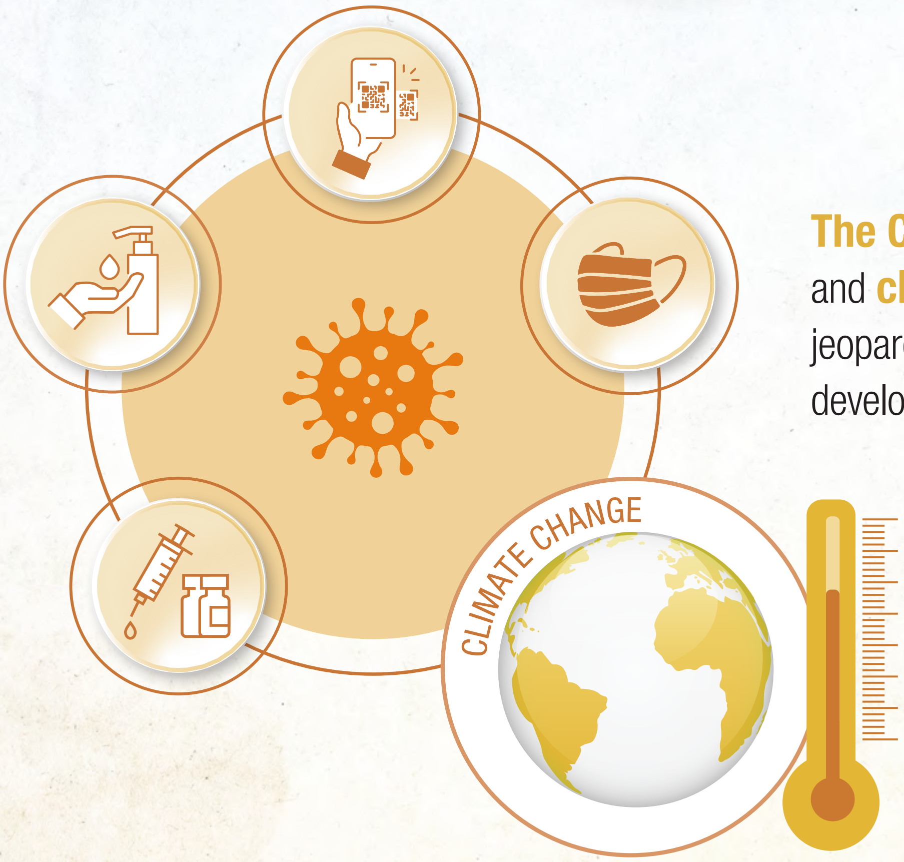
CHAPTER

1

# Setting the scene: 50 years of the LDC category

**50 years after** the establishment of the LDC category, **most LDCs continue to face major challenges** to their sustainable development




**The COVID-19 crisis** and **climate change** jeopardize the future development of LDCs

**The programme of action for the LDCs** for the new decade and the flanking policy initiatives should accelerate the development of LDCs

# CHAPTER 1

## Setting the scene: 50 years of the LDC category

## A. The landmark in LDC history

2021 is a landmark year in the history of the group of least developed countries (LDCs). The LDC category was established exactly 50 years ago, when the United Nations General Assembly endorsed the initial list of "least developed among developing countries" in 1971, following research, analysis and advocacy by UNCTAD.

In half a century of existence, the international community has a long and rich experience to evaluate the development outcomes achieved by these countries, and to identify the obstacles that have compromised their sustainable development. The review also serves to evaluate the effectiveness of the policies, programmes and measures implemented by the countries themselves and by the international community to overcome these obstacles. The present report aims to provide a contribution to this review and evaluation, in order to present an analytical basis for future policymaking.

The 50th anniversary of the establishment of the LDC group coincides with the year in which the international community is negotiating a new programme of action (PoA) for the LDCs for the decade 2022–2031. The PoA is designed to steer the development efforts of LDCs, during that period. The LDCs look forward to a new programme of action for the least developed countries that will bolster multilateralism and deal decisively with the core issues affecting them. In preparation for the new decade, LDC stakeholders are forging new partnerships, and discussing new instruments and measures to give concrete shape to these partnerships. The period of implementation of the new PoA will broadly coincide with the final decade of operationalization of the 2030 Agenda for Sustainable Development and the achievement of its Sustainable Development Goals.

This anniversary year of the creation of the LDCs, unfortunately, falls in the midst of a major global health crisis – the COVID-19 pandemic. – with has had huge economic and social ramifications for countries. In 2020 LDCs had their worst growth performance in almost three decades. More to the point, the crises arising from the COVID-19 shock has reversed painstakingly achieved progress on several dimensions of development, particularly with respect to previously achieved breakthroughs on poverty, hunger, education, and health (UNCTAD, 2020a). Backtracking on these dimensions will continue to have adverse consequences on the development of LDCs over the mid-term.

The confluence of the 50th anniversary, the preparation of the new PoA and the present crises challenges facing LDCs obliges development partners to devise innovative ways to tackle the major development challenges that continue to afflict facing LDC economies and societies. These include: (i) the long-standing challenges of, among others, impediments to structural transformation and sustainable development; (ii) more recent ones, particularly setbacks deriving directly from the COVID-19 shock; and (iii) those which have been garnering in importance and level of risk, stoking up to future challenges, especially climate change.

**"The heaviest and most urgent task of economic development is, however in the least developed countries, those that lag far behind the [few] industrialized countries with regard both to technological levels and to standards of living" (Weintraub, 1948)**

The said confluence provides an opportunity – but also the necessity – for the international community to look back over the last half century, and reconsider the long development experience of the LDCs, and take stock and review the development prospects of LDCs. Progress has been made on many dimensions of sustainable development over the years, but core challenges persist and have become more complex and urgent. In a nutshell, the development performance of the LDCs has been disappointing, from different points of view, as continuously shown by *The Least Developed Countries Report* series.

It suffices to cursorily mention:

(i) The slow development of productive capacities and – hence – the scant progress in growth-enhancing structural economic transformation;

(ii) The persistence of several symptoms of underdevelopment, such as low levels of labour productivity, high poverty rates, low levels of human capital formation, persistent under-performance in human well-being, etc.;

(iii) The lingering vulnerability to external shocks and limited resilience, due to restricted resources and policy space, as well as weak institutional development;

(iv) The widening income and development gap between the LDCs and other developing countries (ODCs);

(v) The low number of countries that have graduated from the LDC category to date: six (during the 26 years since 1994), out of a total of 53 countries that have ever belonged to the LDC category.

**Familiar and new development challenges make it harder to close the development gap between LDCs and other country groups**

While there have been positive experiences of some LDCs that have achieved decisive strides towards sustainable development – especially in the economic and social dimensions – the majority of LDCs have lagged behind. These issues are of concern to the international community. It is therefore important to understand the reasons behind the unsatisfactory progress achieved by some LDCs, and the role played by various partners and United Nations entities supporting LDCs. In reviewing past performance, it is possible to obtain a clearer picture of the successful policies that have led to this achievement. It is also important to interrogate the development policies pursued by LDCs to discover where they have been lacking. The objective of such an exercise is to glean lessons from past experience to formulate innovative proposals for the future. This is especially valuable in the present context of formulation of a new PoA, which should address the setback due to the COVID-19 pandemic, and have a longer forward-looking approach, by injecting radical shifts in their development trajectories in the coming decade.

In this context, the report aims to contribute to a better understanding of the performance of LDC development over the past 50 years, including both its challenges and positive outcomes; it also takes stock of the development trajectory of the LDCs since the establishment of the category 50 years ago, and analyses the international and domestic policy approaches taken to tackle the major development challenges faced by these countries.

Latter chapters of the report take a future-oriented approach, and estimate the financing required for LDCs to reach critical Sustainable Development Goals targets. It then sets the policy principles and measures that are most likely to lead the LDCs to reach those goals and to sustainable development, and which need to be taken into account in the formulation of the new plan of action and its implementation. The report thereby provides a contribution to major ongoing policy debates and decision-making.

The remainder to this introductory chapter analyses the context and the rationale that led to the establishment of the LDC category 50 years ago. It places particular emphasis on the trade challenges faced by the LDCs. The discussion on trade is followed by a summary of the evolution of the LDC category over 50 years and highlights some critical elements of the present juncture, which provide the direction of the present report.

## B. The origin of the LDC category

This section reviews the structural challenges which led to the establishment of the category. As the world economy expanded and transformed, LDCs have continued to struggle with familiar and new development challenges, making it harder to close the development gap between them and other country groups. The analysis will also show that the original thinking that led to the establishment of the LDC category still remains valid.

UNCTAD was founded on the need for collective international decisions on issues affecting developing countries, and discontent with the pace of development among "*the least developed of the developing countries*". UNCTAD plays a critical role in shaping the international response to development challenges, both as a think tank and as an important stakeholder in the intergovernmental processes of the United Nations. The Trade and Development Board, a subsidiary body of UNCTAD, has frequently proposed policies on LDC-specific issues for the consideration of the General Assembly (Economic and Social Council and its subsidiary organs).

It is critical that the vast cache of research generated by UNCTAD on developing countries and LDCs in particular, receives the attention it deserves. Hence, a retrospective review should inform and spur the international community to replicate the urgency of the 1960s and 1970s, and decisively translate UNCTAD's research outputs into meaningful follow-up actions in favour of LDCs. The evidence in various issues of *The Least Developed Countries Report* points to a decline in ambition to decisively tackle the core issues facing LDCs, and an unbalanced focus in the sectoral aid allocation by development partners.

The subsequent section revisits the conceptualization of the development problems of developing countries beginning with the 1960s, and demonstrates how some of the problems have persisted throughout the 50 years of the existence of the LDC category. The focus is not only on the history of the category, but the context and international development strategies that shaped the category in the 1960s to the late 1990s. The crucial role of international trade is then discussed.

## 1. Revisiting the past – The development theory

### *a. 1950–1969: Independence and early development thinking*

For most LDCs, the 1950s and early 1960s marked the end of the colonial era, and after the transfer of power, new elites began to take responsibility for the policies to oversee and manage their development. It quickly became apparent, however, that the transition was undermined by the fact that many of these newly independent countries inherited: (i) weak institutions; (ii) inadequate infrastructure, human, financial and physical resources; (iii) scarcely recognizable private sector; and (iv) structurally weak economies.

LDCs also faced a fiercely competitive external environment, and unfavourable terms of trade as commodity exports fared poorly and consistently, and exhibited low-income elasticity of demand, as compared to manufactures (UNCTAD, 2013; Parra-Lancourt, 2015). Left with economies that could barely generate sufficient tax revenue and domestic savings to finance development, LDCs relied on external resources to fill the development financing gap. It became abundantly clear during the 1950–1960s that international trade conducted on the basis of mutually beneficial and non-restrictive terms offered a potential to provide the resources to finance development. However, to take advantage of "free trade", some countries lacked the domestic economic structure to afford them the flexibility and capacity to compete at a global level. Failure to define these initial conditions could undermine the impact of the solutions which could be proposed to these countries as they are intricately linked to their future development paths (Mkandawire and Soludo, 2014).

The post-independence period presents two contrasting pictures: on the one hand, it witnessed an economic boom in industrialized countries driven in part by a shift in industrial production in advanced economies, technology-intensification, and diversification of material inputs; and, on the other hand, developing countries experienced a deceleration and slow growth in demand for their exports due to their low industrial capacities and unexploited domestic markets (Kavoussi, 1985).

The international development strategy of the time promoted international trade and economic cooperation, with the goal of increasing the flow of external resources to developing countries to accelerate their development (Larionova and Safonkina, 2018; United Nations, 1968). Although trade openness and diversification can be highly correlated (Makhlouf et al., 2015), the economic diversification of countries was hampered by a lack of capacities to venture into new and unrelated sectors of production (Ali, 2017). Export-promotion strategies pursued by countries during the period were unable to transform their comparative advantages in commodities into competitive, large-scale industrial prospects.

**The scope for trade and industrial policies to influence economic development in LDCs remains largely unexploited**

Two main weaknesses of the development strategies of the post-independence era have spilled over in varying degrees to the present day. First, the scope for trade and industrial policies to influence economic development in developing countries remains largely unexploited. Properly defined and aligned, trade and industrial policies shape industrial performance in competitive market economies but have been ineffective in LDCs (UNCTAD, 2008). Second, export promotion cannot be selectively applied to economic sectors without regard for global value chains (GVCs); the latter have progressively delinked developing countries from the mainstream trade and investment channels in favour of a concentration of technology and market power of a few big players (Pietrobelli, 2008; Flentø and Ponte, 2017). It was therefore inevitable from this point in the 1960s that developing country exports predicated on comparative advantages in commodities would continue losing ground and face low returns, despite receiving preferential treatment from bilateral and multilateral arrangements during the GATT era (i.e. before 1995).

When the 1960s were designated the first United Nations Development Decade, the goal was to garner international support for "measures to accelerate self-sustaining growth and social progress in all countries" by narrowing the per capita income gap between developed and developing countries (United Nations, 1961). The declaration announcing the decade also focused on trade policies intended to facilitate trade, and enable developing countries to obtain remunerative prices for their exports. Mobilization of domestic and external resources was critical in tackling the economic challenges countries' faced, e.g. widespread poverty, hunger, disease, illiteracy, and underdeveloped infrastructure (Ajaegbo, 1986). The first United Nations Conference on Trade and Development in 1964 (UNCTAD I) was convened in

**The United Nations established the LDC category in 1971, focusing on vulnerability to external shocks and domestic factors**

Geneva to address specific development challenges of developing countries, including trade (United Nations, 1962a). Among the Conference's thematic agenda were measures to increase trade of developing countries in both primary and manufactured goods, and for the gradual removal of the tariff and non-tariff barriers (NTBs) affecting developing countries (United Nations, 1962b).[1] It was a direct response to the call in the General Assembly resolution designating the first United Nations Development Decade, on ECOSOC to examine principles of international economic cooperation aiming at an improvement of economic relations between countries.

The outcome of first session of UNCTAD – The Final Act, UNCTAD I (United Nations, 1964) – is a major milestone in the implementation of Chapter IX of the United Nations Charter – International Economic and Social Cooperation. The Final Act reflects the principles that guided United Nations member States in formulating international responses to developing country problems related to commodities, trade in manufactures and semi-manufactures, and financing for international trade. The subsequent adoption by the General Assembly of UNCTAD, as its institution, together with its permanent subsidiary body, the Trade and Development Board (TDB),[2] was key in setting the pace on international principles governing international trade relations. The TDB continues to contribute to international policies to promote orderly trade, development and economic integration of developing countries into the world economy.

*b. 1970–1995: Identity of the least developed countries*

Several landmark decisions by the United Nations relating to LDCs were taken in the late 1960s and early 1970s; the bulk of whom focused on the major development challenges of developing countries. The period 1971–1982 marked the end of the post-war economic boom, and the onset of a period of global adjustment caused by major monetary and commodity market events. First, the Bretton Woods system of fixed exchange rates collapsed in 1968–1973 as the United States abandoned the policy of dollar-gold convertibility in 1971. Second, with major currencies floating against each other, and inflation and unemployment rising in industrialized economies, price shocks struck in 1973 and 1979 (IMF, n/d). Third, as interest rates picked up in response to stagflation in the United States, developing countries, which at this point were resource-constrained, and already projected to have debt-service burdens larger than their capital inflows (Larionova and Safonkina, 2018; United Nations, 1972). When the United Nations established the LDC category in 1971, the defining theme was "underdevelopment", with common elements including vulnerability to external shocks and domestic factors, such as limited resource endowments, institutions and policies further undermining the potential of the countries to confront their development challenges.

In a speech at the first United Nations Conference on the Least Developed Countries (Paris, France, 1–14 September 1981), Mr. Edgard Pisani, a delegate to the Conference, described the situation of the LDCs as that of countries experiencing a "decline rather than a laboured progress" towards development (Pisani, 1981). Selwyn (1973) emphatically critiqued the LDC identification process, and offered four possible assumptions for the classification, including: (i) welfare (distributive); (ii) economic and structure; (iii) stage of development; and (iv) common problems. He further noted that the polarization of LDCs was occurring at both the regional and global level, and argued that special measures could have been extended to other countries facing similar challenges. However, as the geographical composition of the LDCs group has changed over the past 50 years, some of the development issues that have plagued LDCs, e.g. poverty, food insecurity and inequalities, have also shifted and are increasingly concentrated in LDCs, especially those in Africa.

Out of these intergovernmental processes and contestations, UNCTAD has emerged as a pre-eminent think tank on development issues affecting LDCs through its convening role on trade and development. It counts the Generalized System of Preferences, LDC-specific aid targets, technology transfer, commodity issues, investment and rule-based trade, as some of its achievements over

1 The Conference was convened "*to provide, by means of international co-operation, appropriate solutions to the problems of world trade in the interest of all peoples and particularly to the urgent trade and development problems of the developing countries.*" (United Nations, 1964).

2 General Assembly Resolution 2085(XX) of 20 December 1965 unanimously agreed that the Trade and Development Board is the appropriate framework for an effective contribution to the solution of major problems affecting trade and development of developing countries (United Nations, 1965).

the years (Burney, 1979; UNCTAD, 2016). Whereas the main concerns in the 1960s were the worsening terms of trade of developing country exports and the sharp fall in the net flow of capital from developed countries, the oil price crisis of 1973 triggered further socioeconomic challenges globally, including among developing countries. The latter crisis was associated with rising foreign debt among developing countries, and continued to have adverse effects for many years. Combined with macroeconomic imbalances and, other factors, it eventually led to the debt crisis of the mid-1980s to the late 1990s. Some of these challenges were discussed during UNCTAD II (New Delhi, India, 31 January – 29 March 1968) which called for: (i) the untying of development finance; (ii) quantitative targets on grants (80 to 90 per cent of official aid); (iii) caps on interest rates on loans and flexible terms, including a minimum grace period of 8 years; and (iv) the adoption of “suitable measures for alleviating the debt servicing burden of developing countries by consolidation of their external debts into long-term obligations on low rates of interest” (United Nations, 1968).

In the 1980s international financial institutions (IFIs) began to progressively introduce structural policies to assist countries to manage their external obligations through: (i) the stabilization of their macroeconomy; (ii) liberalization of their economies, and abandonment of Keynesian fiscal policies for monetarism; and (iii) privatization of public enterprises and re-orienting the economies with market policies (United Nations, 2017). Concerned with a further deterioration of economic and social conditions in the LDCs, the United Nations convened the first United Nations Conference on the Least Developed Countries in Paris in 1981 to revitalize the development process of LDCs. Interestingly, the conference did not shy away from criticizing rigidities in national policies, and international measures focusing on transitory issues, including restoring economic and financial stability typical of the structural adjustment era, instead of promoting investment in key sectors (UNCTAD, 1992).

## 2. The crucial role of trade

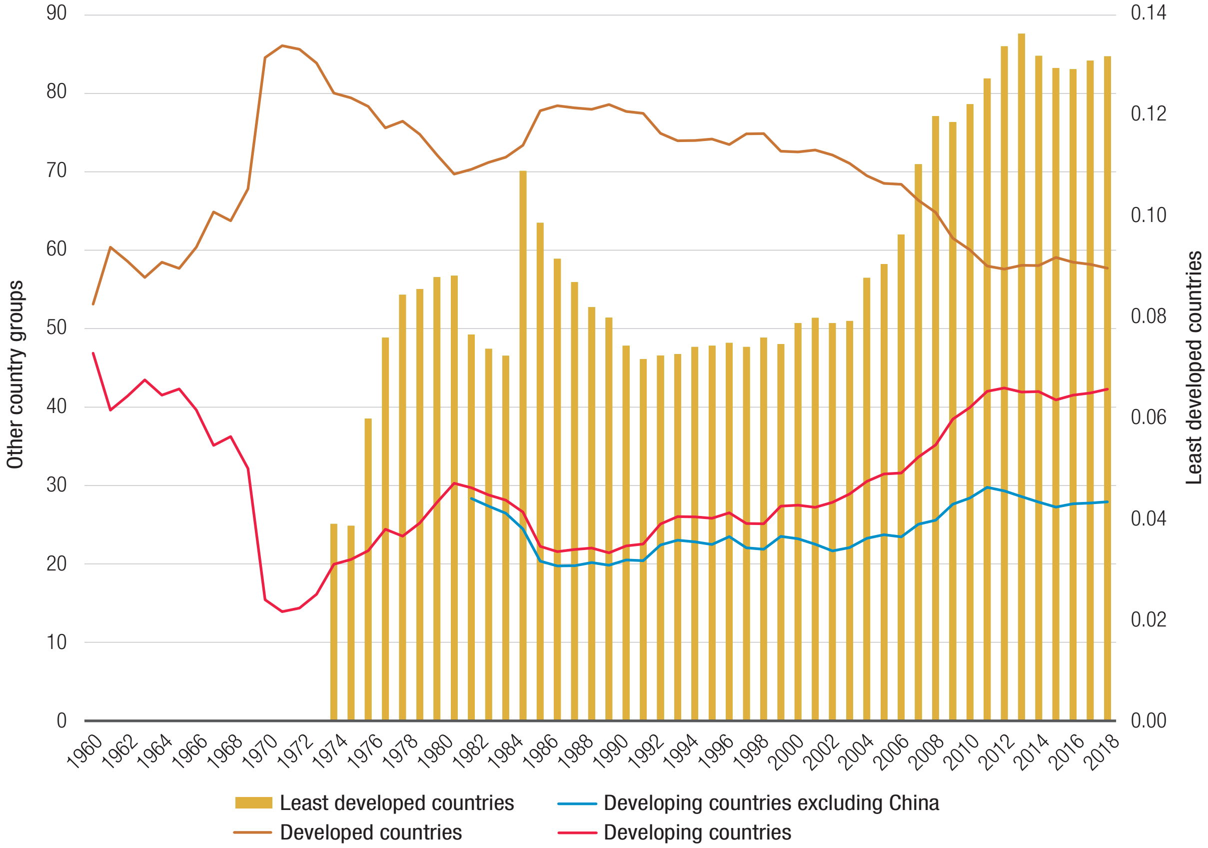
The international exchange of goods and services plays a major role in determining economic growth. Trade has traditionally been a major focus of thinking and policymaking in the context of LDCs, which is motivated by a number of reasons, including: (i) the balance-of-payments-constrained growth model, which places trade performance as a central structural impediment to growth and development (UNCTAD, 2019a); (ii) the link between commodity dependence, on one side, and poverty and underdevelopment, on the other; (iii) trade is the field where the most effective international support measures (ISMs) to LDCs have been put into operation (UNCTAD, 2016a); and (iv) in the context of globalization the impact of international trade on development outcomes has intensified.


A country’s capacity to produce is intimately linked to tradeable sectors with productivity and competitiveness (Pilinkienė, 2016), but that capacity has also been shown to be hampered by many factors (Sarkar, 2007; Ali, 2017; UNCTAD, 2020a). One of the arguments for special measures in favour of LDCs is that trade is also determined by the level of economic development. The special measures introduced in favour of LDCs (resolution 24(II) of UNCTAD (United Nations, 1968) aimed to expand their trade opportunities, and provide them with a springboard for economic and social development. The same resolution also requested UNCTAD’s Secretary General to propose a criteria to identify the “the least developed among developing countries”. The evolution of the LDC category from inception to the present, and refinements to the monitoring and identification processes are discussed in section C.

The share of LDCs in world trade has remained insignificant over many years. ODCs, led by China, have clawed back a stake in world trade. The historical trend from the 1960s reveals that the share of developing countries in world trade declined sharply from 46.9 per cent in 1960 to 13.9 per cent in 1971. It is evident that without the phenomenal growth of China, the developing countries share of trade would never have recovered beyond the 30 per cent mark last reached in 1981 and in 2012 (Figure 1.1).

Figure 1.1

**Share of total trade (per cent) by economic status**




*Source:* UNCTAD calculations based on data from World Bank, World Development Indicators Database [accessed May 2021].
*Note:* Total trade is defined as the sum of exports and imports.

During 1960–1970, more than half of the world trade was between developed countries and rising, with the underlying dynamic led by a phenomenal growth in manufactures and the slow growth of primary commodity exports. This trend reflected several factors in developing countries, including trade patterns – largely dominated by primary commodities – although the share of manufactures in exports had also increased. Primary commodities dominated LDC exports, although the relative importance of the commodity groups varied from year to year, and among countries depending on commodity market conditions, climatic conditions, as well as other factors.

**Manufactures accounted for**

**29%**

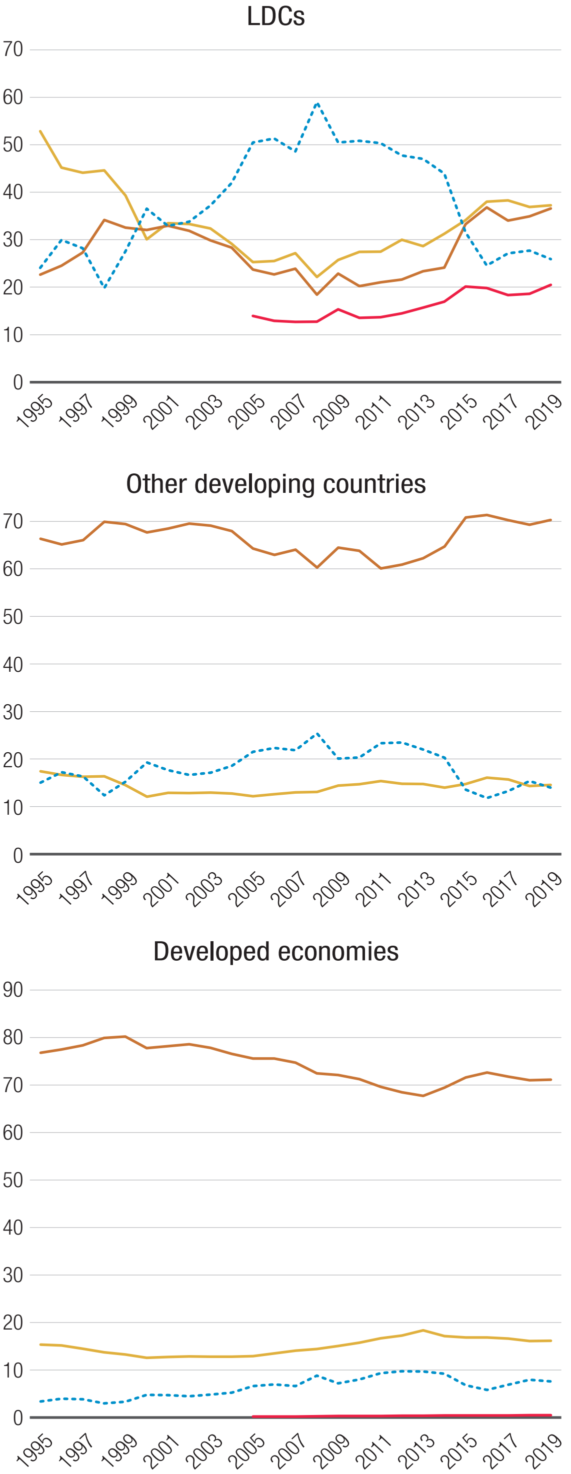
of merchandise exports of

**LDCs in the 2010s**

Manufactured products, by contrast, dominated the exports of both developed countries and ODCs, but commodities still featured strongly in many of the latter countries. An important trend for LDCs is the steady rise in their manufacturing exports from slightly over 20 per cent in 2011 to about 37 per cent of total exports in 2019 (Figure 1.2). The contrast in the share of labour and resource intensive manufactures' exports from LDCs, and high-skill and technology intensives from ODCs and developed countries mirrors the specialization in commodities, with the LDCs largely specialized in low technology and low skill processing of goods (Figure 1.3).

Figure 1.2

**Share of major commodity groups in merchandise exports and share of services in total exports**

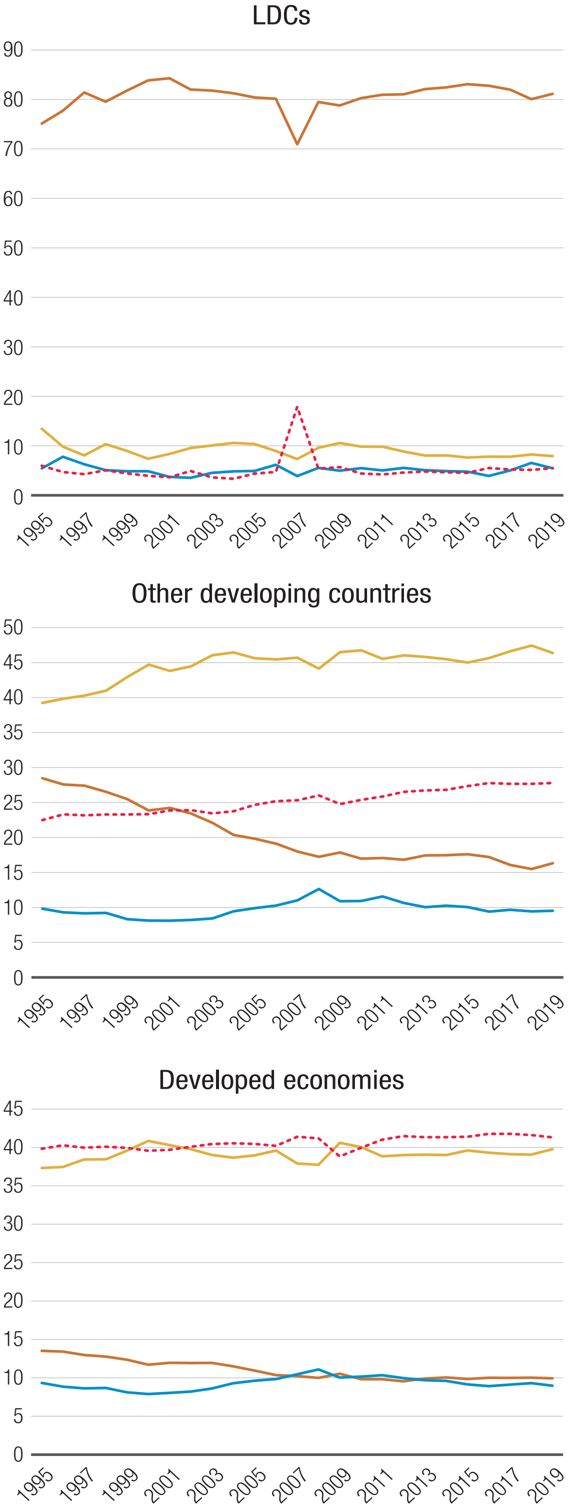



- Primary commodities, precious stones and non-monetary gold, excluding fuel
- Manufactured goods
- Fuels
- Share of services in total exports

*Source:* UNCTAD secretariat calculations based on data from UNCTADStat [accessed May 2021].

Figure 1.3

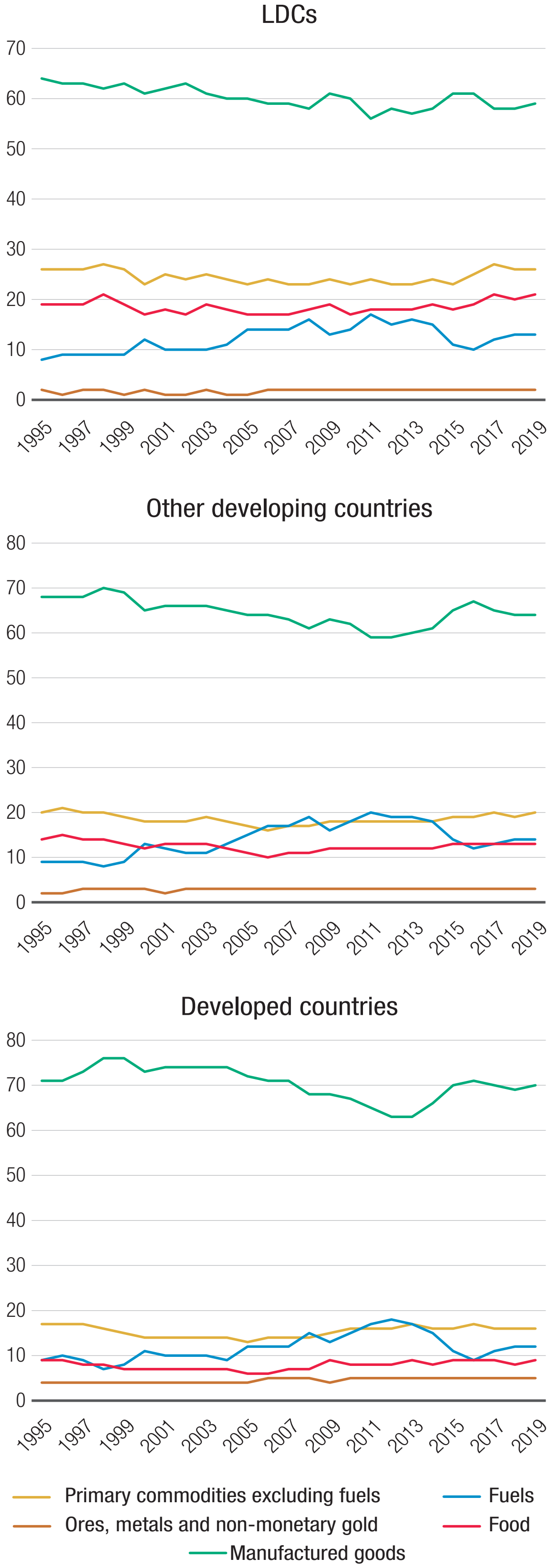
**Manufactured goods exports by intensity of skills and technology, by country development status, 1995–2019**



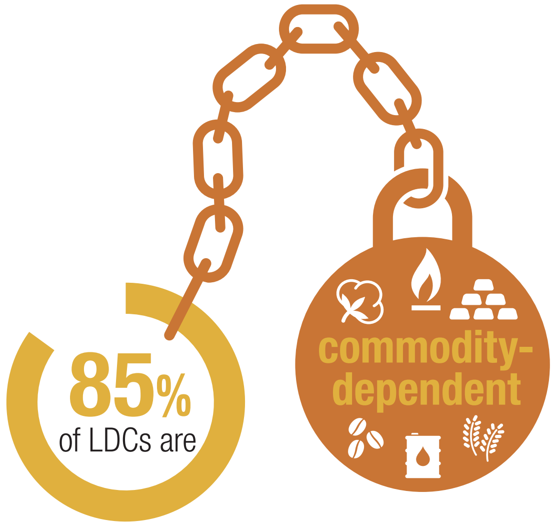

- High-skill and technology-intensive manufactures
- Labour-intensive and resource-intensive manufactures
- Low-skill and technology-intensive manufactures
- Medium-skill and technology-intensive manufactures

*Source:* UNCTAD secretariat calculations based on data from UNCTADStat [accessed May 2021].

Figure 1.4
**Import shares by major commodity groups and economic status**




*Source:* UNCTAD secretariat calculations based on data from UNCTADStat [accessed May 2021].




Although the share of primary commodities in total world trade has continued to shrink, commodity dependence has persisted in developing countries, particularly among LDCs. In 2019, two-thirds of developing countries and 85 per cent of LDCs were classified as commodity-dependent (UNCTAD, 2019b).[3] The low and unstable growth pattern among developing countries is largely a direct result of their commodity specialization which, in turn, conditioned their development path, and limited their scope for innovation and the emergence of productivity-led growth dynamics (UNCTAD, 2020a, 2016a, 2015).

For international trade to anchor economic diversification in these countries, further support is needed to: (i) develop human capital; (ii) push for strong intersectoral growth; (iii) ensure rising per capita incomes; and (iv) develop better policies and institutions (Osakwe et al., 2018). Developing countries – and especially LDCs – will remain marginalized if they fail to diversify their exports and increase their share of manufacturing in exports. Confirming the special role of industrialization in trade, world *import* trends show that manufactured goods dominate in all country groups, ranging from 59 per cent of all imports among LDCs to 70 per cent of imports of developed countries in 2019 (Figure 1.4). By contrast, primary commodity imports (excluding fuels) ranged from 16 per cent among developed

[3] Only seven LDCs, namely Bangladesh, Bhutan, Cambodia, Haiti, Lesotho, Nepal and Tuvalu are classified as non-commodity dependent economies. A country is considered to be export-commodity-dependent when more than 60 per cent of its total merchandise exports consist of commodities. (UNCTAD, 2019b).

countries to 20 per cent among ODCs (26 per cent for LDCs) in 2019.

The supply-side constraints limiting the participation of LDCs in international trade have been analysed in successive *Least Developed Countries Reports*; the 1999 edition of the report analysed LDCs' trade marginalization, their productive capacities, as well as options to strengthen their competitiveness (UNCTAD, 1999).

From the early 1960s, merchandise exports were important for LDCs as they accounted for more than half of their exports. Services have also become important exports for LDCs, especially in recent years, averaging about 20 per cent of total exports (Figure 1.2). Diversification of the main exports remains challenging, as the export basket of many countries is made up of only one or a handful of products, e.g. agricultural, fuels or mineral products. These structural weaknesses point to the need to: (i) develop the productive capacities including the interlinkages within and across sectors; (ii) address the other supply-side constraints such as the quality of labour (human capital); (iii) deficiencies in physical infrastructure, the level of technological capabilities; (iv) low levels of private investment; and (v) low growth. These constraints are at the heart of a long-term development conundrum and cannot be addressed with piecemeal interventions or sectoral approaches. The literature is also clear on the role of innovation and technology, as together with accompanying policies to build the national innovation system, they could potentially pave the way to enhance productivity and growth. In addition, the sequencing and optimization of choice between physical capital accumulation and investment in human capital should not arise for developing countries as both are at low levels; it is expected that the returns to physical capital investment may initially decline rapidly, given the low levels of human development in the countries concerned (Nguyen, 2009). A comprehensive development agenda is, therefore, required to boost economic diversification, growth and global competitiveness.

## C. Evolution of the LDC category

The context in which the first United Nations Development Decade was adopted may be 60 years ago, but some of the development challenges among LDCs have remained broadly similar over this time. If anything, these challenges had become more complex, costly and urgent, and persisted well into 1980s and 1990s. Over

**Some of the development challenges among LDCs have remained broadly similar over the last 60 years**

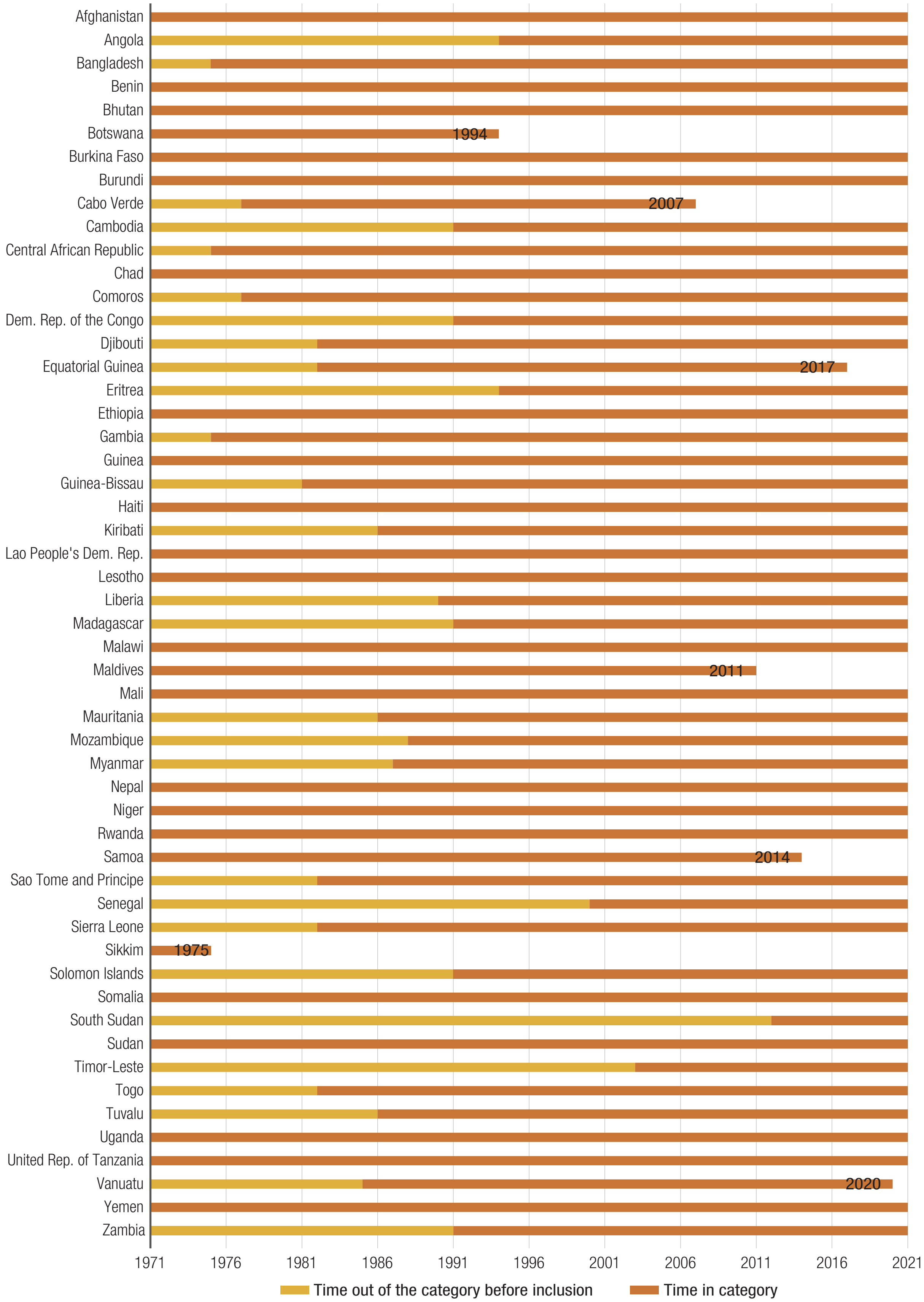
these decades, investment growth grew at a slow pace in LDCs, especially since the debt crises of that period. This coincided with various episodes of commodity boom and boost, which rendered the task of attracting foreign direct investment difficult.

The criteria for inclusion into, and graduation from, the LDC category have evolved over time (Annex table 1), reflecting the increased availability of quality data to assess the progress made by the countries. The evolution of the criteria to define the LDCs has had an impact on the composition of the group over the last 50 years, which is reflected in Figure 1.5.

When the General Assembly endorsed the initial list of "least developed among developing countries" in 1971 (A/RES/2768(XXVI)), there were 25 countries[4] identified in recognition of their structural challenges and vulnerabilities. In that year, the median per capita GDP among the countries was less than $100 at nominal values, half of countries were predominantly agrarian economies, and only 7 per cent of their GDP was generated by manufacturing. Social development was basic, with very high under five- and maternal mortality rates, a life expectancy at birth of 40, and gross secondary enrolment of only 3 per cent. Over the years, the number and diversity of countries in the category increased, peaking at 52 in 1991. A few countries have graduated from the category and, as of January 2021, the remaining LDCs are at 46 (Figure 1.5). While economic and social development indicators have greatly improved, they remain largely unsatisfactory, and countries continue to struggle with a set of challenges similar to those that led to the establishment of the category.

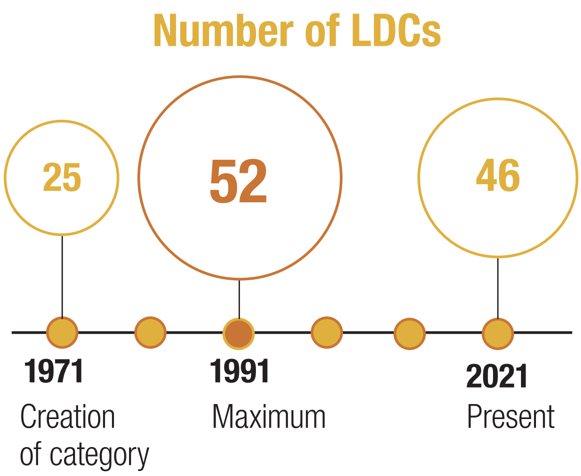
[4] Afghanistan, Dahomey (now Benin), Bhutan, Botswana, Upper Volta (now Burkina Faso), Burundi, Chad, Ethiopia, Guinea, Haiti, Lao People's Democratic Republic, Lesotho, Malawi, Maldives, Mali, Nepal, Niger, Rwanda, Western Samoa (now Samoa), Sikkim (now part of India), Somalia, Sudan, Uganda, United Republic of Tanzania and Yemen. Of all these countries, only two – Western Samoa and Sikkim – were not member States of the United Nations at the time of the establishment of the LDC category in 1971.

Figure 1.5
**LDC timeline, 1971–1921**




*Source:* UNCTAD Secretariat calculations based on data from Committee for Development Policy and Department of Economic and Social Affairs (2018).

It is disappointing that only six of the 53 countries that have ever been recognized as LDCs have graduated in the 50 years since the least developed countries (LDCs) category was established. Of the initial 25 LDCs,[5] only three countries – Botswana, Maldives and Samoa – have graduated from the category. The 25 countries that were later added have remained in the category. Four countries are scheduled to graduate in 2021–2024, including one of the initial 21 LDCs that remain in the category.




## D. The present critical juncture

The major shortcomings of the development experience of the LDCs over the past 50 years have been laid bare by the outbreak of the COVID-19 crisis. The latter has once again dramatically highlighted the institutional, economic and social shortcomings of the development path followed by most LDCs. Notwithstanding the fact that LDCs are not alone in having been adversely impacted by the COVID-19 crisis, they stand out from other developed and developing countries because of their reduced resilience, and diminished capacity to react to major exogenous shocks.

The COVID-19 pandemic emerged at a time when progress was already slow and unsatisfactory. The effect of a prolonged global recession could be disastrous for LDCs (UNCTAD, 2020a, 2020b). The pressure on government spending, public debt and balance of payments has increased, leaving them to face an uncertain external environment and weak domestic recoveries. It should also be emphasized that a heightened risk of a looming debt crisis among the LDCs existed prior to the COVID-19 shock (UNCTAD, 2019a, 2020a), but the COVID-19 shock has raised the possibility of this occurring.

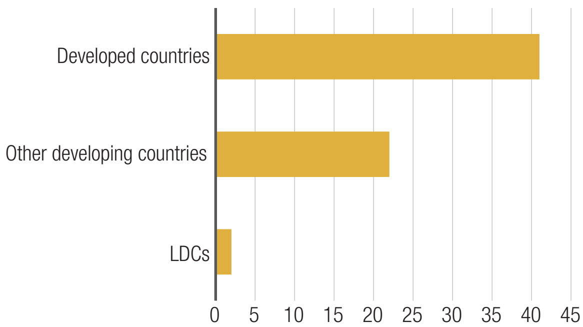
Beyond the upending of the gains on several dimensions of sustainable development (economic, social…), the low resilience of LDCs is reflected in the very low COVID-19 vaccination rate reached by LDCs as of mid-2021. Then it was just 2 per cent, a rate corresponding to just one tenth of vaccination rates in ODCs. The latter, in turn, amounted to about half the level of vaccination of developed countries (Figure 1.6). This demonstrates once again the yawning gaps in the capacity of different country groups to respond to exogenous shocks, as well as the low financial and institutional capacity of LDCs to react to them.

These low vaccination rates indicate that the adverse effects of the pandemic on LDC economies and societies are likely to persist much longer than in other countries. As the economies of ODCs and developed countries recover from the pandemic shock, many LDCs risk being left behind. This would trigger a K-shaped or two-speed recovery, in which some countries recover strongly from the pandemic-induced recession, while others struggle to recover and are left behind. LDCs could suffer from hysteresis, and face a risk of a lost decade of development and of remaining on the margins of the global economy. They may spend the coming years just trying to recover from the COVID-19 shock and eventually achieve little real progress on the Sustainable Development Goals during the 2020s. The present circumstances are therefore exceptional and require decisive action by both the international

Figure 1.6

**COVID-19 vaccination rates at mid-2021**

(Per cent)




*Source:* UNCTAD secretariat calculations, based on data from Out World in Data website [accessed June 2021].

[5] From the initial group of 25 LDCs, Botswana, Maldives and Samoa are the only countries that have graduated. A fourth LDC, Sikkim was a protectorate in 1971 but became an Indian State in 1975.

community and LDCs themselves to counter the risks of a lost decade and hysteresis.

The current framework of domestic and international policies has not been sufficiently effective in meeting the major development challenges facing the majority of the members of the LDC group. Looking forward, the 2020s will be a crucial decade for the development of LDCs. On a global scale, the decade will be critical for international action on climate change (IPCC, 2021). This smouldering global threat' is rapidly becoming more serious and urgent. In the case of LDCs, it has some analogies with the COVID-19 shock: LDCs bear close to nil responsibility for this exogenous shock, and are unable to head off its worst or most acute consequences as they are the group of countries with the least capabilities (economic, technological, institutional) to tackle its consequences. In devising new forms of partnership with the LDCs, the international community will need to meaningfully incorporate the environmental dimension in the formulation of policies and programmes.

## E. Structure of the report

Having set the scene of the main development challenges that led to the establishment of the LDC category 50 years ago and the objectives of the present report, the remaining chapters proceed as follows. Chapter 2 analyses the growth performance of LDCs over the past 50 years and examines, among others, episodes of growth acceleration and deceleration in LDCs, the convergence or divergence of these countries in relation to higher income country groups, progress made in structural economic transformation, as well as broader LDC achievements in the social dimensions of sustainable development.

Chapter 3 focuses on the policies that have underpinned LDC performance over the past 50 years. It presents the successive multilateral initiatives undertaken by the international community to accelerate development in these countries, as well as the domestic policies LDCs are putting in place to further their sustainable development. The chapter concludes with an account of successful development experiences of two LDCs – Bangladesh and Senegal – and the contrasting routes and policies they to respond to similar problems of underdevelopment, and the clear strides they have made towards sustainable development.

Chapter 4 presents a costing of the investments and spending required for LDCs to reach the most critical SDG. By focusing on different targets, it provides a picture of the very substantial amounts of financial resources which will need to be mobilized to meet some critical targets of the 2030 Agenda for Sustainable Development.

Chapter 5 presents a broad vision of the next decade of development processes and development policies for LDCs. It highlights the main challenges that these countries will face and shows the interest of the international community in supporting the development of LDCs. It pinpoints what should be the main objectives of the new PoA for the LDCs, and presents the outlines of novel policies to address the myriad challenges facing LDCs. The chapter suggests priorities for domestic policies, calls for a new generation of ISMs in favour of LDCs, and discusses the principles guiding the formulation of these new ISMs.

# ANNEX

## Annex Table 1.1

**The LDC definition and criteria over the years**

| Year | LDC definition | Criteria | | |
|---|---|---|---|---|
| 1971 | Countries with very low levels of per capita gross domestic product facing the most severe obstacles to development | GDP per capita ($100 to $120) | • Adult literacy rate (<=20 per cent) | • Share of manufacturing in GDP (<=10 per cent) |
| 1991 | Low-income countries suffering from lon-term handicaps to growth, in particular, low levels of human resource development and/or severe structural weaknesses | *Income:*<br>• GDP per capita | *Augmented physical quality of life (APQL):*<br>• per capita calorie supply.<br>• life expectancy at birth.<br>• combined primary and secondary school enrolment ratio.<br>• adult literacy rate. | *Economic diversification index (EDI):*<br>• Export concentration ratio.<br>• Share of manufacturing in GDP.<br>• Share of employment in industry.<br>• Per capita electricity consumption. |
| 1999 | Low-income countries suffering from low level of human resources and a high degree of economic vulnerability | *Income:*<br>• GDP per capita | *Augmented physical quality of life (APQL):*<br>• Average calorie intake per capita as a percentage of the requirement.<br>• Under-five mortality rate.<br>• Combined primary and secondary enrolment ratio.<br>• Adult literacy rate. | *Economic vulnerability index (EVI):*<br>• Population size.<br>• Export concentration.<br>• Share of manufacturing and modern services in GDP.<br>• Instability of agricultural production.<br>• Instability of export of goods and services. |
| 2002 | Low income countries suffering from low levels of human resources and a high degree of economic vulnerability | *Income:*<br>• GNI per capita | *Human assets index (HAI):*<br>• Average calorie intake per capita as a percentage of the requirement.<br>• Under-five mortality rate.<br>• Gross secondary school enrolment ratio.<br>• Adult literacy rate. | *Economic vulnerability index (EVI):*<br>• Population size.<br>• Export concentration.<br>• Share of manufacturing and modern services in GDP.<br>• Instability of agricultural production.<br>• Instability of export of goods and services. |
| 2005 | Low-income countries suffering from low levels of human resources and a high degree of economic vulnerability | *Income:*<br>• GNI per capita | *Human assets index (HAI):*<br>• Percentage of population undernourished.<br>• Under-five mortality rate.<br>• Gross secondary school enrolment ratio.<br>• Adult literacy rate. | *Economic vulnerability index (EVI):*<br>• Population size.<br>• Remoteness.<br>• Merchandise export concentration.<br>• Share of agriculture, forestry and fisheries in GDP.<br>• Homelessness due to natural disasters.<br>• Instability of agricultural production.<br>• Instability of exports of goods and services. |
| 2011 | Low-income countries suffering from the most severe structural impediments to sustainable development | *Income:*<br>• GNI per capita | *Human assets index (HAI):*<br>• Percentage of population undernourished.<br>• Under-five mortality rate.<br>• Gross secondary school enrolment ratio.<br>• Adult literacy rate. | *Economic vulnerability index (EVI):*<br>• Population size.<br>• Remoteness.<br>• Merchandise export concentration.<br>• Share of agriculture, forestry and fisheries in GDP.<br>• Share of population in low elevated coastal zones.<br>• Victims of natural disasters.<br>• Instability of agricultural production.<br>• Instability of exports of goods and services. |
| 2017 | Low-income countries suffering from the most severe structural impediments to sustainable development | *Income:*<br>• GNI per capita | *Human assets index (HAI):*<br>• Percentage of population undernourished.<br>• Under-five mortality rate.<br>• Maternal mortality rate.<br>• Gross secondary school enrolment ratio.<br>• Adult literacy rate. | *Economic vulnerability index (EVI):*<br>• Population size.<br>• Remoteness.<br>• Merchandise export concentration.<br>• Share of agriculture, forestry and fisheries in GDP.<br>• Share of population in low elevated coastal zones.<br>• Victims of natural disasters.<br>• Instability of agricultural production.<br>• Instability of exports of goods and services. |
| 2021 | Low-income countries suffering from the most severe structural impediments to sustainable development* | *Income:*<br>• GNI per capita | • Prevalence of stunting.<br>• Under-five mortality rate.<br>• Maternal mortality rate.<br>• Gross secondary school enrolment ratio.<br>• Adult literacy rate.<br>• Gender parity index for gross secondary school enrolment. | *Economic and environmental vulnerability index (EVI):*<br>• Remoteness and landlockedness.<br>• Merchandise export concentration.<br>• Share of agriculture, forestry and fisheries in GDP.<br>• Share of population in low elevated coastal zones.<br>• Share of population living in drylands.<br>• Victims of disasters.<br>• Instability of agricultural production.<br>• Instability of exports of goods and services. |

Source: United Nations, Economic and Social Council, Committee for Development Policy, United Nations, and Department of Economic and Social Affairs (2018).

Annex Table 1.2

**LDC scores against the 2021 LDC criteria**

| Country | Income only graduation threshold: GNI per capita ($2460=100) | Income graduation threshold: GNI per capita ($1230=100) | Economic vulnerability index graduation threshold: 32 or below (32=100) | Human assets index graduation threshold: 66 or above (66=100) |
|---|---|---|---|---|
| Afghanistan | 24 | 47 | 140 | 62 |
| Angola** | 142 | 284 | 142 | 78 |
| Bangladesh* | 67 | 133 | 85 | 114 |
| Benin | 34 | 68 | 103 | 74 |
| Bhutan**(*) | 120 | 239 | 81 | 115 |
| Burkina Faso | 29 | 57 | 152 | 87 |
| Burundi | 12 | 23 | 120 | 82 |
| Cambodia * | 51 | 102 | 95 | 102 |
| Central African Republic | 17 | 34 | 85 | 40 |
| Chad | 29 | 59 | 168 | 22 |
| Comoros | 53 | 107 | 124 | 96 |
| Dem. Rep. of the Congo | 20 | 40 | 74 | 71 |
| Djibouti** | 125 | 250 | 161 | 93 |
| Eritrea | 62 | 124 | 156 | 84 |
| Ethiopia | 31 | 62 | 109 | 83 |
| Gambia | 27 | 54 | 175 | 91 |
| Guinea | 33 | 66 | 84 | 57 |
| Guinea-Bissau | 28 | 56 | 126 | 58 |
| Haiti | 32 | 64 | 104 | 87 |
| Kiribati**(*) | 119 | 238 | 207 | 126 |
| Lao People’s Dem. Rep.* | 92 | 184 | 83 | 109 |
| Lesotho | 54 | 108 | 138 | 95 |
| Liberia | 16 | 33 | 124 | 70 |
| Madagascar | 19 | 39 | 106 | 92 |
| Malawi | 14 | 28 | 150 | 89 |
| Mali | 33 | 66 | 153 | 68 |
| Mauritania | 65 | 130 | 141 | 82 |
| Mozambique | 20 | 39 | 128 | 80 |
| Myanmar* | 51 | 102 | 80 | 109 |
| Nepal* | 37 | 74 | 79 | 109 |
| Niger | 21 | 41 | 150 | 51 |
| Rwanda | 30 | 61 | 106 | 99 |
| Sao Tome and Principe* | 70 | 140 | 93 | 133 |
| Senegal* | 54 | 107 | 135 | 100 |
| Sierra Leone | 22 | 44 | 117 | 63 |
| Solomon Islands* | 70 | 140 | 143 | 109 |
| Somalia | 4 | 8 | 164 | 32 |
| South Sudan | 34 | 68 | 137 | 33 |
| Sudan | 72 | 144 | 128 | 91 |
| Timor-Leste* | 81 | 162 | 125 | 103 |
| Togo | 25 | 50 | 78 | 89 |
| Tuvalu**(*) | 263 | 527 | 178 | 132 |
| Uganda | 27 | 53 | 88 | 87 |
| United Rep. of Tanzania | 40 | 81 | 104 | 92 |
| Yemen | 33 | 66 | 104 | 79 |
| Zambia* | 56 | 111 | 128 | 80 |
| **LDC averages** | **51** | **102** | **123** | **85** |

*Source:* UNCTAD secretariat calculations based on data from CDP for the 2021 Triennial Review.

*Notes:* * Country meets at least two graduating criteria; ** Country meets the income only graduation criterion threshold. The graduation rule requires that a country meeting two of the three criteria must do so in two consecutive triennial reviews.

Annex Table 1.3

**LDC selected indicators in 2000 and 2020**

| Country | GNI per capita | | Human assets index | | Economic vulnerability index | | Under-five mortality rate | | Maternal mortality rate | | Gross secondary school enrollment | | Prevalence of stunting | | Adult literacy rate | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2020 | 2000 | 2020 | 2000 | 2020 | 2000 | 2020 | 2000 | 2020 | 2000 | 2020 | 2000 | 2020 | 2000 | 2020 | 2000 | 2020 |
| Afghanistan | 139 | 580 | 5 | 41 | 45 | 45 | 138 | 62 | 1 486 | 638 | 17 | 54 | 54 | 38 | 26 | 43 |
| Angola | 539 | 3 496 | 26 | 52 | 40 | 45 | 215 | 77 | 779 | 241 | 11 | 51 | 55 | 38 | 68 | 66 |
| Bangladesh | 374 | 1 640 | 44 | 75 | 32 | 27 | 97 | 30 | 455 | 173 | 45 | 73 | 59 | 31 | 44 | 74 |
| Benin | 395 | 839 | 22 | 49 | 41 | 33 | 146 | 93 | 546 | 397 | 21 | 59 | 38 | 32 | 32 | 42 |
| Bhutan | 532 | 2 941 | 38 | 76 | 34 | 26 | 87 | 30 | 408 | 183 | 23 | 90 | 49 | 34 | 43 | 67 |
| Burkina Faso | 283 | 707 | 19 | 57 | 48 | 49 | 186 | 76 | 521 | 320 | 9 | 41 | 41 | 25 | 15 | 41 |
| Burundi | 149 | 285 | 18 | 54 | 34 | 38 | 167 | 58 | 1 011 | 548 | 9 | 48 | 63 | 54 | 55 | 68 |
| Cambodia | 294 | 1 254 | 30 | 68 | 44 | 31 | 118 | 28 | 490 | 160 | 18 | 45 | 54 | 32 | 67 | 81 |
| Central African Republic | 304 | 417 | 11 | 27 | 30 | 27 | 174 | 116 | 1 372 | 829 | 11 | 17 | 43 | 41 | 48 | 37 |
| Chad | 240 | 720 | 3 | 15 | 51 | 54 | 192 | 119 | 1 459 | 1 140 | 10 | 23 | 43 | 40 | 21 | 22 |
| Comoros | 932 | 1 310 | 45 | 64 | 39 | 40 | 103 | 67 | 473 | 273 | 32 | 56 | 43 | 31 | 66 | 59 |
| Dem. Rep. of the Congo | 191 | 490 | 27 | 47 | 31 | 24 | 168 | 88 | 762 | 473 | 30 | 46 | 48 | 43 | 70 | 77 |
| Djibouti | 763 | 3 074 | 40 | 61 | 47 | 51 | 105 | 59 | 507 | 248 | 14 | 51 | 30 | 33 | 52 | 50 |
| Eritrea | 355 | 1 528 | 28 | 56 | 57 | 50 | 95 | 42 | 1 186 | 480 | 28 | 47 | 46 | 53 | 49 | 77 |
| Ethiopia | 142 | 765 | 13 | 55 | 45 | 35 | 154 | 55 | 1 114 | 401 | 12 | 35 | 60 | 37 | 31 | 52 |
| Gambia | 1 129 | 662 | 30 | 60 | 54 | 56 | 124 | 58 | 909 | 597 | 28 | 50 | 30 | 19 | 33 | 51 |
| Guinea | 704 | 814 | 9 | 38 | 23 | 27 | 181 | 101 | 1 123 | 576 | 14 | 39 | 32 | 30 | 23 | 32 |
| Guinea-Bissau | 461 | 692 | 14 | 38 | 31 | 40 | 185 | 81 | 1 221 | 667 | 16 | 34 | 34 | 28 | 39 | 46 |
| Haiti | 394 | 786 | 48 | 58 | 28 | 33 | 111 | 65 | 448 | 480 | 18 | 18 | 32 | 22 | 53 | 62 |
| Kiribati | 967 | 2 926 | 66 | 83 | 52 | 66 | 76 | 53 | 137 | 92 | 47 | 87 | 27 | 15 | 64 | 80 |
| Lao People’s Dem. Rep. | 370 | 2 265 | 37 | 72 | 37 | 27 | 115 | 47 | 561 | 185 | 29 | 67 | 49 | 33 | 66 | 85 |
| Lesotho | 855 | 1 328 | 48 | 62 | 45 | 44 | 112 | 81 | 687 | 544 | 28 | 62 | 48 | 35 | 85 | 77 |
| Liberia | 159 | 401 | 20 | 46 | 56 | 40 | 212 | 71 | 944 | 661 | 32 | 38 | 45 | 30 | 39 | 48 |
| Madagascar | 288 | 479 | 40 | 61 | 31 | 34 | 119 | 54 | 613 | 335 | 20 | 37 | 57 | 42 | 66 | 75 |
| Malawi | 259 | 343 | 27 | 59 | 45 | 48 | 190 | 50 | 780 | 349 | 33 | 40 | 62 | 39 | 64 | 62 |
| Mali | 329 | 810 | 13 | 45 | 52 | 49 | 199 | 98 | 806 | 562 | 13 | 41 | 41 | 27 | 19 | 35 |
| Mauritania | 888 | 1 600 | 29 | 54 | 48 | 45 | 114 | 76 | 854 | 766 | 16 | 37 | 44 | 23 | 47 | 54 |
| Mozambique | 219 | 485 | 16 | 53 | 42 | 41 | 191 | 73 | 790 | 289 | 6 | 35 | 49 | 42 | 40 | 61 |
| Myanmar | 180 | 1 257 | 55 | 72 | 32 | 26 | 94 | 46 | 340 | 250 | 32 | 64 | 51 | 29 | 89 | 76 |
| Nepal | 230 | 911 | 34 | 72 | 34 | 25 | 91 | 32 | 571 | 186 | 38 | 74 | 61 | 36 | 44 | 68 |
| Niger | 248 | 509 | 10 | 34 | 48 | 48 | 244 | 84 | 875 | 509 | 6 | 24 | 51 | 48 | 20 | 31 |
| Rwanda | 254 | 747 | 28 | 65 | 42 | 34 | 226 | 35 | 1 071 | 248 | 11 | 41 | 47 | 38 | 63 | 73 |
| Sao Tome and Principe | 687 | 1 717 | 62 | 88 | 51 | 30 | 94 | 31 | 181 | 130 | 35 | 89 | 35 | 17 | 81 | 93 |
| Senegal | 729 | 1 317 | 29 | 66 | 44 | 43 | 139 | 44 | 611 | 315 | 14 | 44 | 27 | 19 | 36 | 52 |
| Sierra Leone | 231 | 537 | 17 | 41 | 33 | 37 | 244 | 105 | 2 330 | 1 120 | 22 | 42 | 37 | 30 | 32 | 43 |
| Solomon Islands | 1 011 | 1 721 | 57 | 72 | 53 | 46 | 32 | 20 | 248 | 104 | 24 | 48 | 33 | 32 | 73 | 77 |
| Somalia | 161 | 104 | 11 | 21 | 52 | 52 | 172 | 122 | 1 216 | 829 | 8 | 6 | 29 | 25 | 5 | 5 |
| South Sudan | 595 | 831 | 8 | 22 | 28 | 44 | 201 | 99 | 1 726 | 1 150 | 7 | 11 | 35 | 31 | 19 | 35 |
| Sudan | 249 | 1 766 | 42 | 60 | 46 | 41 | 111 | 60 | 694 | 295 | 32 | 47 | 38 | 38 | 57 | 61 |
| Timor-Leste | 743 | 1 998 | 33 | 68 | 30 | 40 | 120 | 46 | 715 | 142 | 35 | 84 | 56 | 52 | 34 | 68 |
| Togo | 392 | 618 | 30 | 59 | 32 | 25 | 126 | 70 | 523 | 396 | 27 | 62 | 33 | 24 | 52 | 64 |
| Tuvalu | 2 593 | 6 478 | 80 | 87 | 52 | 57 | 44 | 24 | 175 | 104 | 55 | 67 | 10 | 10 | 95 | 95 |
| Uganda | 358 | 654 | 29 | 57 | 35 | 28 | 159 | 46 | 575 | 375 | 11 | 25 | 45 | 29 | 64 | 77 |
| United Rep. of Tanzania | 295 | 992 | 30 | 61 | 32 | 33 | 144 | 53 | 857 | 524 | 8 | 29 | 49 | 32 | 66 | 78 |
| Yemen | 446 | 809 | 30 | 52 | 43 | 33 | 103 | 55 | 301 | 164 | 44 | 52 | 56 | 46 | 44 | 54 |
| Zambia | 387 | 1 367 | 26 | 53 | 43 | 41 | 173 | 58 | 543 | 213 | 20 | 20 | 56 | 35 | 68 | 87 |
| **LDCs** | 488 | 1 260 | 30 | 56 | 41 | 39 | 143 | 64 | 782 | 427 | 22 | 47 | 44 | 33 | 49 | 60 |

*Source:* UNCTAD secretariat calculations based on data from CDP for the 2021 Triennial Review.