggregate data were available for LDCs as well as for developing countries as a whole, and also on those targets for which data were available for at least two thirds of all LDCs. For LDCs as a whole, progress on poverty reduction is estimated on the basis of both World Bank estimates and the new poverty estimates, while progress for individual countries is estimated using only the new estimates.

Although some progress was made towards achieving the MDGs during the boom years, the LDCs as a group are unlikely to achieve most targets with the exception of MDGs 2 and 3.

The evidence shows that although some accelerated progress was made towards achieving the MDGs during the boom years, the LDCs as a group are unlikely to achieve most targets for which group estimates have been made, with the exception of universal primary education and gender equality in school enrolment (MDGs 2 and 3 respectively). Moreover, the level of human development remains appallingly low: for most MDG indicators LDCs are at a level where developing countries were on average 20 years ago. For example, the net primary enrolment rate in LDCs (76 per cent) in 2007 was below that in developing countries in 1990 (80 per cent); similarly, the rate of undernourishment in LDCs in 2007 was 70 per cent higher than in developing countries in 1990 (34 per cent and 20 per cent respectively).

Unlike the developing countries as a group, LDCs are off track to achieve the MDG 1 target of halving the incidence of extreme poverty, in spite of moderate improvements over the last decade. This is evident in both World Bank estimates and UNCTAD estimates presented here. According to the World Bank, the incidence of extreme poverty in LDCs decreased from 63 per cent in 1990 to 53 per cent in 2005, with two thirds of the improvement occurring since 2000 (chart 13). The new poverty estimates suggest that the 1990 poverty rate was slightly lower (58 per cent), but progress since 2000 has been slower, with a decline from 59 per cent in 2000 to 53 per cent in 2007 (see chart 12). These latter data imply that the MDG-related poverty reduction deficit in LDCs is not simply due to the increasing incidence of poverty in the early 1990s and the slow rate of poverty reduction in the late 1990s, but also to the slow rate of poverty reduction over the past decade.

For most MDG indicators LDCs are at a level where developing countries were on average 20 years ago.

This sluggish rate of progress towards MDG 1 is largely related to the inability to meet the challenge of creating productive jobs and livelihoods for the millions of young people entering the workforce each year. Outside agriculture, people find work mainly in informal economic activities. The share of own-account and contributing family workers in total employment, also monitored under MDG1, was 81 per cent in LDCs in 2008 compared with 59 per cent in developing countries. Moreover, progress in reducing vulnerable employment in the 1990s and since 2000 has been slower in LDCs than in developing countries.

The sluggish rate of progress towards MDG 1 is largely related to the inability to meet the challenge of creating productive jobs and livelihoods for the millions of young people entering the workforce each year.

The data on undernourishment also indicate that progress has been slow (chart 13). About 34 per cent of the LDC population is reported to have been undernourished in 2005–2007, compared with 16 per cent in developing countries. Since then, some reversals in the progress against hunger has inevitably taken place, as a consequence of the food price hikes in mid 2008, and the fallout of the global crisis in 2009.

Turning to the other six indicators for which progress towards specific time-bound MDG targets can be monitored, the following trends are clear:

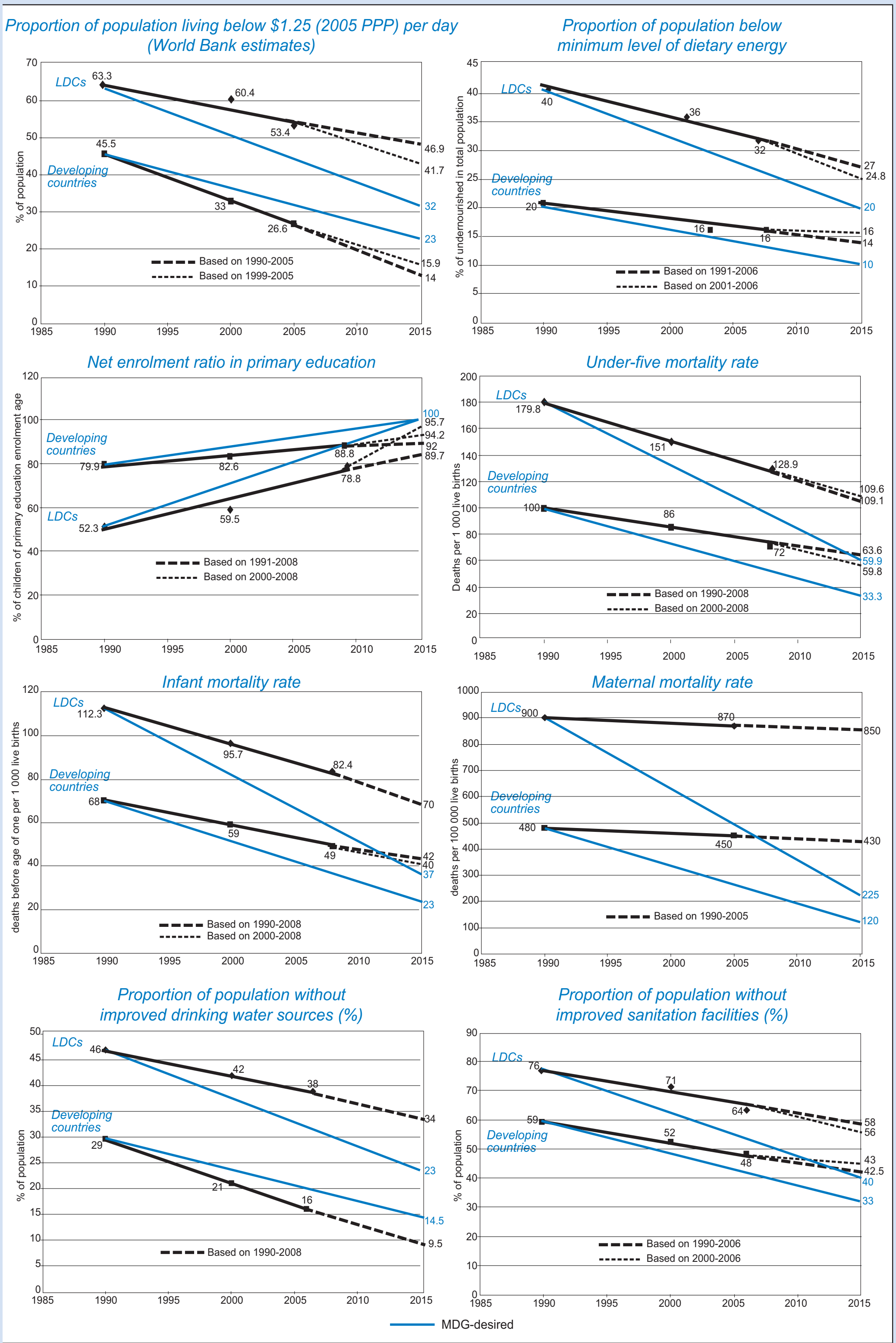
- Regarding the target for universal primary education, both LDCs and developing countries are only slightly off track owing to a significant acceleration of enrolments since 2000. However, only 59 per cent of children in LDCs who start grade 1 reach the last grade of primary school, compared with 87 per cent in developing countries.
- Concerning access to safe water, developing countries are on track to achieve the goal, but LDCs as a group are off track. There has been no significant change in the trend of increasing access to improved water sources in LDCs since 2000.
- Both developing countries and LDCs are off track in the rate of progress towards the target of reducing infant mortality and child mortality by two thirds between 1990 and 2015, though the rate is actually faster in LDCs than in developing countries. However, because the former started from a very high level of mortality rates, overall they will fall far shorter of the target by 2015. There is no sign that there has been an acceleration of progress since 2000.
- Regarding access to improved sanitation facilities, both developing countries and LDCs are off track, but the rate of progress in LDCs is slower, with no significant acceleration since 2000.
- Regarding the maternal mortality rate, both LDCs and developing countries have shown painfully slow progress.

Both developing countries and LDCs are off track to achieve the target of reducing infant mortality, child mortality and maternal mortality rate.

A more disaggregated picture (table 11) shows that only a handful of countries are on track to achieve the MDGs on a broad front. For seven targets, only seven LDCs are on track to achieve four or more of those targets. These countries are Ethiopia, the Lao People's Democratic Republic, Malawi, Maldives, Mozambique, Nepal and Samoa.

Chart 13

Selected MDG indicators and projections for LDCs and developing countries, 1990–2015



Source: UNCTAD secretariat calculations, based on United Nations, *The Millennium Developments Goals Report 2010*, New York, 2010, statistical annex.

Note: The MDG-desired curve indicates how the selected indicators should evolve in order to meet the respective MDG. The dotted curves show projections based on the extrapolation of trends for one or two periods.

Table 11

Millennium Development Goal progress by country

Country \ MDG Indicator	1.1 Poverty $1.25 per day *(Karshenas, 2010 estimates)*	1.9 Proportion of under-nourished population	2.1 Net enrolment ratio in primary education	4.1 Under-five mortality rate	4.2 Infant mortality rate	7.8 Proportion of population using improved drinking water source	7.9 Proportion of population using improved sanitation facilities
Afghanistan				Reversal/Stagnation	Reversal/ Stagnation	On track	Low progress
Angola		On track		Low progress	Low progress	Medium progress	On track
Bangladesh	Low progress	On track	Reversal/Stagnation	On track	On track	Low progress	Medium progress
Benin	Reversal/Stagnation	On track	On track	Medium progress	Medium progress	On track	Low progress
Bhutan			On track	On track	Medium progress	On track	Low progress
Burkina Faso	Medium progress	On track	Medium progress	Low progress	Low progress	On track	Low progress
Burundi	Reversal/Stagnation	Reversal/Stagnation	On track	Low progress	Low progress	Low progress	Low progress
Cambodia	On track	On track	Medium progress	Low progress	Low progress	On track	Medium progress
Central African Rep.	Reversal/Stagnation	Low progress	Low progress	Reversal/Stagnation	Reversal/ Stagnation	Medium progress	Medium progress
Chad	Reversal/Stagnation	On track	Medium progress	Reversal/Stagnation	Reversal/ Stagnation	Medium progress	Low progress
Comoros		Reversal/Stagnation	On track	Low progress	Low progress	On track	Medium progress
Dem. Rep. of the Congo	Reversal/Stagnation	Reversal/Stagnation	Reversal/Stagnation	Reversal/Stagnation	Reversal/ Stagnation	Low progress	Low progress
Djibouti	Reversal/Stagnation	On track	Low progress	Low progress	Low progress	On track	Reversal/Stagnation
Equatorial Guinea			Reversal/Stagnation	Medium progress	Medium progress	Reversal/Stagnation	Reversal/Stagnation
Eritrea		Reversal/Stagnation	Low progress	On track	On track	Medium progress	Low progress
Ethiopia	Medium progress	On track	On track	On track	On track	Medium progress	Low progress
Gambia	Low progress	Reversal/Stagnation	Medium progress	Medium progress	Low progress	On track	Low progress
Guinea	Low progress	Medium progress	Medium progress	Medium progress		On track	Low progress
Guinea-Bissau	Low progress	Reversal/Stagnation	Medium progress	Low progress	Low progress	Medium progress	Low progress
Haiti	Reversal/Stagnation	Low progress		On track	On track	Medium progress	Reversal/Stagnation
Kiribati		On track	On track	On track	Medium progress	Medium progress	Low progress
Lao People's Dem. Rep.	On track	On track	Medium progress	On track	On track	Medium progress	On track
Lesotho	On track	Reversal/Stagnation	Reversal/Stagnation	Low progress	Low progress	On track	Reversal/Stagnation
Liberia	Reversal/Stagnation	Reversal/Stagnation	On track	Medium progress	Medium progress	Medium progress	Low progress
Madagascar	Reversal/Stagnation	Reversal/Stagnation	On track	Medium progress	Medium progress	Low progress	Low progress
Malawi	Low progress	On track	On track	On track	On track	On track	Medium progress
Maldives		On track	On track	On track	On track	Low progress	On track
Mali	Low progress	On track	On track	Low progress	Medium progress	On track	Low progress
Mauritania	Medium progress	On track	Medium progress	Low progress	Low progress	Medium progress	Low progress
Mozambique	Low progress	On track	On track	On track	On track	Medium progress	Low progress
Myanmar		On track		Low progress	Low progress	On track	On track
Nepal	Low progress	Medium progress	On track	On track	On track	On track	Medium progress
Niger	Reversal/Stagnation	On track	Medium progress	On track	On track	Medium progress	Low progress
Rwanda	Reversal/Stagnation	Low progress	On track	Medium progress	Medium progress	Reversal/Stagnation	On track
Samoa		On track	On track	On track	On track	Reversal/Stagnation	On track
Sao Tome and Principe		On track	On track	Reversal/Stagnation	Reversal/ Stagnation	On track	Low progress
Senegal	Low progress	Low progress	Medium progress	Medium progress	Low progress	Medium Progress	Medium progress
Sierra Leone	Reversal/Stagnation	Reversal/Stagnation		Medium progress	Medium progress	Reversal/ Stagnation	Low progress
Solomon Islands		On track	Low progress	Low progress	Low progress	Low progress	Low progress
Somalia				Reversal/Stagnation	Reversal/ Stagnation	Low progress	Low progress
Sudan	Medium progress	On track	Reversal/Stagnation	Low progress	Low progress	Reversal/ Stagnation	Reversal/Stagnation
Timor-Leste		Reversal/Stagnation	Low progress	On track	On track	Medium progress	On track
Togo	Reversal/Stagnation	Medium progress	On track	Medium progress	Medium progress	Medium progress	Reversal/Stagnation
Tuvalu				Medium progress	Medium progress	On track	Medium progress
Uganda	Medium progress	Medium progress	On track	Medium progress	Medium progress	On track	Low progress
United Rep. of Tanzania	Low progress	Reversal/Stagnation	On track	Medium progress	Medium progress	Reversal/ Stagnation	Reversal/Stagnation
Vanuatu		On track	On track	Reversal/Stagnation	Reversal/ Stagnation	On track	Medium progress
Yemen	On track	Reversal/Stagnation	Medium progress	On track	Medium progress	Reversal/Stagnation	On track
Zambia	Reversal/Stagnation	Reversal/Stagnation	On track	Low progress	Low progress	Medium progress	Low progress

Source: United Nations Statistics Division, MDG indicators database 30 june 2010 http://mdgs.un.org/unsd/mdg/Data.aspx

Notes: A: On track (MDG-compatible target achieved at 90% or above in the latest year available)
M: Medium progress (50% to 89% of the MDG-compatible target achieved in the latest year available)
L: Low progress (6% to 49% of the MDG-compatible target achieved in the latest year available)
S: Reversal/ Stagnation (less than 6% of the MDG-compatible target achieved in the latest year available)

Regarding the MDGs for which there are specific targets, it is apparent that:

- The most significant progress has been made towards the net primary school enrolment target, where half of the LDCs are on track.
- About one third of LDCs are on track to meet the goal of halving the proportion of people without access to safe drinking water.
- Only one quarter of the LDCs are on track to reach the target of reducing infant mortality by two thirds between 1990 and 2015, and a similar proportion are on track to achieve the child mortality target.
- The slowest progress is in relation to the poverty reduction target, where the new estimates indicate that only 4 out of 33 LDCs for which data were available are on track to halve the incidence of extreme poverty between 1990 and 2015.[16]
- The data also suggest that significant progress has been made in reducing the incidence of undernourishment by half. However, the pattern varies among LDCs: half of them appear to be on track to achieve the target while in more than a third progress has either stagnated or been reversed. The slow progress in reducing malnutrition in LDCs as a group compared with the comparatively good disaggregated performance because many small countries, particularly island LDCs, have made good progress on this indicator.

There has been significant progress in net primary enrolment and gender parity in primary education, reflecting strong Government and donor commitment.

Overall, these data indicate that the acceleration of growth during the period of economic boom in the LDCs led to some advances in the progress towards MDGs and poverty reduction since 2000. However, only a handful of countries are on track to achieve the MDGs on a broad front. There has been significant progress in net primary enrolment and gender parity in primary education, reflecting strong Government and donor commitment. Poverty reduction has also advanced to some extent. However these achievements are rather modest in relation to policy targets. Most notably, LDCs' growth acceleration in the early and mid-2000s appears to have had little impact on employment creation and overcoming food insecurity. Finally, in the crucial areas of quality and outreach of health services (MDGs 4 and 5) progress has been sluggish, as also for major infrastructural investments, such as in improving sanitation.

Most notably, LDCs' growth acceleration in the early and mid-2000s appears to have had little impact on employment creation and overcoming food insecurity.

3. Social impact of the global economic crisis and outlook for poverty reduction to 2015

Given the lack of systematic and up-to-date data, it is extremely difficult to estimate the social impact of the crisis. The social costs of the downturn are likely to have been serious, as this came on top of the food and fuel crises of the previous year. Moreover, regardless of any rebound in macroeconomic variables, many of the survival strategies of vulnerable households at the peak of the crisis, such as incurring debts, selling key productive assets or taking children out of school, are likely to adversely affect their long-term well-being. Similar hysteresis effects have long-lasting implications not only for life-time income, but also for achieving the MDGs, as widely shown in various recent studies (e.g. Chhibber, Ghosh and Palanivel, 2009; UNDP, 2010; World Bank, 2010c).

The social impact of the crisis can be expected to be long-lasting regardless of any rebound in macroeconomic variables, since many of the survival strategies of vulnerable households at the peak of the crisis are likely to adversely affect their long-term well-being.

Estimates by the International Labour Organization (ILO, 2010), as well as anecdotal evidence, suggest sharp setbacks in terms of employment levels, while informalization and the number of working poor have also been on the rise in many LDCs. Because of the intrinsic nature of the crisis, these deteriorating trends have hit the export sectors particularly hard, but they have also affected construction and other non-tradable sectors. In Cambodia, for instance, the slowdown in the garment sector resulted in the loss of 63,000 jobs between the last quarter of 2008 and the first quarter of 2009, and it is estimated that 30 per cent of construction jobs disappeared in the first three quarters of 2009 (Box 2). Similarly, in the Democratic Republic of the Congo declining activity in the mining sector caused over 100,000 job losses (Kamara, Ndikumana and Kandiero, 2009). Given the rapid demographic growth in most LDCs, the crisis-induced slumps in employment creation may entail more prolonged distress, as labour markets have already been under pressure to absorb the numerous cohorts of young entrants.

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The setback in employment levels is particularly worrying for its effects on the incidence of poverty, especially in view of the virtual absence of broad-based safety net mechanisms in LDCs. Prospects for poverty reduction are exacerbated by the persistence of high food prices in a number of LDCs (FAO, 2010; World Bank, 2010a). While the continued rise in cereal prices is in some instances driven by unfavourable weather conditions — as in some East African countries, Bangladesh and Myanmar (FAO, 2010) — it can also be due to the asymmetric functioning of the food market.[17] The ODI (2010) estimates that in Cambodia the poverty headcount ratio could increase by 1 to 4 percentage points in the wake of the crisis. Similarly, in Ethiopia the increase in the number of poor people attributable to the global downturn may exceed 630,000. ODI (2010) also estimated that the financial crisis led to an additional 2 million people living in extreme poverty in Bangladesh. In the same vein, Karshenas (2009) estimates that the crisis may have resulted in 7.3 million additional people living in extreme poverty in African and Asian LDCs.

If poverty reduction rates over the next five years fall to those of the 1990s, there could be an additional 77 million people living in extreme poverty by 2015 than if the poverty reduction rates of the period 2000–2007 were to be maintained.

In the medium term, the impact of the crisis on poverty reduction will depend crucially on the speed and pattern of recovery of LDCs. Using the new poverty estimates, for example, 3 indicative scenarios can be constructed. If the rates of poverty reduction achieved during the period 2000–2007 are once again attained, and maintained until 2015, the incidence of extreme poverty in LDCs would then be 46 per cent. If, instead, recovery does not take off, and poverty reduction rates remain at their 1990–2007 average, 51 per cent of the population in LDCs will be living in extreme poverty by 2015. Finally, if the effect of the crisis is so deep and persistent that the poverty reduction rate returns to that of the 1990s, it is possible that the incidence of poverty will rise to 54 per cent by 2015. In such a scenario, this crisis would have resulted in an extra 77 million people living in extreme poverty in the LDCs by 2015. This is obviously only an indicative scenario based on simple assumptions, but it shows that the impact of the crisis could be very large and long-lasting. It will ultimately depend on the ability of LDCs to adopt a new development path of sustained and inclusive development and the ability of the international community to reduce the overall volatility of global growth and enable the development of productive capacities in the LDCs.

Both the economic and social outcomes in LDCs during the recent boom-bust cycle show that there is need for new development thinking and new policy approaches. The global financial and economic crisis should be seized as an opportunity to move beyond "business as usual" by both the LDCs and their development partners.

Both the economic and social outcomes in LDCs during the recent boom-bust cycle show that there is need for new development thinking and new policy approaches. The global financial crisis and the deep recession of 2009 should be seized as an opportunity to move beyond "business as usual" by both the LDCs and their development partners. The rest of this Report focuses on the international dimension of such new thinking, and in particular the case for, and design of, a new international development architecture for the LDCs.

Notes

1 For a more detailed discussion of the roots of the global financial and economic crisis, see UNCTAD, 2009a and UNCTAD, 2009b.
2 See also UNCTAD, 2009c.
3 The external resource gap, which is defined as the difference between gross capital formation and gross domestic investment, measures the reliance on external capital to finance domestic investment.
4 Net adjusted savings are obtained by deducting from gross national savings (plus educational expenditure) the imputed costs for fixed capital consumption, energy depletion, mineral depletion, net forest depletion and damage from carbon dioxide and particulate emissions. Typically, the cost of natural resource depletion is computed by multiplying the unit resource rent by the physical quantity extracted.
5 See also UNDESA, 2010.
6 Unlike in previous tables, the definition of "fragile States" used here refers to the World Bank's harmonized list of fragile States for the year 2010 (see: http://siteresources.worldbank.org/EXTLICUS/Resources/511777-1269623894864/Fragile_Situations_List_FY10_Mar_26_2010_EXT.pdf).
7 Between 2006 and 2008, stock market capitalization in the six LDCs for which data were available ranged from 1.5 per cent to 35 per cent of GDP, while the total value of stocks traded in the year did not exceed 7 per cent of GDP (World Bank, *World Development Indicators* database for Bangladesh, Malawi, Nepal, Uganda, the United Republic of Tanzania, and Zambia).
8 LDCs' trading partners considered by ITC (2010) comprise: Australia, Brazil, China, Taiwan Province of China, Colombia, El Salvador, EU-27 (excl. Belgium), Iceland, Japan, Mauritius, Mexico, Singapore, Switzerland, Thailand, Turkey and the United States. In 2008, these countries accounted for 78 per cent of LDCs' merchandise exports; correspondingly, the analysis of mirror data captures a partial but very significant picture.
9 WTO preliminary estimates are not exactly comparable with ITC data, given that the latter only consider data for LDCs' major trading partners, while the former refer to total exports; nevertheless, the picture they offer in terms of differential impacts of the crisis on LDCs' export is fairly consistent.
10 During the recent downturn, the greater resilience of intraregional exports is attributable not only to the uneven depth of the crisis in developed and developing countries, but also to the fact that the composition of intraregional exports is typically more diversified than that of exports to the North (UNCTAD, 2009d).
11 Anecdotal reports suggest that remittances to Haiti increased in the wake of the devastating earthquake of 12 January 2010. This is in line with historical experiences after crises or natural disasters. In this particular instance, such a quick rebound also reflects the decision of the United States Government to grant temporary protected status for 18 months to Haitians already living in the United States, thereby allowing over 200,000 Haitians currently residing there without proper documents to live and work legally (World Bank, 2010b).
12 UNECA 2010, for instance, observes that during 2009 accommodating monetary policies have been adopted by the central banks of the CFA zone and in Lesotho.
13 See chapter 5 for a more detailed discussion on the potential of further SDR allocations to LDCs, in order to provide them with a critical source of development financing.
14 Eritrea is the only LDC whose debt sustainability rating has been downgraded since September 2009 (from "high risk" to "in debt distress"), reflecting the accumulation of arrears since 2007. On the other hand, the rating of the Central African Republic has been upgraded (from "high risk" to "moderate risk"), as a result of the delivery of HIPC/MDRI debt relief at completion point.
15 OECD-DAC forward-looking data do not represent firm ODA commitments; rather, they offer a conservative estimate of the evolution of aid disbursements based on donors' currently agreed financial planning. Statistically, CPA is defined in terms of exclusion, by netting out from total gross ODA those flows which: (i) are intrinsically unpredictable, such as humanitarian aid and debt relief; (ii) do not entail cross-border transactions (e.g. administrative costs); and (iii) do not form part of cooperation agreements between Governments (e.g. food aid, decentralized cooperation and/or core funding by NGOs). IMF disbursements are not included.
16 These countries are Cambodia, Laos, Lesotho and Yemen.
17 Along this line of reasoning, Ghosh (2009: 9) argues that, "while the pass-through of global prices was extremely high in developing countries in the phase of rising prices, the reverse tendency has not been evident in the subsequent phase as global trade prices have fallen." According to Van Waeyenberge, Bargawi and McKinley (2010), the IMF advocated cuts in consumer subsidies for Benin, Ethiopia, Malawi and Sierra Leone, which led to a higher pass-through of international price hikes, causing domestic prices of food and fuel to rise.

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