CHAPTER

3

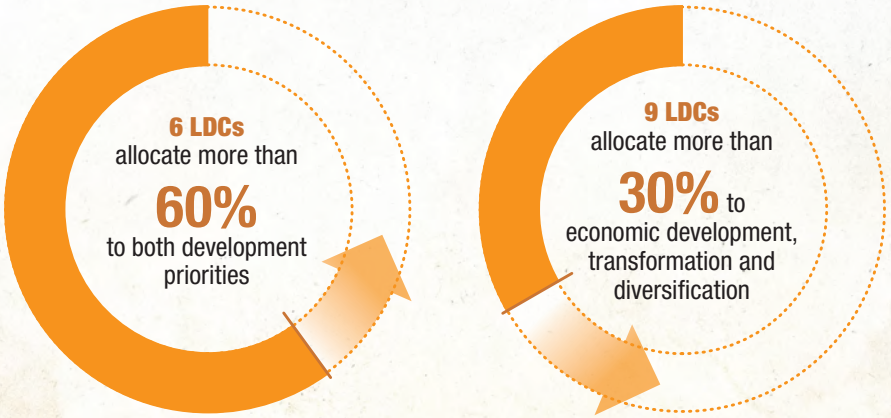
Evaluating past and present strategies for furthering development

Greater complexity in Progamme of Action policy agenda

exerts greater demand on and for state capacity

Out of 23 LDCs studied:

52% is the average national budget allocation spent on (i) Economic development,transformation and diversification; and (ii) infrastructure



Consistency in government spending

is undermined by
low tax revenue
and **low allocations of ODA**
to **budget support**

CHAPTER 3

Evaluating past and present strategies for furthering development

A. Introduction

This chapter describes the strategies that have underpinned the development outcomes analysed in chapter 2, and encompasses programmes of action (PoA) negotiated at the international level and approaches embodied by national development plans and policies. Since the 1980s, milestone events, processes and development challenges, such as the end of the Cold War, globalization, the economic surgency of the global South, financialization, migration and climate change have had profound impacts on the political economy of underdevelopment and alter the policy options available to LDCs and their development paths and trajectories. Each of the PoAs was thus a product of its time, and influenced by prevailing dominant strands of economic thinking and interpretations of development concepts in the period immediately preceding and during their respective decades of implementation. An exhaustive consideration of these shifts in economic thinking and their political economy impacts is beyond the scope of this report. However, it suffices to note that it is intrinsically difficult to distinguish the impact of the PoAs from the shortcomings of the strands of thinking that influenced their crafting or the global climate in which they are implemented because the degree of their implementation was jointly aided or disrupted by these factors.

In practice, the extent of impact that PoAs can have on national policies and domestic resource allocation is difficult to discern or attribute, as domestic policies typically embody a multitude of other national, bilateral, multilateral, and in more recent decades, global developmental values and processes. The PoAs have often been implemented in the context of other international frameworks of action on specific dimensions of development (e.g. Millennium Development Goals, Sustainable Development Goals, and years/decades of international action on designated developmental problems). In addition, although the PoAs define a specific policy agenda, few objectives are associated with specific or measurable targets and targeted priority actions can often serve multiple objectives. In line with this critical need for nuanced policy approaches to development, LDC governments are expected to take ownership and establish national frameworks for the achievement of the PoAs in accordance with country-specific conditions and aspirations. This leaves the difficult task of infusing specificity, prioritization, leveraging synergies and resolving trade-offs to national governments, which renders international-level monitoring and evaluation (M&E) challenging.

PoAs do not replace national development plans

B. Multilateral strategies for furthering development in LDCs

Every ten years, the United Nations convenes a conference devoted exclusively to LDCs. Programmes of action (PoA) have been decided for each of the four decades during 1980 and 2021 (Box 3.1).

As the outcome of a multilateral approach to development involving negotiation and compromise, PoAs are not legally binding. They inevitably encompass a political agenda and reflect the unequal power plays and interactions existing between different constituencies and ideological leanings within the multilateral system (Browne, 1997; Koehler, 2015; Weiss, 1983, 2016). It is important to bear in mind that PoAs do not replace national development plans as this would overlook the heterogeneity of the LDCs and infringe on their sovereignty and agency. PoAs thus inherently generalize LDC internal factors, both in: (i) the articulation of structural impediments to development; (ii) in the evaluation of implementation; and (iii) placing greater emphasis on areas of international action more oriented to outcomes.

1. Continuity and change across programmes of action for the LDCs

Within the framework of the overall and specific goals set by each of the POAs (Annex Tables 3.1–3.3), it is useful to examine continuity and consistency across the four PoAs. Each of them identify outcomes that address the social, economic and environmental impediments to development in the LDCs, as well as the role and value of development planning.[1] While all seek comprehensive coverage of the various dimensions of development, it is possible to discern, especially with respect to national measures, a progressive trend to more explicitly pinpoint the approaches through which outcomes could be

[1] The BPoA and IPoA placed less emphasis on this point.

Box 3.1 **Forty years of LDC decadal programmes of action**

The Substantial New Programme of Action for the 1980s

By the time of the inaugural decadal programme of action – the Substantial New Programme of Action (SNPA) for the Least Developed Countries for the 1980s – was proposed by UNCTAD at the fifth Session of the United Nations Conference on Trade and Development in 1979, the international community had already been unified by collective actions in support of all developing countries under the international development strategies for the First and Second United Nations Development decades (United Nations, 1961, 1970). This period encompassed two phases: (i) the Immediate Action Programme (1979–1981) was intended to meet LDCs' most pressing short-term social needs and aimed to pave the way for the second, much larger and longer-term development effort foreseen by the decadal programme. This second phase emphasized transformational investments which were: (i) proportional to the magnitude of the challenge facing the LDCs; and (ii) were large enough to have a durable impact (United Nations, 1982). The SNPA was finalized and adopted by the first United Nations Conference on the Least Developed Countries held in Paris in 1981.

Paris Declaration and Programme of Action for the Least Developed Countries for the 1990s

The Paris Declaration and Programme of Action (PPoA) for the Least Developed Countries for the 1990s was the outcome of the second United Nations Conference on the Least Developed Countries held in Paris in 1990 (UNCTAD, 1992). With interdependence in the world economy and the marginalization of LDCs even more accentuated at the end of the implementation period of the SNPA, the PPoA was premised on forging a strengthened partnership to ensure greater commitment by all parties in the implementation of a more coherent action-oriented programme to reverse in the 1990s the trend of continued economic deterioration in the LDCs.

Programme of Action for the Least Developed Countries for the Decade 2001–2010

The Programme of Action for the Least Developed Countries for the Decade 2001–2010 (commonly referred to as the Brussels Programme of Action – BPoA) was agreed by the third United Nations Conference on the Least Developed Countries held in Brussels in 2001. The 1990s were marked by a ramped up focus on issues of poverty and social development (United Nations, 2017). The BPoA thus reflected, the urgency the global community attached to redressing the neglect of the poor and growing inequalities within and across countries in the context of structural adjustment lending and the economic strife evident during the 1990s.

Programme of Action for the Least Developed Countries for the Decade 2011–2020

The Programme of Action for the Least Developed Countries for the Decade 2011–2020 (commonly referred to as the Istanbul Programme of Action – IPoA) was adopted by the fourth United Nations Conference on the Least Developed Countries held in Istanbul in 2011 (United Nations, 2011). The IPoA lent more focus to a strategic and ambitious commitment from LDCs and their development partners to bring about structural transformation, and the graduation of countries from the LDCs category as an explicit goal.

Source: United Nations, 1980b, 1980c, 1982, 2011, 2017; UNCTAD, 1992.

achieved, rather than focusing on justifying desirable outcomes, with the SNPA being the least, and the IPoA the most operational of the PoAs. A review of the structure of the respective PoAs to be found in Annex Tables 3.1–3.3 shows successive PoAs giving greater attention to matching objectives to priority areas of action.

All the PoAs are underpinned by a common acceptance of the structural transformation of LDC economies as the unique vehicle to achieve sustained and self-reliant development; however, notable differences exist with respect to the focus and level of detail accorded to the priority areas key to advancing the process of the structural transformation in LDCs; therefore, successive PoAs could be seen as having increasingly targeted productive capacity/capacities and diversification even though this has not been recognized as an explicit and central goal. Policy guidance on the PoAs is, for the most part, specified only in aspirational terms, e.g. "articulating or considering" certain policies and measures, or "attracting, facilitating, promoting, fostering or taking concrete measures" on certain desirable outcomes, or "complying with" existing multilateral frameworks. By default, areas of action that offer the greatest scope for joint and complementary action between LDC governments and the international community, such as foreign trade, official development assistance (ODA) and technical assistance, represent "low hanging fruit" in that they represent the "how" of proposed policy measures and targets incorporated. While an increasingly favoured feature of the global development agenda is the inclusion of built-in measures to capture progress, the existence of many areas of development policy which are not conventionally quantifiable or measurable, or for

which data are lacking, is a binding limitation. The measurements and indicators included in PoAs are also intended to incentivize improvements in data collection,[2] and application in development planning and cooperation.

Successive shifts in emphasis across the PoAs have served to amplify certain dimensions of development over others, and attempt to "fix" problems/issues that occurred during the implementation of previous PoAs. This represents a progression in the complexity and the number of policy measures (including related trade-offs and sequencing challenges), with the corollary being greater demands on (and for) state capacity. All the PoAs are heavily dependent on the capacity and leadership role of LDC governments, who have primary responsibility for their own development. However, LDCs' state capacity has been susceptible to erosion throughout the PoAs' implementation, as evidenced by the adverse effects of the austerity measures taken in the context of the structural adjustment programmes (SAPs) of the 1980s and 1990s – the latter almost completely overshadowing longer-term concerns with sustainable development and structural transformation ambitions embodied in the SNPA and the Industrial Development Decade for Africa. Moreover, ODA commitments and measures intended to improve aid allocations and mechanisms have consistently remained unmet and hampered goals on aid effectiveness and the building of state capacity to deliver on the PoAs and other development goals. It is thus notable that all the PoAs have functioned imperfectly, with neither party able to say they have fully met their objectives.

a. PPoA versus SNPA

Annex Table 3.1 presents the priority areas of the SNPA and the PPoA. A dominant feature of the SNPA is that it refutes the notion that underdevelopment was solely an endogenous problem (i.e. that it was due to a lack of qualified professionals, capital, technology or know-how) internal to the LDCs. The protectionist responses of developed countries to the oil shocks of the 1970s intensified external and domestic disequilibria in most developing countries, requiring considerable efforts on their part to adapt their economies (UNCTAD, 2012b; United Nations, 1980a, 2017). As part of the required "concerted international action in support of national efforts" that are needed, the SNPA highlights the importance to the substantial and transformational transfers of resources from advanced economies to the LDCs as a prerequisite for overcoming their structural impediments to development.

State capacity has been susceptible to erosion throughout the PoAs' implementation

Much of the national policy guidance proposed by the SNPA is directly or indirectly linked to expanded international support. The expectation that such a transformational increase in financial transfers would materialize is explained by the then prevailing context of decolonization, and the solidarity and atonement that imbued international development strategies. This included the contemporaneous international discourse on a new international economic order, and United Nations General Assembly discourses linked to human rights[3] and the collective responsibility of the international community for global development (United Nations, 1970, 1980b). Thus, within the framework of the internationally agreed ODA target to developing countries of 0.7 per cent[4] of the gross national product (GNP) of developed countries, the SNPA initiated the LDC-specific target of 0.15 per cent to double the level of ODA to LDCs by 1985.

The SNPA sought to transform the economies of LDCs and set them on the road towards self-sustained development. It also aimed to enable them to provide internationally accepted minimum standards of nutrition, health, transport and communications, housing and education, and job opportunities, to all their citizens, and particularly to the rural and urban poor (United Nations, 1982). The SNPA can be viewed as seeking to address problems of underdevelopment arising with high population growth rates,[5] and the inability of LDC economies to meet basic human needs, including

[2] Despite the rhetoric around big data, less than 0.5 per cent of ODA goes into supporting or building the capacity of national statistical offices, with most low- and middle-income countries (LMIC) unable to fund even half of their national statistical plans (World Bank, 2021a).

[3] These discourses preceded the declaration on the Right to Development in 1986. https://www.ohchr.org/EN/Issues/Development/Pages/Backgroundrtd.aspx

[4] This target is quoted in the international strategies for the second and third United Nations Development Decades. With the revised System of National Accounts in 1993, gross national product was replaced by an equivalent concept of gross national income (GNI). The OECD shows DAC members' performance against the 0.7 per cent target in terms of ODA/GNI ratios.

[5] Both the SNPA and PPoA encourage LDCs to adopt population control measures but these remain unspecified and are not subject to specific targets.

The 1980s are considered a 'lost decade' for developing countries, and especially for the LDCs

human and institutional development. This emphasis can be understood in the context of the dominant view in the 1950 to 1970s that uncontrolled population growth was at the root of poverty and underdevelopment in poor countries (Bongaarts et al., 2020; Sinding, 2009). In addition, the SNPA emphasizes the importance of building LDC state institutional capacity as a fundamental requirement to achieve development, including with respect to: (i) the crucial role played by state enterprises; (ii) the exploitation of national resources; (iii) expansion of the manufacturing base for the purposes of boosting economic growth and trade expansion; and (iv) safeguarding the environment. The SNPA also references the objectives and targets of the International Development Strategy for the Third United Nations Development Decade, the Nairobi Programme of Action for Development and Utilization of New and Renewable Sources of Energy, the Global Strategy for Health for All by the Year 2000 and the first Industrial Development Decade for Africa.[6]

The four specific measurable and timebound targets set by the SNPA for the decade covered: (i) GDP growth (7.2 per cent average annual rate); (ii) agricultural production (4 per cent minimum average annual growth); (iii) manufacturing output (9 per cent minimum overall annual growth); and (iv) ODA.

The 1980s are generally considered as a 'lost decade' for developing countries, and especially for the LDCs (Singer, 1989; United Nations, 2017).[7] The PPoA's primary objective was to arrest the deterioration in their socioeconomic situation, to reactivate and accelerate growth and development and set them on the path of sustained growth and development. New issues on the development agenda included the external indebtedness of the LDCs (including from ODA, multilateral and commercial debt), private sector development, and the industrial base beyond the manufacturing sector. Food aid was included in the PPoA following widespread incidents of famine in the developing world in the 1980s (FAO, 2006; Singer, 1988).

The PPoA maintains most of the priority areas of action articulated by the SNPA, but the latter's enthusiasm for the tradition of state-driven industrialization and central planning had begun to wane by the second oil shock in 1979. In the 1980s, consistent with the Washington Consensus, and often at the expense of everything that had previously been understood as development, attention firmly shifted to debt settlement, stabilization, adjustment, structural change, liberalization, etc. (Singer, 1989). The PPoA still sought to maintain an appropriate balance between the roles of the government and the market in industrial development – much in keeping with UNCTAD's more prudent attitude on the merits of the free market, but the fundamental shift to the greater reliance on market forces is quite evident in the articulation of its objectives (Annex Table 3.1).

The macro-economic policy framework (as an overall enabling environment), is at the core of the PPoA. It advocates the role of the private sector, and the requirement to modernize LDC economies as the basis for overcoming the structural bottlenecks of underdevelopment. The PPoA accords greater emphasis to policies needed to develop and accumulate productive capacities (although not explicitly articulated as such), including human, institutional, economic infrastructure, and technological and entrepreneurial capacities. In addition, the PPoA realigns and broadens the policy focus in sectors and policy areas, including: (i) agriculture; (ii) human capital; and (iii) rural development and manufacturing. To emphasize the goals of industrialization, the PPoA advocates diversification across markets/products, and expanding productive capacities and technology transfers as prerequisites for growing the industrial base. For the first time, guidance on economic diversification is linked to expanding local private enterprise for sustainability and balanced growth.[8] The perspective on the productive base is

[6] Prior to the Paris Conference, the United Nations General Assembly had endorsed the SNPA to be undertaken as an essential priority within the International Development Strategy for the Third United Nations Development Decade (1981–1990). The SNPA was also implemented within the framework of the Programme of Action on Agrarian Reform and Rural Development (United Nations, 1980b, 1980c).

[7] While there was broad consensus that the decade was 'lost' for Latin America, Africa and (generally) for oil exporters, the situation was relatively less serious for Asia.

[8] During the 1980s, private sector development began to play an increasing role in development policy, driven by structural adjustment policies focused on privatization and market liberalization. The generic and popular use of the term "private sector development" in development cooperation seldom drew a distinction between foreign direct investment (FDI) and local entrepreneurship, but policies aimed at promoting one or the other cannot always be assumed to unequivocally benefit both (UNCTAD, 2019a, 2018a).

broadened to include the services sector, as well as the manufacturing and agricultural sectors already featured in the SNPA, and addresses the goal of diversification in both domestic and external trade. The PPoA dispenses with the tradition of specifying a target for manufacturing production.

The PPoA improves on various other priority actions captured in the SNPA. For example, it broadens the concern for building institutional capacities to explicitly encompass various other sectors besides the public administration emphasized by the SNPA. It also posits a more positive role for population growth in accelerating rural development and the modernization of the agricultural sector through, among others, raising domestic demand. The PPoA elevates South-South cooperation in supporting development efforts in LDCs, and calls for its strengthening, including in terms of trade preferences and trade facilitation, during the 1990s (UNCTAD, 2011c). However, in most policy areas guidance is articulated in generic and aspirational terms. For example, on diversification, LDCs are simply encouraged to adopt policies and measures which could stimulate new export sources.

Another notable new feature in the PPoA is the attention paid to articulating the responsibilities of different actors in advancing development. For example, the PPoA states that "the contribution would be most effective if made within the framework of goals, policies and priorities outlined in national plans and programmes and the positive role" that could be played by "indigenous NGOs" (non-governmental organizations). This can be viewed in the context of the rise of a pro-NGO norm in the 1980s and 1990s among donor states and intergovernmental organizations (Reimann, 2006; Kamat, 2004; Marberg et al., 2016; UNCTAD, 2019a) that accompanied the rise of the concept of "good governance" (the corollary being the lack of it in developing countries), and the perceived indispensable role of international NGOs as vectors of democracy, inclusion and transparency. In addition to diverting development finance away from host governments, this clashed with the international community's insistence that LDCs bore primary responsibility for their development and the principles of national ownership and leadership. This serves not only to recognize new actors in development cooperation since the 1980s, but also to emphasize issues of aid effectiveness and LDC leadership and agency in mobilization of domestic resources. The PPoA calls for a significant and substantial increase in the aggregate level of external financial resources, and retains this undertaking as the only quantitative target for the 1990s decadal programme.

Ramped up focus on issues of poverty and social development by the end of the 1990s

b. BPoA versus PPoA

Annex Table 3.2 presents the priority areas of action of the BPoA compared to the PPoA. Again, there is a reshuffling in terms of the prominence accorded to different dimensions of development policy. The widespread expectation in the early 1990s that the globalization of production systems and finance, would help diminish income disparities between countries within the global economy (UNCTAD, 2002) was tempered by a ramped up focus on issues of poverty and social development towards the end of the decade (United Nations, 2017). Widespread agreement was seen on the need to focus attention on human development, the coverage and quality of basic public services, and the right policies for aid, including reversing the decline in ODA, improving aid coordination and its effectiveness – all factors that were also viewed as having contributed in undermining LDC progress on development. Growing inequalities within and across countries received increased policy attention.[9] This renewed spirit of multilateralism was embodied in the internationally agreed Millennium Development Goals in the year 2000. In this respect, the BPoA replicates 12 targets of the Millennium Development Goals, with eradicating poverty featuring prominently in the overall objective of the PoA. Thus, the entry of the notion of a people-centred enabling policy framework alongside the Washington-Consensus-consistent focus[10] introduced by the PPoA, is the most notable change in nuance established by the BPoA. Accordingly, building human capital and institutional capacities assumes an elevated profile; as agents and beneficiaries of development, women, men and children are named as the LDCs' "greatest assets". Emphasis is placed of social services, education, computer literacy, health and nutrition, and measures to address inequalities within these various dimensions.

[9] Including in the context of structural adjustment lending, whereby the September 1999 Annual Meetings of the World Bank Group and the IMF endorsed the proposal that country-owned poverty reduction strategies (PRSPs) should provide the basis of all World Bank and IMF concessional lending, and guide the use of resources freed by debt relief under the enhanced heavily indebted poor countries (HIPC) Initiative.

[10] Solely focussed on stabilization, fiscal adjustment and liberalization.

The BPoA entrenched export orientation as the dominant model for development in LDC

The BPoA assumes a sharper focus on productive capacities[11] and the issue of promoting the expansion of domestic markets centred on income and employment generation. In 2006, UNCTAD developed the concept of productive capacities and highlighted their pivotal role in overcoming the structural impediments to development in LDCs (UNCTAD, 2006). The explicit goal to enhance the productive capacities of LDCs advances the agenda initiated by the PPoA, including by linking it to South-South cooperation, as well as subregional and regional cooperation. The BPoA accords the local entrepreneurship base specific attention, and restores the SNPA's focus on manufacturing and natural resources (mining) because of the former's potential to enhance technological capacities and the contribution made by the extractives sector as a significant source of foreign exchange earnings in many LDCs. The BPoA reconfirms the importance of domestic resource mobilization and emphasizes the accountability and mutual responsibility of the international community in the light of the aid crisis of the 1990s (Wood et al., 2008).

The BPoA's focus on trade facilitation and infrastructure issues reflects the influence of the Uruguay Round and globalization, and entrenches export orientation, dominant since the PPoA, as the dominant model for development in LDCs.

The BPoA stands out among LDC PoAs as it incorporates a total of 30 measurable and time-bound goals and targets. The urgency the global community attached to redressing neglect of the poor and the overall drive to focus interventions at the micro/individual levels that defined the basic needs agenda on poverty alleviation and inclusion, is reflected in the incorporation of no less than 20, out of 30, measurable targets (United Nations, 2001). Of the remaining measurable targets: (i) two pertain to economic growth (GDP growth rate of at least 7 per cent per annum and ratio of investment to GDP of 25 per cent per annum), which is reminiscent of the SNPA and the UN Development Decades; (ii) five pertain to economic infrastructure related mainly to trade facilitation; and (iii) three relate to the PPoA ODA goal.

The BPoA stands out for introducing a new PoA layout that charts, in a reader-friendly format, the commitments (and principles) underpinning the PoA partnership, and lists the joint actions required of the LDCs and development partners separately under each of the priority areas of action. The BPoA effectively clarifies and raises the bar on the LDC PoA accountability framework, albeit on a non-binding basis; and thus, explicitly attempts to leverage the prevailing renewed spirit of multilateralism and addresses the persistent malfunctions of the development partnership on which the PoAs are predicated. The BPoA seeks to influence the allocation of ODA across all the priority areas of action by associating the role of the international community under each of the priority areas of action. One of the ways it does this is by enshrining acceptance that LDCs and industrialized countries have common but differentiated responsibility for actions on climate change, as well as the need for an integrated approach to development.

c. IPoA versus BPoA

Annex Table 3.3 presents the priority areas of action of the IPoA compared to the BPoA. The overarching goal of the IPoA was to overcome LDC structural challenges in eradicating poverty, achieving internationally agreed development goals, and enabling graduation from the LDC category. The IPoA set an ambitious target of enabling half the number of LDCs to meet the criteria for graduation by 2020. This was the first time that a PoA formulated an explicit recommendation on graduation from the LDC category. Despite not achieving this latter target, 2011–2020 is the most successful decade of LDC PoA implementation.

The IPoA expands the number of PoA governing principles from five to eight – the three additional ones being: (i) equity, voice and representation; (ii) peace and security; and (iii) development and human rights. It modifies the BPoA principles on market considerations and country ownership to emphasize the balanced role of the state and market considerations, as well as country ownership and leadership on matters of development policy. Of note and for the first time, the IPoA emphasizes the voice and representation of LDCs in the international economic system. Moreover, the principle of a balanced role of the state entailed a qualitative shift to emphasize the active role of the (developmental) state in the process of development.

[11] It was only in 2006 that UNCTAD advanced the concept of productive capacities and highlighted their pivotal role in overcoming the structural impediments to development in LDCs (UNCTAD, 2006). Some elements of what became known as productive capacities were targeted by the BPoA.

These changes essentially reflected the outcomes of the Monterrey Consensus,[12] World Summit on Sustainable Development of 2002, the 2005 World Summit,[13] and the High-level United Nations Conference on South-South Cooperation, 2009 (United Nations, 2009).[14]

The IPoA maintains quantitative targets on ODA and seeks to double the share of LDCs in global trade – a target later reiterated by the Sustainable Development Goals in 2015. Fundamentally, the IPoA reiterated and furthered the aims of the BPoA by adopting an even more operational approach to: (i) eradicating poverty; (ii) building productive capacities; (iii) advancing actions on broadening the economic base in LDCs; and (iv) mobilizing financial resources for development. The IPoA also sought to address problems that had emerged during the BPoA implementation, such as the weak participation of local actors in the economy (concerns centred on issues of equity and inclusion, including: (i) issues of private sector development: (ii) technology transfer and women's entrepreneurship; (iii) increased vulnerability of LDC economies to external shocks (trade, environmental disasters and climate change impacts); (iv) related smooth transition issues for graduating countries; (v) aid-related debt risks; (vi) the long-standing problem of aid quality and effectiveness; and (vii) the growing complexity of peace and security issues. The IPoA elevated the recognition of the role and contribution of South-South cooperation in the development of LDCs in line with the emergence since the 1990s of strong and sustainable growth poles in the global South and increased South-South trade (OECD, 2010; UNCTAD, 2011a, 2011b; UNDP, 2013; United Nations, 2008).

2. Forty years of international support measures for LDCs

Each of the PoAs called for commitments on international support measures (ISMs). In addition to ODA and technical assistance, trade is the main area through which concrete LDC-specific ISMs have been pursued and operationalized, including outside of the PoAs. While the special needs of LDCs are widely recognized, major financial institutions, such as the World Bank and the International Monetary Fund (IMF), do not recognize or apply the LDC category in their operational work. Nonetheless, multilateral institutions are parties in the PoA development cooperation partnership, and jointly associated on donor commitments on financing for development, including ODA, technical assistance and debt relief.

DONORS HAVE NOT EXPANDED ODA at the pace required to achieve agreed PoA targets

While most aid donors wish to appear as generous as possible (OECD, 2019), the track record on greater differentiation in the special treatment of LDCs is inconsistent. It can be said that the PoAs have had influence on the international discourse on development in LDCs serving as a useful tool for advocacy since donors need to secure their public's buy-in for aid policy. Policy statements notwithstanding, many donor countries have not expanded ODA to LDCs at the pace required to achieve agreed targets; concerns about this were raised as early as the first LDC Conference in 1981 when the topic of the limited progress achieved in the implementation of the Immediate Action Programme was broached (United Nations, 1982). There are several dimensions to the less-than-satisfactory record on the fulfilment of ODA goals and targets, not least the lagged constraints imposed on the capacity and inclination of donors to meet ODA targets during times of domestic economic strife. These factors likely contribute to explaining why donor commitments on ODA in the PoAs weakly translate to actual aid transfers and why aid allocations are unequally distributed across the various dimensions of development.

Donor ambition is also measured by the nature of their commitments. Critics point out that ODA

[12] This is the first UN-sponsored summit-level meeting to address key financial and related issues on global development and widely considered to be a turning point in the international community's approach to development cooperation and financing for development issues.

[13] The Summit reaffirmed common fundamental values, including freedom, equality, solidarity, tolerance, respect for all human rights, respect for nature and shared responsibility. It recognized development as a central goal of multilateralism and addressed issues of interdependence, global partnership, and good governance.

[14] Member States stressed that South-South cooperation is a complement to, North-South cooperation and not a substitute.

The political context for the PoAs is as important as the targets themselves

commitments do not amount to a promise to attain the targets; furthermore, the graduated nature of the PPoA-established commitments skews donors' incentive because the few relatively small countries that consistently reach the upper-level target (0.20 per cent of GNI) are required to do more. Bigger and richer donor countries that do not attain even the lowest target (0.15 per cent of GNI) are subject to less pressure to commit to a volume of ODA in proportion to their GNI (Diallo et al., 2020; Scott, 2019).[15]

The political context for the PoAs is as important as the targets themselves because donors inevitably respond to development goals in ways that are specific to their local situations. Accordingly, it is also important to recognize that the messages that may be most effective in garnering donor support for pro-development policies and sustained aid programmes may be different from those that incentivize sustainable progress on the ground (Manning, 2009). Studies have distinguished a variety of donor motivations for giving, e.g. solidarity, recipient need, donor self-interest, recipient characteristics, donor ideology, historical path dependencies, geopolitical competition, trade interests, enlightened self-interest, and domestic security concerns (Alesina and Dollar, 2000; Alonso, 2018; Brück and Xu, 2012; Carbonnier, 2010; Fuchs et al., 2014; Gulrajani and Swiss, 2017; Maizels and Nissanke, 1984; Tierney et al., 2011; UNCTAD, 2019a; Woods, 2008; Wood et al., 2008). Also noteworthy is that the Monterrey Consensus, which underpins 21st century development financing, and which advanced the view that sound governance is necessary for aid to be used effectively. This endorsement effectively justified selectivity in aid allocation by donors and tilted the balance of responsibility for aid effectiveness towards aid recipients.

One troublesome issue is the multitude and contested meanings on the concept of development. Such ambiguity and elusiveness serves to justify a variety of different agendas held by national governments, donors, and the diverse and increasing number of actors in development cooperation; this is further complicated by power imbalances that tend to negate the rhetoric on LDC ownership and leadership on decisions on this question (Manning, 2009; UNCTAD, 2019a). Since the Monterrey Consensus, the meaning of the concept of development is heavily weighted towards poverty alleviation and development perspectives emphasizing individual well-being versus a holistic view of the national economy functioning as a system that simultaneously addresses societal well-being. The interplay of stagnant ODA flows and a sectoral allocation disproportionately geared towards social sectors and humanitarian activities leaves economic infrastructure and productive sectors relatively underfunded (UNCTAD, 2019a).

The recent DAC rule changes on ODA reporting has generated controversy. A major concern is that under the new reporting rules, other than the fall in the degree of ODA concessionality, is that ODA ceases to be a reliable gauge of donor effort, and thus negates United Nations ODA targets, which themselves were based on the 1969 DAC definition of ODA (Rogerson and Ritchie, 2020; Scott, 2019; UNCTAD, 2019a).[16] The DAC contends that ODA plays an indispensable role in catalysing the private development finance needed to close the funding gap for the Sustainable Development Goals; accordingly, since 2019, DAC donors increasingly channel ODA through their bilateral development finance institutions (DFIs) to facilitate blending finance. However, the evidence on increased and additional private flows remains far from convincing (UNCTAD, 2019a). The establishment in January 2020 of the first privately-owned development finance institution by J.P. Morgan not only belies the DAC logic, but raises questions on the trend to financialize development. Available evidence suggests that the private DFI engages more in "rearranging existing investments", rather than unlocking new and additional private capital to address development issues (Saldinger, 2021). In this process of turning development into a financial asset, Sustainable Development Goals concepts and development

[15] In recognition of the few donors that exceeded the SNPA LDC-specific target on ODA, the PPoA further modified the measurable and time-bound targets for ODA as follows:

- Donor countries providing more than 0.20 per cent of their GNP as ODA to LDCs to continue to do so and increase their efforts;
- Other donor countries which met the 0. 15 per cent target to undertake to reach 0.20 per cent by the year 2000;
- All other donor countries to reaffirm their commitment to the 0.15 per cent target, and to undertake either to achieve the target within five years (by 1995), or to make their best efforts to accelerate their endeavours to reach the target.

[16] Starting with 2018 data, the new grant equivalent measure of ODA became the standard for reporting. https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/What-is-ODA.pdf

impact are reduced to symbolic branding tools to achieve commercial profit and side-lining the principles of LDC ownership and leadership (Alonso, 2018; Dissanayake, 2021; Saldinger, 2020; UNCTAD, 2019a).

Trade is the main area through which concrete LDC-specific ISMs have been pursued and operationalized. This is perhaps unsurprising given that export orientation is entrenched as the dominant development model. Trade preferences have the greatest international momentum to provide special treatment for LDCs, both in the context of market access and in the implementation of WTO rules and disciplines.[17] The Generalized System of Preferences (GSP) was instituted in 1971 under the aegis of UNCTAD and saw all developing countries granted trade preferences by most industrialized countries (UNCTAD, 2018c, 2018d, 2019c). The provision and utilization of trade preferences is a key goal of all the PoAs, further reaffirmed in Sustainable Development Goal 17. Since the early 2000s, more generous provisions have exclusively been introduced for LDCs under the GSP. While some evaluations on the impact of trade preferences on LDCs suggest otherwise (Klasen et al., 2021), evaluations by UNCTAD and scholars concur that they have generated limited results (Gay, 2020; Tanaka, 2021; UNCTAD, 2010, 2003), especially with respect to fostering structural transformation. A related concern is the risk that preferences entrench production patterns that are not sustainable in the light of progressive liberalization. Facilitating development-inducing export growth in LDCs requires a holistic approach, rather than merely focusing on tariffs. LDCs are typically characterized by narrow export bases – market access alone does not provide sufficient impetus to change the composition of their exports. Their narrow export base can also prevent them from fully exploiting available market access opportunities, including in effectively meeting the rules of origin requirements of such unilateral schemes (WTO, 2019, 2021). The merchandise export structure of LDCs differs substantially in that some countries can better take advantage of available preferences than others: Bangladesh is an example of an LDC that has exercised its state capacity to substantially benefit from ISMs.

C. National strategies for furthering development

The preceding sections of this chapter have examined, first, the evolution of the priorities for development

[17] https://unctad.org/topic/trade-agreements/generalized-system-of-preferences

Trade preferences have the greatest international momentum to provide special treatment for LDCs

strategies agreed by LDCs and the international community and enshrined in the successive programmes of action, and second, the international policy initiatives adopted by LDC development partners to assist LDC development, as translated by the ISMs that have been put into action. The present section examines the domestic development policies and strategies adopted by LDCs, and completes the analysis of the policies steering the development outcomes analysed in Chapter 2. While international developments are a determinant of development outcomes (especially for aid-dependent countries and those most integrated into the global economy), domestic dynamics are just as important. This section concentrates on the types of development objectives and sectors prioritized by governments, and which are mostly financed from domestic resources. The analysis is based on a scrutiny of spending plans in the latest generation of national development plans, and on the patterns of public spending going back to the 1990s.

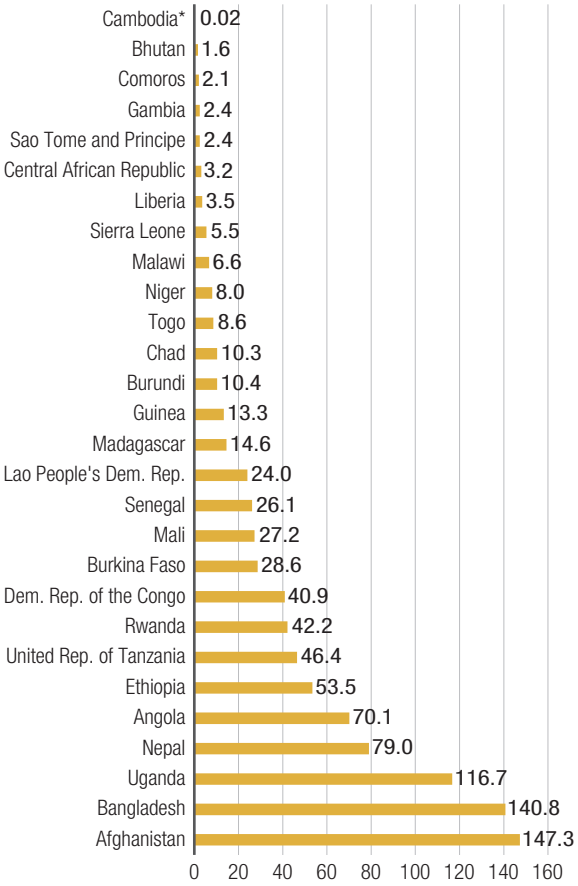
1. Overview of national priorities

Countries follow different development paths and trajectories as a result of initial conditions, national policy choices, and exogenous factors (Mkandawire and Soludo, 2014; Olukoshi, 2008). The implication of unique country challenges requires that countries strike a balance among different priorities, while pursuing their own development agenda. At the centre of development planning processes are the governance structures and institutions that define national visions and develop strategies and policies to realize them. These governance institutions have the concomitant responsibility to develop policies that foster cohesion across the populace and balance the trade-offs and unintended consequences of policies. These contrasting forces have once again become a major feature of national policymaking process in developing countries since 2015 (Chimhowu et al., 2019). Therefore, an analysis of LDCs' national development plans was made, covering various overlapping periods beginning in 2014/2015–2020/2021 and ending in 2020/2021–2030/2036.

Several of these plans contain an implementation cost estimate, while others only include an indication

Figure 3.1

Total budget allocation based on national development priorities in billion dollars covering the latest plan period**



Source: UNCTAD secretariat calculations based on data from various national development plans.

Notes: * The figure represents only 25 per cent of the infrastructure investment estimates. ** Plan periods vary, beginning in 2014/2015–2020/2021 and ending in 2020/2021–2030/2036.

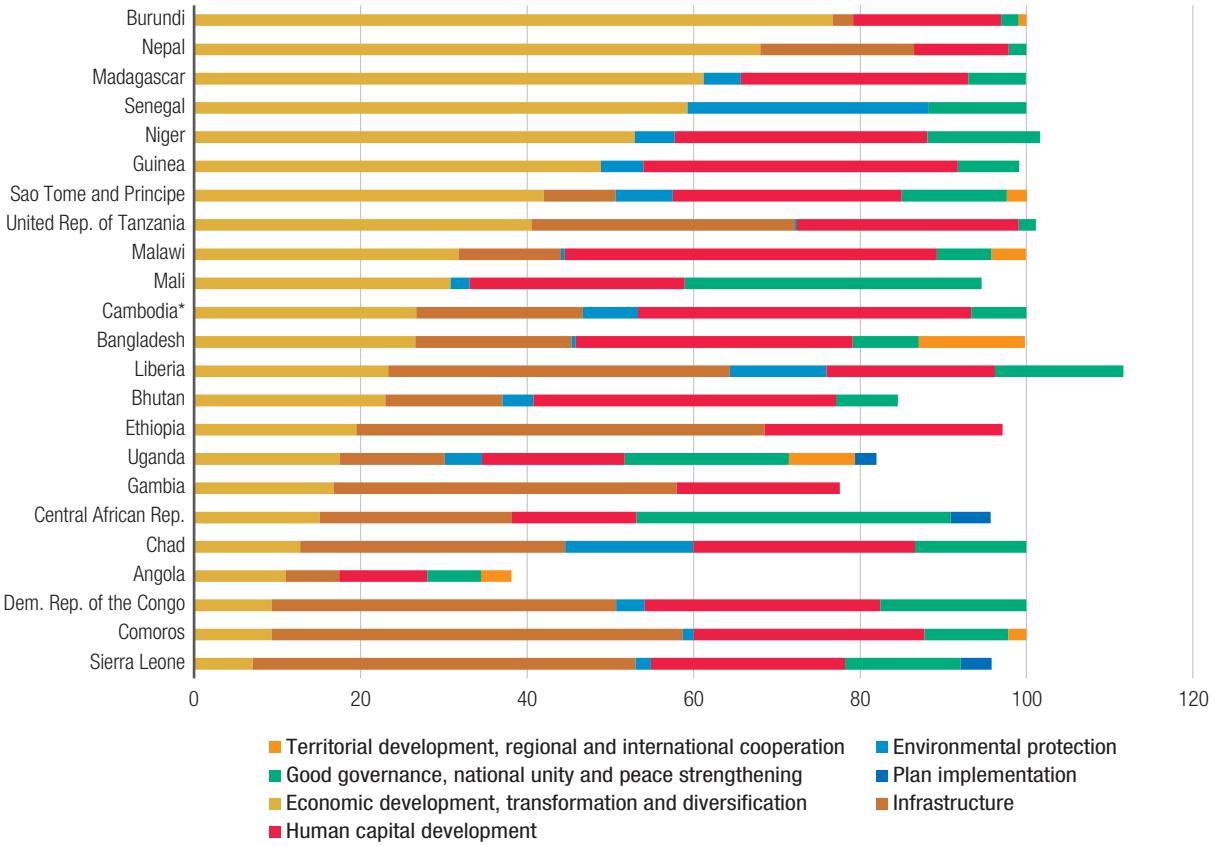
of the spending allocation according to broad areas of priority. The budgets are largely tied to an economy's size and not necessarily indicative of the country's level of ambition. For example, Angola, Bangladesh, Ethiopia, Nepal, Uganda and United Republic of Tanzania have relatively large budgets, consistent with their size. By contrast, the development plans of Rwanda and Burkina Faso exhibit considerable ambition, compared to other LDCs at similar income levels (Figure 3.1). Afghanistan is a particular case. There, the economy size is not a limiting factor, which demonstrates the country's expectations to mobilize sizeable external resources to boost the prospects for peace and recovery after years of conflict, clearing backlogs in public service delivery, and strengthening institutions (Islamic Republic of Afghanistan, 2021). In fact, Afghanistan received the highest share of ODA to LDCs in 2018–2019 accounting for 10 per cent of the $57 billion of aid to all LDCs.

The selection and costing of flagship projects for implementing national plans vary according to **country priorities**, and from actual budget spending data. An analysis of the national development plans providing details and costing of spending for the implementation of the plans reveals that national governments place a high level of priority on the development of productive capacities, economic diversification and structural transformation. *A sectoral breakdown of the national budgets of 23 LDCs for which data is available, reveals that they foresee an average 52 per cent of their budget allocations dedicated to the two sectors* of: E**conomic development**, **transformation**, **diversification**; and infrastructure. In the case of Burundi, Ethiopia, Liberia, Nepal, Madagascar and United Republic of Tanzania, their share of allocations in these sectors is especially high, with the two categories accounting for more than 60 per cent of planned spending (Figure 3.2). Burundi, for example, allocated 77 per cent of the cost of implementing its national plan to those broad themes. Although, infrastructure development, which is central to economic transformation, received only 2.5 per cent of the budget, despite currently having only 1,646 km of paved roads out of a total of 5,211 km in the classified national road network (Government of Burundi, 2018). Several countries have allocated an above-average (at least 30 per cent) of their budgets to economic development, transformation and diversification, including Guinea, Madagascar, Malawi, Mali, Nepal, Niger, Sao Tome and Principe, Senegal and United Republic of Tanzania.

At the same time **infrastructure** appears as a high priority for Chad, Comoros, Democratic Republic of the Congo, Ethiopia, Gambia, Liberia, Sierra Leone, and United Republic of Tanzania, where it accounts for over 30 per cent of planned spending. Ethiopia and Comoros (both at 49 per cent) and Sierra Leone (46 per cent) present contrasting prominence of infrastructure expenditures in their respective national budgets, relative to their economy and land masses. Ethiopia's goal of attaining middle-income country status by 2025 is robustly supported by the country's implementation of mega-infrastructure projects, such as: (i) in energy, the Grand Ethiopian Renaissance Dam project; (ii) in transport (multi-modal transport linkages – rail, road, and upgrades to airports); (iii) housing, urban infrastructure projects; and (iv) industrial parks (Girma et al., 2019). Apart from infrastructure, Ethiopia is also prioritizing economic diversification and human capital development.

Figure 3.2

Budget share, per cent of total budget of national development plan



Source: UNCTAD secretariat calculations based on data from various national development plans.

Among the countries with data (Figure 3.2), Malawi, Cambodia and Guinea devote most of their national development budget to **human development**, which ranges from 38 to 45 per cent of planned spending. By contrast, Bangladesh, Liberia, Mali, United Republic of Tanzania, and to some extent Gambia, have spread their resources evenly across economic development, transformation, diversification, infrastructure, and human development.

Government expenditures typically involve trade-offs between tax implications and macroeconomic impacts, including those deriving from its effects on inflation, private investment and savings (Shenggen, 2008; UNCTAD, 2019a). Not all public expenditures are effective in stimulating economic growth, reducing poverty, or addressing other development challenges. Advocates of the endogenous growth model highlight the important link between social spending and human capital development. Education and health are considered key channels for augmenting "capital", and improving labour productivity (Piabuo and Tieguhong, 2017). However, spending on other functions of government, for example general government services (operations), may have a larger impact on economic growth than expenditure on health and education, hence the need for governments to seek optimal fiscal policies (Ghosh and Gregoriou, 2007).

Environmental protection emerges as an important outlay in relation to total budgets for some LDCs, especially for Chad (15 per cent), Liberia (12 per cent), and Senegal (29 per cent). As coastal countries, Liberia and Senegal share unique environmental challenges related to marine resource protection and other coastal problems caused by climate change (Jönsson, 2019; Sherif, 2019). Chad's location in the Sahel is challenging for several reasons, including access to water, and the threat of desertification (Hussaini et al., 2019).

2. Public spending and economic growth

The analysis of the total costing and issues prioritized by national development plans is complemented by a discussion of the trends in, and composition of, actual government expenditures, as these reflect the policy priorities of national governments.

Table 3.1

General government final consumption expenditure in selected LDCs

(In billions of US dollars, period average)[18]

Country	1990–1999	2000–2010	2011–2019
Angola		7.25	21.13
Bangladesh	1.87	3.82	9.81
Benin	0.31	0.65	1.29
Bhutan	0.05	0.18	0.36
Burkina Faso	0.57	0.93	2.02
Burundi	0.16	0.22	0.65
Cambodia	0.12	0.37	0.93
Central African Rep.	0.17	0.13	0.26
Chad	0.13	0.37	0.71
Comoros	0.04	0.07	0.11
Dem. Repu. of the Congo	0.21	0.86	2.71
Djibouti			0.36
Eritrea	0.20	0.37	0.08
Ethiopia			5.64
Guinea	0.27	0.37	1.43
Guinea-Bissau	0.02	0.07	0.11
Haiti		0.59	1.10
Kiribati	0.01	0.02	0.12
Lao People's Dem. Rep.		0.33	1.54
Lesotho		0.26	0.97
Liberia		0.14	0.50
Madagascar	0.52	1.11	1.84
Malawi	0.30	0.50	0.87
Mali	0.38	0.98	2.27
Mauritania	0.33	0.54	0.84
Mozambique	0.53	1.43	3.62
Myanmar		0.49	11.48
Nepal	0.37	0.85	2.20
Niger	0.54	0.84	1.67
Rwanda	0.22	0.50	1.13
Senegal	0.99	1.48	2.71
Sierra Leone	0.08	0.18	0.39
Solomon Islands	0.04	0.07	
Somalia			0.25
South Sudan		0.58	1.74
Sudan	0.66	3.98	3.86
Tanzania	0.82	2.20	4.39
Timor-Leste		0.58	0.92
Togo	0.19	0.30	0.73
Uganda	0.55	1.34	2.62
Zambia		0.17	3.26
LDC average*	**10.66**	**35.13**	**98.49**

Source: UNCTAD Secretariat calculations based on World Bank, World Development Indicators database [accessed May, 2021].

Notes: * Average of countries indicated in the table.

[18] General government final consumption expenditure includes all government current expenditures for purchases of goods and services (including employee compensation). It also includes most expenditures on national defence and security, but excludes government military expenditures that are part of government capital formation.

Budget allocations to productive and non-productive sectors determine both social welfare and economic development but have different impacts (Barro, 1990; Shenggen, 2008; Ghosh and Gregoriou, 2007). The level, composition and targeting of government spending are important fiscal policy instruments, as they not only reflect government priorities but also signal government commitment to the development agenda to private sector investors and partners (UNCTAD, 2019a).

Government spending power and patterns vary significantly among developing countries, including LDCs, and largely depends on: (i) a state's capacity in mobilizing domestic resources, including tax revenue; (ii) the availability of international support (mainly ODA); and (iii) access to domestic and international borrowing. State capacities are also needed to translate national priorities into appropriate fiscal and monetary policy instruments to support development (Nnadozie et al., 2017).

Despite the challenge of data availability, spending trends are important to understand the dynamic impact of government expenditure on economic growth, capital stock, structural change, social development and poverty reduction. They also, to a certain extent, highlight the role of domestic resource mobilization in economic development.

This section explores some of the macroeconomic debates based on real budget data from selected LDCs with expenditure data on agriculture, manufacturing and industry. These sectors are explicitly targeted as they are specifically named as key sectors in several national development plans, for example, Ethiopia's Growth and Transformation Plan II, Rwanda's National Strategy for Transformation and Myanmar's Sustainable Development Plan (2018–2030) (Government of Ethiopia, 2018; Government of Rwanda, 2017; Government of Myanmar, 2018).

For LDCs as a group, **public final consumption expenditures increased** from about $11 billion in 1990–1999 to close to $100 billion in 2011–2019 (Table 3.1), reflecting improved spending capacity as LDC economies grew, and radical shifts in demand for public investments and services as national populations ballooned. Angola, Bangladesh and Myanmar more than trebled their public expenditures in 2000–2019 compared to 2000–2010. Many other LDCs doubled expenditures during the same period. Government expenditures were mainly boosted by the push to meet targets or goals missed during the implementation of Millennium Development Goals, as well as during fiscal readjustments as the 2008/2009 global economic crisis receded, and commodity

markets recovered. The adoption of the IPoA in 2011 also played a role in improving external resource flows to LDCs, although the most prevalent channel of development financing was through project support (UNCTAD, 2019a).

Government spending in LDCs for which data are available averaged just above 20 per cent of GDP in every decade during the period 1990–2020. As large developing economies grow, they tend to experience a decline in the government spending to GDP ratio. This may be challenged by Wagner's law which states that government expenditure grows faster than the economy. However, regardless of the stability or increased public goods demand level, when public service delivery is constrained on the supply side by infrastructure and other gaps, a growing economy does not immediately translate into larger government (Dluhosch and Zimmermann, 2006). This has been the case for Angola over the three decades for which data are available (Figure 3.3). Smaller economies are more likely to have difficulty in ensuring fiscal consistency from one planning cycle to another, due to instability in revenue collections which in turn leads to oscillating government expenditure as a share of GDP.

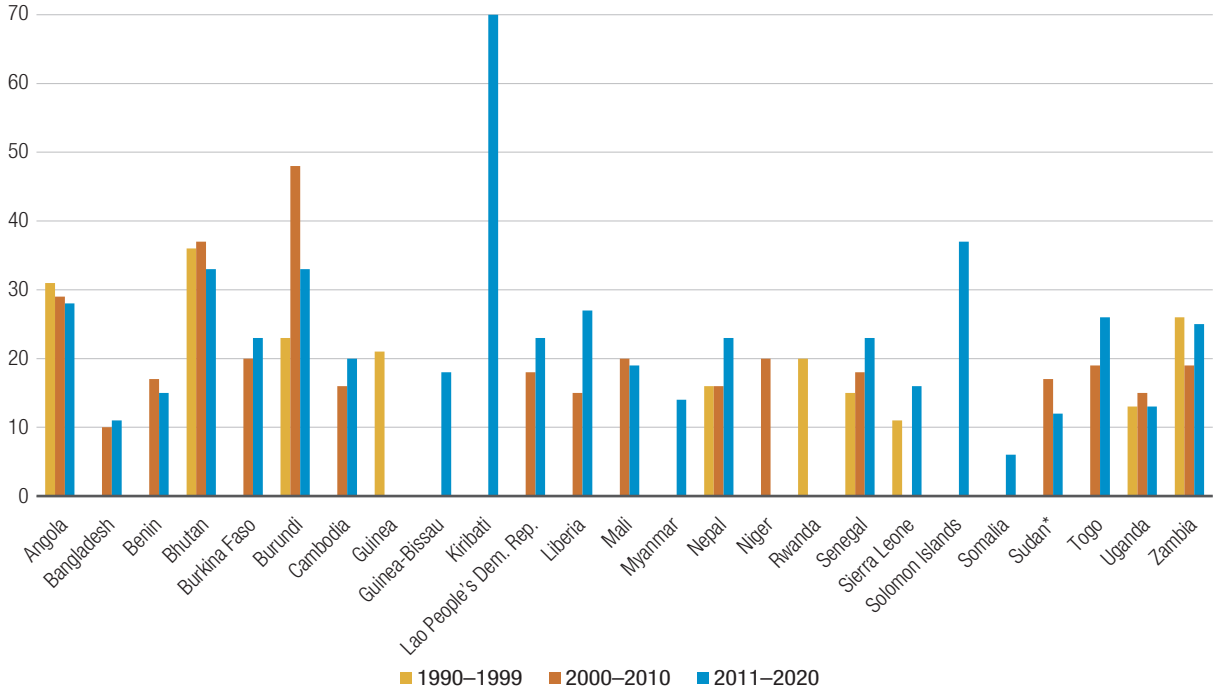
Typically, in a small cash-strapped open economy, budget deficits from previous years, current tax revenue and size of economy are important determinants of a country's capacity to spend. A declining or constant trend of the past budget deficits may reflect improvements in revenue collections, which is important because of the long-term nature of national development plans, and the limited tax collection in some of the countries. The capacity to spend is therefore key in reducing primary government deficits, which may have a crippling

Government spending in LDCs

Average in 1990-2020

Figure 3.3

Government spending share of GDP for selected LDCs, 1990–2019



Source: UNCTAD secretariat calculations based on data from IMF, Government Finance Statistics (GFS) database [accessed May 2021].
Note: * The spending share for Sudan in 1990–1999 was 810 per cent of GDP.

The link between social development and government expenditure may not be positive

effect on economic growth. The relevant question is therefore what determines government's capacity to spend.

Some studies consider only tax revenue and size of the economy as relevant indicators of the current capacity to spend (Shenggen, 2008; Ghosh and Gregoriou, 2007). However, contrary to Shenggen (2008), developing countries with low per capita income spend proportionately more relative to GDP than countries with higher income levels. It can therefore be assumed that the relationship between spending capacity and per capita income level becomes negative for sufficiently large developing countries. Consistent with this assumption, Awaworyi et al. (2015) meta-analysed empirical studies of the effects of government size on economic growth, and found evidence of a negative effect in the developed countries sample, but the relationship was statistically insignificant in the LDC sample. The relationship between socioeconomic development (proxied by the under-five mortality rate) is slightly complex. It is commonly accepted that developing countries have high under-five mortality rates, but countries that have relatively more spending capacity have been able to reduce child mortality by channelling resources to the health sector. Therefore, both per capita income and under-five mortality are expected to be inversely related to the spending power of sufficiently large economies. This implies that as the economy grows, the share of public spending in GDP is expected to decline for larger economies, and that low social development should trigger more government spending. It is also expected that ODA adds to spending capacity of recipient countries. The model can be estimated empirically using either pooled cross-section time series regression or panel data methods.[19] The dynamic panel specification and the instrumental variables estimation method used in this chapter is robust.[20]

The most important **determinant of government expenditures** is the level of tax revenue (Table 3.2). This highlights the importance of domestic resource mobilization as a crucial determinant of the capacity of LDC governments to execute investments and spending to implement the priorities singled out in their national development plans. The second most important determinant of government spending is past levels of spending, which highlights the importance of consistency in government's fiscal policy efforts. ODA contributes positively to a government's capacity to spend, but its coefficient is low and statistically insignificant, reflecting the weak link between international support and government expenditure. The reasons for this are: (i) budget support constitutes a negligible share of ODA received, the bulk of which is channelled as project financing; and (ii) total ODA figures are generally much lower than LDC governments' own resources (UNCTAD, 2019).

The relationship between government spending and the level of economic development is important as it establishes, first, the fundamental role of an economy's size in determining an LDC's capacity to finance its own development. However, the low and significant coefficient shows how insufficient that capacity is in the context of narrow tax bases and lingering low taxation rates. Second, the general assumption that government expenditure increases with economic growth is critical for growing economies, but – as explained above – the major drawback among LDCs is the low rate by which government expenditure increases per unit increase in income level.

A low **social development** (proxied by under-five mortality rates) also triggers more spending as can be expected. The link between the level of social development and government expenditure may not always be positive, as it depends on the proxy used for social development and model assumptions. The positive role of government expenditure in reducing child mortality is an endogenous relationship that has been established empirically using various estimation techniques, including micro-survival data and panel data methods with economic growth as part of model

[19] Assuming the following specification:

$$E_{it} = \beta_0 + \beta_1 E_{it-1} + \sum_{(j=2)}^{k} \beta_j X_{jit} + \mu_{it},$$

where E_{it} is expenditure at time for country i at time t, X_j, $j=2$, …, k are other factors determining expenditure, β's are parameters to be estimated, and μ_{it} is the error term. Dynamic panel estimation methods that consider endogeneity and country effects can be used to generate the result, assuming autoregressive disturbances and country-fixed effects.

[20] The model was estimated using a more flexible dynamic panel data estimator introduced by Ahn and Schmidt (1995). It is not only dynamic but also allows low order moving average correlations between the idiosyncratic error term and regressors. The model has two features that improve its performance in small samples – namely, the use of excluded exogenous variables as instruments, and robust standard errors – both of which address misspecification problems.

(Wang, 2003; Hall et al., 2021; Nyamuranga and Shin, 2019).

It may not be immediately clear what determines spending in specific sectors in each country without reference to national development plans. However, depending on resource constraints and the focus of national policies, countries constantly **prioritize** between different productive sectors and between them and social sectors. To illustrate this, Angola, Bhutan, Burundi, Nepal and Zambia are compared over two periods, 1990–1999, and 2010–2019. The comparison is limited to these countries because they have consistent data over the study period. As noted earlier, the dominant pattern among countries is for the expenditure share of GDP to fluctuate from year to year, except for Angola (Table 3.3). In Angola, remarkably, with the exception of defence expenditure, the share of government spending (per cent of total government expenditure) increased for all sectors. As can be seen in 2010–2019 expenditure levels compared to 1990–1999, spending on social protection, general public services, and economic affairs sectors – particularly transport and communication – fuels and energy have all been increased.

Similarly, economic sectors attracted the largest shares of Bhutan's spending in both 1990–1999 and 2010–2019. Compared to other LDCs, Bhutan's share of spending was significantly higher in agriculture, and transport and communication. Of the remaining sectors, it is notable that the education sector received a significantly higher share of spending in 2010–2019, with the rest staying largely unchanged across during the two decades. By contrast, Burundi – whose current national development plan emphasized the role of economic transformation and diversification – did not match this ambition with spending on economic affairs sectors in 2010–2019. As shown in Table 3.3, spending fell in all economic subsectors, and in other sectors during 2010–2019, reflecting an ongoing adjustment in its resource basket. However, the GDP share of expenditure increased during 2010–2019, and coincident with a period in which the country experienced significant growth in its economy since 2003.

The last two cases in Table 3.3 show contrasting trends. In Nepal, expenditure on the economy declined as investments, mainly in the energy sector, dropped as projects came to completion. The share of

Table 3.2

Determinants of government expenditure in LDCs, 2000–2019

Dependent: expenditure (per cent of GDP) x variable	Coefficient	Elasticities: log (govt. exp.)/log (x variable)	Mean
Lagged expenditure (per cent of GDP)	0.308*	0.290	28
Tax revenue (per cent of GDP)	0.531*	0.235	13
GNI per capita	0.003*	0.116	1 070
ODA (per cent of GDP)	0.014	0.005	9
Under-five mortality rate	3.4 mm	0.158	90
_constant	5.745*		

Source: UNCTAD secretariat calculations based on data from IMF, Government Finance Statistics (GFS) database and World Bank, World Development Indicators database [accessed May 2021].
Note: * Significant at 1 per cent level.

Table 3.3

Government expenditure share on selected sectors by country, 1990–2019

Country	Year	Total expenditure (per cent GDP)	Economic affairs (per cent of total expenditure)					Other sectors (per cent of total expenditure)				
			Economic affairs total	Agriculture, fishing, forestry, and hunting	Mining, manufacturing, and construction	Transport and communication	Fuel and energy	Health	Education	Defense	General public services	Social protection
Angola	1990–1999	31	7	1.3	0.1	3.1	2.1	4	7	46	29	1.47
Bhutan		36	46	16.3	1.3	15.0	12.0	8	11		23	
Burundi		23	17	5.2	2.9	4.7	1.7	4	17	22	33	1.59
Nepal		16	42	8.3	3.4	13.1	9.1	4	13	6	24	1.95
Zambia		26	12	3.0	0.7	4.3	0.2	8	11	7	52	1.57
Angola	2010–2019	29	17	1.1	1.0	7.5	5.1	5	9	13	33	14.9
Bhutan		34	32	12.8	0.5	14.1	2.0	9	20		24	
Burundi		37	7	2.5	0.7	1.7	1.6	7	17	7	18	0.8
Nepal		23	29	9.0	0.9	10.8	2.8	6	16	7	24	3.9
Zambia		24	34	9.7	0.3	0.2	0.1	7	13	7	31	0.4

Source: UNCTAD secretariat calculations based on data from IMF, Government Finance Statistics (GFS) database [accessed May 2021].

The impact of ODA expenditure is negative on agriculture

spending on agriculture remained largely unchanged, with education and social protection increasing slightly. In Zambia, spending on the economy increased as agriculture spending was ramped up in the sixth and seventh national development plans. At the same time, spending on social protection and general public services declined, but spending on education rose slightly.

In all five cases, it is important to note that **most countries prioritized economic sectors**. With respect to other sectors, countries boosted resources to education and general government services. This lends credence to the earlier assertion that LDCs prioritize economic transformation and diversification, confirming once again the pattern gleaned from the analysis of national development plans of a much larger sample of LDCs in the previous subsection. Government's awareness of the central role of productive capacities in their development has led them to dedicate significant policy attention and resources to this issue.

How the **impact of government spending on productive sectors of the economy influences budgeting processes** and periodic evaluations of development plan implementations remains unclear. The literature on the determinants of various components of spending shows mixed results across regions. For example, Shenggen (2008) found that as total expenditures increase, the share of agriculture spending declines. The study also established a negative but statistically insignificant correlation between agricultural GDP in Africa and expenditure on agriculture. By contrast, a reduction in agricultural GDP in Asia seemed to trigger more spending in the agriculture sector – a result attributed to protectionism. In Africa, most components of government spending increase with government revenue and size of an economy. However, some components tend to suffer, as budget constraints oblige governments to prioritize. For example, Shenggen (2008) found that in Africa, expenditure on social protection had a negative relationship with an economy's size. However, countries may need to increase spending on social services to effectively reduce poverty.

The designation of agriculture, industry or services as priorities has implications for fiscal policy. The fundamental consideration for policymakers in developing countries are the trade-offs and complementarities and synergies across policy choices. For example, the development of the agriculture sector may have higher multiplier effects for poverty reduction in many LDCs. Similarly, targeted public spending in infrastructure and other public services can have significant effects on efficiency and competitiveness of manufacturing and other industries (ECA and UNEP, 2016). In the case of the LDCs for which data exist, **government expenditure on both agriculture and industry has positive and significant impacts on growth in these respective sectors**. However, the available data suggests that the impact of ODA expenditure is negative on agriculture (Table 3.4). This is likely related to the kinds of activities that are supported by ODA in agriculture, which in many LDCs shows a concentration in specific areas, e.g. policy and administration, that do not have an immediate and direct impact on productivity (see also (UNCTAD, 2019a, 2020a).

The share of labour employed in agriculture has a negative and significant relationship with the value-added share of agriculture. This implies that labour is either inefficiently utilized in agriculture, or that under certain labour market conditions, excess labour employed in the sector should be reallocated to other productive sectors. Excess employment in agriculture contributes to low growth, and declining average product of labour in the sector. By contrast, the labour employment share of industry has a positive but insignificant relationship with industry value added. The main difference in developing countries between agricultural labour and labour employed in industry is the set of skill endowments, with the labour in industry having slightly more skills attributes. However, on a global scale, the labour in industry is not statistically significant because of low productivity. The results are consistent with previous findings that agriculture's contribution to GDP has been declining much faster than the transformation of labour employment. Agriculture still employs the majority of the labour force in many LDCs, while labour productivity has, overall, grown at a very low rate (UNCTAD, 2020a).

Government expenditure in the agriculture and industry sectors have positive and significant impacts on agriculture productivity, respectively, reflecting complementarity between industry and agriculture. The potential mechanisms include growth in an industry with a demand feedback on agriculture, either as raw materials or through increased final consumption as income per worker improves in both sectors. However, relative to other sectors, the

Table 3.4

Impact of government expenditure on agriculture and industry in selected LDCs, 2000–2020

Dependent/explanatory variables	Agriculture value added share of GDP	Dependent/explanatory variables	Industry value added share of GDP
Labour employment share of agriculture	-0.14*	Labour employment share of industry	0.24
Land (share of arable land)	0.03	Private investment	0.59*
Gross fixed capital formation in agriculture (per cent of GDP)	4.73*	Growth in household final consumption share in GDP	0.06
Share of government expenditure on agriculture	0.90*	Share of government expenditure on agriculture	-2.04*
Share of government expenditure on manufacturing and industry	11.33*	Share of government expenditure on manufacturing and industry	1.62*
Share of sector specific ODA to agriculture	-0.53*	Share of sector specific ODA to industry	1.76***
Constant term	-4.13	Constant term	13.14*

Source: UNCTAD secretariat calculations based on data from IMF Government Financial Statistics database, and World Bank, World Development Indicators database [accessed May 2021].

Note: * significant at 1 per cent level; ** significant at 5 per cent level; and *** significant at 10 per cent level.

negative and significant coefficient on government expenditure on agriculture in the industry value-added equation may reflect excessive agricultural bias in government spending. This is not necessarily a problem given the sector's role in poverty eradication and food security, but it does point to the need for a balanced budgeting approach which incorporates complementarities and trade-offs.

Sector-specific ODA to agriculture has a negative and significant relationship with value added in agriculture because of the unproductive nature of the resources spent on agriculture. This implies that ODA support to agriculture is counterproductive as it contributes to the inefficiency of the sector. A closer interrogation of the composition of ODA to agriculture suggests that the support falls under various other sub-themes indirectly linked to productivity. By contrast, the **positive and significant impact of ODA on industry** suggests that some scope exists for ODA to support productive capacities in the LDCs. A closer inspection of the data also suggests that ODA support to industry is substantial in volume, but support through this channel is concentrated in very few LDCs.

The share of gross fixed capital formation in agriculture is low in many LDCs, but its positive and significant impact on agriculture value added suggests that agriculture productivity can be enhanced by increasing investment in agriculture. Similarly, private investment has a positive and significant influence on industry value added, **suggesting an important link between capital investment and economic growth through the industrialization channel**. Growth in final demand also positively influences industrial value added but the coefficient is low and insignificant, suggesting low domestic absorption of intermediate and final industrial output. Hence, while the impact on industrial value added on economic growth is important for most countries, the **effectiveness of industrial growth on economic development would depend on growth in domestic markets and interlinkages among sectors of the economy.**

The results presented here put into perspective the importance of national priorities and their link to government spending patterns. Results highlight a **lack of depth and power for ODA to influence a positive fiscal response in LDCs**. The lack of synergy between ODA and government expenditure is discussed at length in UNCTAD (2019). ODA should support the intricate link between the national development planning framework and the fiscal policy instrument (national budget). More importantly, if government spending and ODA fail to achieve maximum complementary and synergic alignment, it will not be possible to maximize the potential from LDC investments in productive sectors.

D. National case studies

Having analysed national policymaking trends in a preceding review of national development plans, fiscal planning and government expenditure, the present subsection narrows down the analysis by focusing on two LDCs that have adopted contrasting development strategies, but which each has shown success (though to different extent) in overcoming some of the major structural barriers to LDC development: Bangladesh and Senegal. Both countries are currently engaged in the process of graduation out of the LDC category, which largely reflects the success that they have achieved in their development policies. Bangladesh was recommended for graduation in 2021 and is expected to no longer be an LDC in 2026. Senegal is at an earlier phase of the graduation process, as

Bangladesh's investment-to-GDP ratio was 31 per cent in 2019.

it pre-qualified for graduation in the 2021 review of the LDCs.

1. Bangladesh

a. Structural transformation

In Bangladesh, structural transformation and economic growth have taken the form of the expansion of the manufacturing and services sectors. This has diversified the economy and brought forward economic growth, which accounted for over 1.5 per cent of annual growth in the 2010–2018 period. Along with incipient industrialization – largely driven by ready-made garments – agricultural development and growing value addition from services also contributed to accelerating economic growth and spur structural change.[21]

In the space of 30 years, the share of employment in agriculture decreased by 30 percentage points, leading to a transfer of workers to labour-intensive sectors with higher average labour productivity than agriculture. This pattern of labour reallocation partly reduced sectoral differences in productivity, and made Bangladesh a case of "growth enhancing structural change" (McMillan and Rodrik, 2011b). Despite this, a significant share of labour left low-productivity agriculture to flow to other services sectors, such as trade and hospitality, whose productivity is higher than agriculture yet lower than average. With persistent sectoral productivity gaps, scope still exists for harnessing productivity growth both within sectors and through further structural change towards higher productivity activities. This consideration is particularly important if read in conjunction with the finding that Bangladesh has been slow in developing dense input-output linkages and economic clusters to enable its economy to eventually move up global production chains and benefit thereof (Mercer-Blackman et al., 2017).

International trade growth, particularly in the ready-made garment industry, has supported structural change and economic growth in Bangladesh. Targeted policy and ISMs have enabled the country to grow its garment industry, diversify its market access and reduce export revenue fluctuations. However, specialization in garment and clothing has been accompanied by some neglect of the business constraints in other industries, as highlighted by the country's export product concentration index score of 0.4[22] since the 2000s. The development of global value chains (GVCs) in Bangladesh has been somewhat limited, especially when compared to the progress made by Cambodia and Lao People's Democratic Republic, as well as other Asian countries, such as China and Vietnam. Bangladesh stands out for having relatively high backward participation and low forward participation in its GVC, driven by a textile and clothing industry accounting for 83 per cent of domestic value added in exports. Conversely, sectors expected to drive structural transformation, such as agro-food and low-technology manufacturing, have made minor contributions. The country is beginning to show some incipient examples of diversification in technology-intensive products and service sectors but progress in product and export diversification is slow with the emergence of input-output linkages across sectors a persistent weakness underlying the country's economic structure.

From 2006, the country's investment-to-GDP ratio surpassed 25 per cent of GDP, reaching 31 per cent in 2019. Domestically, investment in infrastructural provision and rural development has improved, in spite of low tax-to-GDP ratio of 10 per cent, 50 per cent of which is from custom duties and indirect taxes.

b. Development policies

Economic growth, driven by export and remittances expansion, has accelerated since 2002. This growth began with the **trade liberalization policies of 1990**, which led to an export boom driven by LDC-specific preferential market access in ready-made garments. Bangladesh's growth over the period 1983–2016 occurred in the midst of worsening inequality; a period in which the Gini index rose from 25.6 to 32.4, before plateauing again as rural development and employment creation made growth more inclusive. Despite these increases the Gini index remains relatively low by international standards. Bangladesh has reduced income poverty rates and incidence. Between 2000 and 2016 the incidence of poverty halved 24.6 percentage points. 90 per cent of the reductions occurred in rural areas (World Bank, 2019).

[21] This subsection is largely based on (UNCTAD, forthcoming).

[22] This index (also named Herfindahl-Hirschmann Index – product HHI) is measured between 0 and 1. For each country, it captures the degree of concentration of goods exported. A low score signifies that a large share of merchandise exports is accounted for by a small number of products.

The share of agriculture, forestry and fisheries in GDP decreased to 14 per cent in 2018, reflecting a rise in manufacturing and services. However, the country's supply-side bottlenecks and logistical inefficiencies render its transport costs higher than other regional LDCs, which inhibits accelerated trade growth. In fact, the lack of export diversification – 80 per cent of Bangladesh's exports are in ready-made garments – highlights the concentration and dependence on a narrow range of products. Although this is concerning in the long-term, the stability of textile and clothing has served to stabilize terms of trade and purchasing power.

Identifying the country's position as a "follower" of technology, the government established a "Digital Bangladesh" initiative to enhance technology adoption across sectors. This initiative followed an earlier diagnosis of the pressing need for technological and skill upgrading, and advancing innovation ecosystems to transfer, domesticate and adopt technology.

Economic growth in Bangladesh has been underscored by continuous social policy efforts. Women's education and empowerment were the most crucial factors contributing to the progress in the reduction of child mortality in Bangladesh. According to the NGO Save the Children (2019), this was largely the result of the government's effort in setting up community clinics and digitalization of the primary health care (PHC) system, both key to children`s health outcomes.[23] Child mortality ratios confirm that Bangladesh reduced its under-five mortality rate to 31 deaths per 1,000 live births in 2019 – a similar level as Afghanistan, Bhutan and Nepal. Health policy reforms, including service delivery, coverage of effective interventions and socioeconomic conditions, explain the country's improvement and its reduction in urban-rural and regional disparities in child mortality rates (Khan and Awan, 2017). Effective family planning programmes, improved delivery attendance, and access to maternal care services reduced total fertility rates; the combination of these three factors led to the decline in the maternal mortality ratio. Pioneering girls' education and women's empowerment and free primary education policies combined to increase enrolment rates and reduced adult literacy rates and supported maternal and child health improvements.

The **gender parity index** for the gross school enrolment ratio shows that gender disparities in access to education have reduced significantly since the 1990s. Girl's participation and educational attainments have improved faster than that of boys, resulting in the gross secondary school enrolment exceeding the value of 1 since the early 2000s.[24] Government initiatives, non-formal education delivered by NGOs, formal sector employment requiring secondary education for women, are among the reason for closing the gender gap. Nonetheless, girls' outcome in education is lower than boys, and low completion rates and grades highlight the negative difference in investments in education quality for girls.

Bangladesh has the highest adult literacy rate among LDCs in South Asia

Bangladesh has pursued efforts to improve food security by enhancing rural connectivity in a sustainable and "climate-proof" manner (IFAD, 2019), as evidenced for instance by the Coastal Climate-Resilient Infrastructure Project (CCRIP), which targets beneficiaries in coastal rural districts. The country reduced the number of severely food-insecure people from 20.7 million in 2014–16 to 17.2 million in 2017–19 (FAO et al., 2020). From 1990s to 2019, the prevalence of stunting by 40 per cent and the country also achieved progress in reducing chronic malnutrition.

Bangladesh has the highest adult literacy rate among LDCs in South Asia, although it performs poorly in universal literacy. Literacy rates rose from 48.6 per cent in 2017 to 74.7 per cent in 2019. Bangladesh's commitment to education and human capital development to tap the demographic dividend is reflected in efforts by NGOs and other national efforts, such as universal enrolment in primary education and gender parity in school access.

Environmental vulnerability ranks highly in the case of Bangladesh, not least because of the size of its territory and the numbers of its population living in low elevated areas, leaving them vulnerable to disasters, and unstable agricultural production. Bangladesh "is one of the most climate vulnerable countries in the world" (MOEF, 2009: xv). Over 70 million people in Bangladesh could be affected by climate change, according to the National Adaptation Programme of Action (NAPA) estimates. The Government of

[23] This initiative helped Bangladesh win the award "Digital Health for Digital Development" from the United Nations in 2011 in recognition of its use of information and communication technology (ICT) for health and nutrition.

[24] The gender parity index for gross enrollment ratio in secondary education is the ratio of girls to boys enrolled at secondary level in public and private schools.

Bangladesh has experienced widening resource gap averaging 6 per cent over the past 15 years

Bangladesh has adopted measures to mitigate climate risk, including approving 678 projects under the Climate Trust Fund between 2010 and 2021. Notwithstanding this, the country remains at risk compared to other South Asian LDCs. Bangladesh's yearly average of seven natural disasters has claimed the lives of 110 million people, according to the EM-DAT (2000–2019) estimates. Lower income households dependent on natural ecosystems are often the most vulnerable.

c. Smooth transition in the path to graduation with momentum

Bangladesh is set for LDC graduation but vulnerabilities to development persist. The country will need to maintain the efforts that have allowed it to meet the graduation criteria. As advanced by UNCTAD's *The Least Developed Countries Report*, Bangladesh could benefit from adopting a strategy to **graduate with momentum**. This strategy highlights the importance of viewing graduation as "the first milestone in a marathon of development rather than the winning post in a race to escape LDC status, and of focusing primarily on longer-term development processes rather than on the technicalities of the graduation criteria" (UNCTAD, 2016a: 162). The framework of graduation with momentum explicitly links the development of productive capacities with building continuity in the development trajectory beyond graduation by bridging the pre- and post-graduation development processes (UNCTAD, 2021b: 18).

Bangladesh is faced with the prospect of lower special and differential treatment in trade. Crucially, graduation from the LDC category entails the phasing out of ISMs that Bangladesh has effectively leveraged for its development. It can therefore expect a loss of ISM-linked preferential market access, the impact of which could range between -7 and -14 per cent of baseline exports (UNCTAD, forthcoming). In the context of the country's integration into buyer-driven value chains in the textile sector, which has circumscribed upgrading opportunities (UNCTAD 2018), similar prospects underscore an important source of vulnerability. Thus, alongside maximizing LDC-specific ISMs through stakeholder negotiations before graduation, Bangladesh needs to build its productive capacities to manage its graduation dynamics through: (i) the use of context-specific assessments; (ii) informed long-term national development strategies; and (iii) industrial policy.

In this context, successful LDC graduation requires several challenges to be addressed. The country needs to aggressively pursue GVC diversification, as increased tariffs from LDC preferential treatment loss and domestic infrastructural constraints pose a threat to continued export revenue and investment flows. A concerted push towards patterns of specialization with higher levels of complexity, and where knowledge and technological spillovers are higher, needs to be at the centre of such a diversification effort. The COVID-19 shock has triggered a process of GVC restructuring, bringing renewed emphasis to supplier diversification, dependability and regional embeddedness. Bangladesh will need to harness technological advancements to adjust its existing GVC linkages to sustain its export capacities. Overall, strategic industrial, trade and structural policies are needed for longer-term impact. In addition, Bangladesh can further harness technological ventures by strengthening connectivity and logistics through system-wide reform.

Bangladesh can expect a lower degree of concessionality in accessing development finance, with resulting reductions in available policy space. The country will need to ramp up domestic resource mobilization efforts as external development finance decreases. The country has experienced a widening resource gap averaging 6 per cent over the past 15 years – a gap largely covered by remittances of $18.3 billion in 2019. LDC graduation is expected to reduce capital accumulation generated by external finance.

Environmental policy is key in a country affected by frequent natural disasters induced by climate change, as well as for Bangladesh's smooth transition to developing country status. Since climate change can disproportionately hurt the livelihoods of the poor, climate change adaptation should become a policy priority to mitigate inequalities, and avoid further marginalization of the poor. Bangladesh's high adaptation investment needs call for correspondingly increased national attention to the formulation of appropriate environmental policies. Priorities to reflect on include: (i) mobilizing climate finance; (ii) capitalizing on climate-resilient infrastructure; (iii) adopting green technology; and (iv) developing social protection for vulnerable groups affected by climate change. Issues around poverty and improving literacy will remain policy priorities for the foreseeable future.

The following policy options are relevant for Bangladesh to ensure smooth graduation and structural transformation. Some of these options may require accelerated action to mitigate on-going threats due to the COVID-19 pandemic:

- Strengthening domestic resource mobilization by improving tax administration systems and business environments to boost public revenues and private sector investments.
- Bolstering investments in climate-resilient and digital infrastructures to improve physical and soft infrastructures, that could hinder efficiency in the transport and logistics sectors.
- Sustaining investments in human capital by improving access to education and the job market
- Supporting technological upgrading and improvements to the science, technology and innovation (STI) ecosystem.
- Continue fostering rural development through intersectoral linkages, infrastructure provision and innovative business practices.
- Adopting a proactive industrial policy framework to enhance productive capacities and stakeholder collaboration, and thus reduce market failures and strengthen economic linkages.

2. Senegal

Senegal reached pre-qualification for graduation in the 2021 review of the LDC category by the Committee for Development Policy (CDP), following a development trajectory quite different from that of Bangladesh and other Asian LDCs on the path to graduation. The industrialization of Senegal has been less decisive, but its economic structure is broadly more diversified.

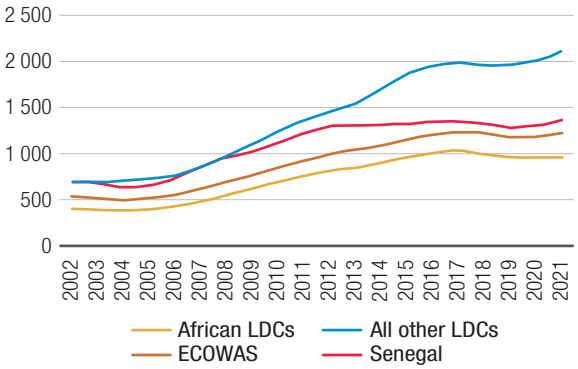
a. Structural transformation

Senegal's level of income per capita is higher than that of its peers in the Economic Community of West African States (ECOWAS) region, as well as other African LDCs. Its per capita income growth trajectory was strongly influenced by the commodity price decline in 2011, and has remained broadly stagnant since then (Figure 3.4).

Figure 3.4

GNI per capita

(Dollars)



Source: UNCTAD Secretariat based on data from UN DESA LDC time series data [accessed July 2021].

Senegal has a somewhat more diversified economic structure than its peers. The country has a much lower share of the primary sector (agriculture, fishery and forestry) in its GDP compared to its regional peers and other LDCs (Table 3.5). The country also has a lower export concentration and export instability than its peers. However, given Senegal's climatic and agro-ecological conditions, agricultural production is less stable, which explains why the country attains a modest Economic Vulnerability Index (EVI) score.

Senegal's merchandise exports are dominated by commodities, which account for about 70 per cent of its exports. In 2019, commodity exports were composed of food items (33 per cent), fuels (18 per cent), and ores and metals (8 per cent). At the same time, manufactures accounted for almost one quarter of merchandise exports.

Table 3.5

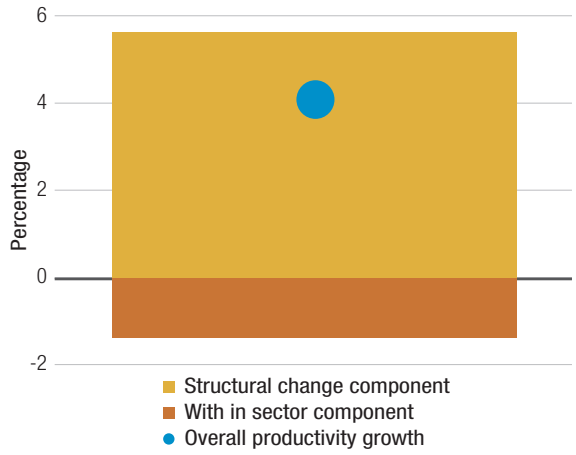
Graduation criteria and relevant economic sub-components, 2021

	GNI per capita	EVI index value	HAI Index value	Share of agricultural, fishery, forestry products in GDP	Export concentration	Export instability	Agricultural instability
Senegal	1,370	42.98	66.37	16.51	0.23	1.85	14.98
ECOWAS	1,223	37.77	53.31	32.61	0.50	10.89	6.16
African LDCs	959	40.31	51.84	28.17	0.47	14.16	6.52
Other LDCs	2,109	36.09	71.56	21.43	0.42	14.07	4.81

Source: UNCTAD Secretariat based on data from UN DESA LDC times series data.

Figure 3.5

Between and within sector productivity growth, 1995–2018

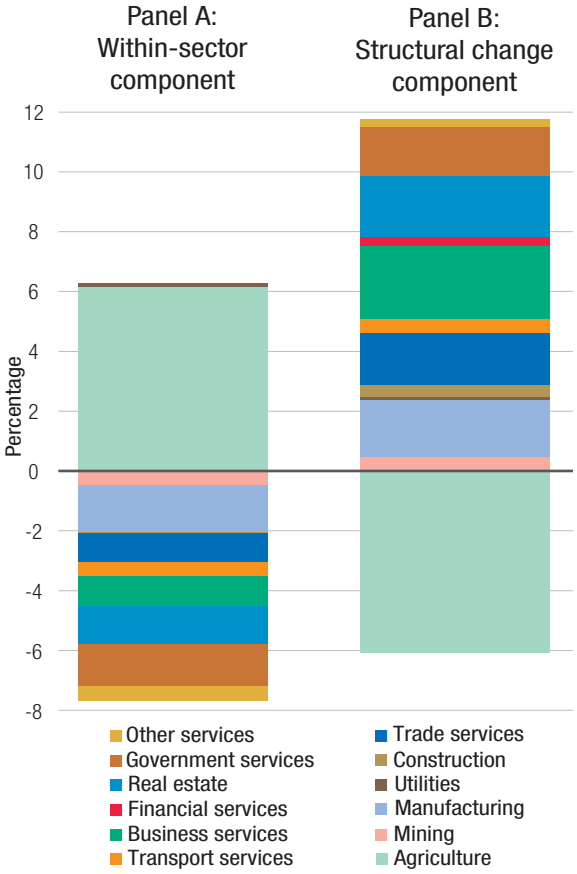


Source: UNCTAD Secretariat calculation based on data from Vries et al. (2021).

Overall productivity growth in Senegal stands at 4 per cent per year, and is driven by the structural change component of output decomposition (Figure 3.5).

Figure 3.6

Sectoral decomposition of economic growth



Source: UNCTAD Secretariat calculation based on data from Vries et al. (2021).

The within-sector labour reallocation contributes negatively to overall productivity growth. This happens if employment share in the sector increases faster than the output share.

The sectoral decomposition of the two growth elements (Figure 3.6) shows each sectors' contribution to the overall productivity increase. In the case of Senegal, the agricultural sector was the main contributor to within-sector productivity growth, with a small addition by the utility sector (Panel A). This shows that the agricultural sector has a large and declining employment share, and is increasing value added per worker. Decreasing employment is then reflected by the negative contribution of the sector in Panel B.

The contribution of the manufacturing sector to within-sector productivity growth, by contrast, is negative (Panel A), as employment in the sector grew (positive contribution in Panel B), and average output per worker fell. The services sector plays a larger relative role than the manufacturing sector, as it has the potential to absorb more employment. This applies to all services categories, but especially to government, business and trade services in Senegal. Labour reallocation from the agricultural sector to other sectors is a critical driver of the structural change component (Panel B). The real estate sector is the only other sector that emerges as an important driver for structural change.

As is the case with Asian LDCs, industrialization – led by the manufacturing sector – is not the main contributor to structural change in Senegal. Digitalization has enabled the services sectors to play a more important role in generating economic growth.

b. Development policies

Senegal has followed sound macroeconomic policies and accomplished peace – both of which are the fundamental drivers of long-term growth. As a member of the CFA franc zone (franc de la Communauté financière d'Afrique), it has benefitted from low inflation and stable exchange rates as the CFA franc is hard pegged to the euro but faces a potential drawback if low inflation in the Eurozone is imported to a country with much higher growth rates, which would benefit from a faster expansion of its money base.

At a time when many African countries struggle with rising debt levels, Senegal's risk of debt distress is moderate, with public debt to GDP ratio at 67 per cent, and external public debt at 54 per cent of GDP in 2020 (IMF Debt Sustainability Analysis, April 2020). Further debt forecasts until 2030

indicate a lower public debt of 4 per cent and lower external public debt of 23 per cent (IMF Debt Sustainability Analysis, April 2020). This would, mean greater reliance on domestic savings and lower dependence on international financial markets and the dollar, which in turn leads to a better insulation against external shocks and foreign geopolitical interests.

Senegal has a persistently negative current account. Even though its export volume has almost doubled since 2015, and has experienced merchandise exports growth of 15 per cent. In 2019, it exported merchandise worth $4,175 million and imported $8,143 million worth of merchandise, leading to a merchandise trade deficit of $3,969 million (UNCTAD Stat). Senegal had, by contrast, a large positive financial account surplus in 2019, with $983 million foreign direct investment (FDI) inflows and $114 million FDI outflows (UNCTAD Stat).

Senegal's structural policies have changed considerably since independence. In the 1960s, the government intervened extensively in agriculture as part of an attempt to rely on traditional import substitution industrialization (ISI). The state aimed to increase the value added of local resources by emphasizing diversification of agricultural production and providing inputs to local producers, including many smallholders. In the 1970s, public investment shifted to industrial manufacturing as the government tried to avert rising unemployment and the social unrest of 1968–1969. Numerous attempts to imported development included government-supported natural resource processing industries, such as fishing and groundnut production and setting up of industrial free trade zones outside the capital, Dakar. However, the success of these policies was undermined by 'clientelism' (Daffe and Diop, 2004).

The 1980s ushered in a World Bank-inspired "New Industrial Policy" that was framed as part of the structural adjustment programme (SAP) consisting of full trade openness, export orientation, and labour market liberalization, deregulation and privatization. Yet, trade-opening measures prompted significant job losses, as local enterprises succumbed to the competition from cheap imports. Foreign investment and related foreign interests dominated domestic investment in strategic sectors, such as phosphates. By the mid-1980s, FDI started to fall with the deteriorating economic situation. Between 1980 and 1990, agricultural production declined, GDP growth slowed down, public finances deteriorated with rising debt, and foreign borrowing surged to meet rising domestic and external deficits (Boye, 1992). The new policy reforms had adverse recessionary pressures on Senegal's economy, and weakened industrialization efforts.

Senegal's industrial and agricultural policies show continuity and refinement over time

Trade liberalization agreements under the WTO have restricted the country's available industrial policy tools, e.g. export subsidies, performance requirements, and local content clauses (Bora et al., 2000). In parallel, membership in the CFA franc zone has restricted the use of monetary policy tools.

Given this reduced policy toolbox, efforts to support structural transformation have become more refined and targeted since the 2000s. Senegal's industrial and agricultural policy priorities show continuity and refinement over time, which combined with stable macroeconomic and social policies has driven Senegal's relative economic success. Next to the on-going institutional reforms, a central feature of Senegal's industrial policy are industrial zones – the aim is to spread industrial facilities previously concentrated in the Dakar region across the country – and orientate the productive base towards promising sectors and promoting highly productive competitive industries (Newman, 2016).

Since 2006, a new accelerated growth strategy (AGS) has been implemented and has identified five economic areas that constitute drivers for economic growth and diversification; (i) agro-industries and food processing; (ii) fisheries; (iii) tourism, crafts and cultural industries; (iv) cotton, textiles and clothing; and (v) information and communication technologies (ICT) (African Economic Outlook, 2006).

A new national development strategy was adopted in 2014, the Plan Sénégal Emergent (PSE), which promotes a holistic approach to development based on social, economic and environmental pillars. By 2035, it aims to transform the country into an emerging economy, defined by social solidarity and rule of law (UNIDO, 2019). The focus areas are in line with the ASG, but further refine policies to include: (i) industrial development; (ii) the establishment of agro-poles; (iii) the operationalization of a new generation of integrated industrial parks; (iv) the development of a regional mining hub; and (v) special economic zones and investment package reform.

Senegal's economic success is backed by solid social policies. It is close to achieving universal health care (UHC) coverage and subsidizing health insurance for low-income groups (World Bank, 2016). This is reflected in much better outcomes for under-five mortality and maternal mortality rates, and lower prevalence of stunting than its regional peers in the region. Its outcomes for schooling are in line with ECOWAS averages, and more girls than boys are enrolled in secondary school, which is on average is not the case for ECOWAS countries, or other African LDCs (Table 3.6).

Table 3.6

Human Asset Index and its sub-components, 2021

	HAI	Under-five mortality rate (per 1,000)	Maternal mortality rate (per 100,000)	Prevalence of stunting children under five (per cent)	Secondary school enrolment rate (per cent)	Adult literacy rate (per cent)	Gender parity in secondary school enrolment, ratio
Senegal	66.37	45.31	315.00	17.80	46.24	51.90	1.13
ECOWAS	53.31	78.54	550.36	26.23	50.61	50.91	0.87
African LDCs	51.84	72.27	515.16	32.81	41.62	56.84	0.88
Other LDCs	71.56	39.48	209.53	28.59	65.10	73.66	1.03

Source: UNCTAD Secretariat based on data from UN DESA LDC times series data [accessed July 2021].

Annex Table 3.1

Comparison between the Substantial New Programme of Action 1980s and the Paris Programme of Action 1990s

Substantial New Programme of Action 1980s		
Objectives/issues	**Priority areas for action**	
National measures	Food and agriculture	Food strategies
		Food security
		Food production
		Forestry, fisheries and livestock
		Rural development
	Human resources and social development	Human resources
		Education and culture
		Training and administration
		Health and nutrition
		Population policies
		Human settlement
	Natural resources and energy	
	Manufacturing industry	
	Physical and institutional infrastructure	
	Environment	
	Transformational investments	
	Land-locked and island least developed countries	
	Foreign trade	
	Disaster assistance for least developed countries	
International support measures	Transfer of financial resources	Financial resources requirements and policies
		Increased allocations to least developed countries in multilateral programmes
		New mechanisms for increased financial transfers to the least developed countries
		Aid modalities
	Immediate action component of the Substantial New programme of Action	
	Technical assistance	
	Other international economic policy measures	Commercial policy measures
		Transport and communications
		Food and agriculture
		Transfer and development of technology
		Multicountry scheme
Arrangements for implementation, follow-up and monitoring	National level	
	Regional and global levels	
	Land-locked and island least developed countries	

Paris Programme of Action 1990s		
Objectives/issues	**Priority areas for action**	
The macro-economic policy framework		
Financing growth and development	Domestic resources	
	External resources	
External indebtedness of the LDCs	ODA debt	
	Other official bilateral debts	
	Debt and the multilateral institutions and development funds	
	Commercial debt	
External trade	Diversification	
	Access to markets	
	Commodities	
	Compensatory financing	
Strengthening economic and technical co-operation between LDCs and other developing countries		
Mobilizing and developing human capacities in the least developed countries	The involvement of the actors	Improving institutional capabilities
		The role of public enterprises
		The role of the LDC private-enterprise sector
		Full participation of women in the development process
		The role of non-governmental organizations
	The strengthening of human capital	Population
		Education and training
		Health and sanitation
Development, particularly expansion and modernization of the economic base	Rural development, modernization of agricultural production and food security	Agriculture
		Development of fisheries resources
		Rural development
		Food security
		Food aid
	Development of industrial, service, scientific and technological base	Developing the industrial sector
		Developing the services sectors
		Strengthening the scientific and technological base
		Energy
Infrastructure	Transport and communication	
	Human settlements	
Environment and disaster mitigation, preparedness and prevention	Environment and development in the least developed countries	
	Disaster mitigation, preparedness and prevention	
Coping with the special problems of certain groups of least developed countries		
Arrangements for implementation, follow-up and monitoring	National level	
	Regional and global levels	
	Global level	

Annex Table 3.2

Comparison between the Paris Programme of Action 1990s and the Brussels Programme of Action 2001–2010

Paris Programme of Action 1990s			Brussels Programme of Action 2001–2010		
Objectives/issues	**Priority areas for action**		**Objectives/issues**	**Priority areas for action**	
The macro-economic policy framework			**Fostering a people-centred policy framework**		
Financing growth and development	Domestic resources		**Good governance at national and international levels**		
	External resources		**Building human and institutional capacities**	Social infrastructure and social service delivery	
External indebtedness of the LDCs	ODA debt			Population	
	Other official bilateral debts			Education and training	
	Debt and the multilateral institutions and development funds			Health, nutrition and sanitation	
	Commercial debt			Social integration	
External trade	Diversification		**Building productive capacities to make globalization work for LDCs**	Physical infrastructure	
	Access to markets			Technology	
	Commodities			Enterprise development	
	Compensatory financing			Energy	
Strengthening economic and technical co-operation between LDCs and other developing countries				Agriculture and agro-industries	
Mobilizing and developing human capacities in the least developed countries	The involvement of the actors	Improving institutional capabilities		Manufacturing and mining	
		The role of public enterprises		Rural development and food security	
		The role of the LDC private-enterprise sector		Sustainable tourism	
		Full participation of women in the development process	**Enhancing the role of trade in development**	Trade, commodities and regional trading arrangements	Market access
		The role of non-governmental organizations			Special and differential treatment
	The strengthening of human capital	Population			Accession to WTO
		Education and training			Standard-setting and quality control
		Health and sanitation			Regional trading arrangements
Development, particularly expansion and modernization of the economic base	Rural development, modernization of agricultural production and food security	Agriculture			Integrated Framework (IF) and other trade-related technical cooperation
		Development of fisheries resources		Services	
		Rural development		Reducing the impact of external economic shocks	
		Food security	**Reducing vulnerability and protecting the environment**	Protecting the environment	
		Food aid		Alleviating vulnerability to natural shocks	
	Development of industrial, service, scientific and technological base	Developing the industrial sector	**Mobilizing financial resources**	Domestic resource mobilization	
		Developing the services sectors		Aid and its effectiveness	
		Strengthening the scientific and technological base		External debt	
		Energy		FDI and other private external flows	
Infrastructure	Transport and communication				
	Human settlements				
Environment and disaster mitigation, preparedness and prevention	Environment and development in the least developed countries				
	Disaster mitigation, preparedness and prevention				
Coping with the special problems of certain groups of least developed countries	Land-locked and island least developed countries				
Arrangements for implementation, follow-up and monitoring	National level				
	Regional and global levels				
	Global level				

Annex Table 3.3

Comparison between the Brussels Programme of Action 2001–2010 and the Istanbul Programme of Action 2011–2020

Substantial New Programme of Action 1980s		
Objectives/issues	**Priority areas for action**	
Fostering a people-centred policy framework		
Good governance at national and international levels		
Building human and institutional capacities	Social infrastructure and social service delivery	
	Population	
	Education and training	
	Health, nutrition and sanitation	
	Social integration	
Building productive capacities to make globalization work for LDCs	Physical infrastructure	
	Technology	
	Enterprise development	
	Energy	
	Agriculture and agro-industries	
	Manufacturing and mining	
	Rural development and food security	
	Sustainable tourism	
Enhancing the role of trade in development	Trade, commodities and regional trading arrangements	Market access
		Special and differential treatment
		Accession to WTO
		Standard-setting and quality control
		Regional trading arrangements
		Integrated Framework (IF) and other trade-related technical cooperation
	Services	
	Reducing the impact of external economic shocks	
Reducing vulnerability and protecting the environment	Protecting the environment	
	Alleviating vulnerability to natural shocks	
Mobilizing financial resources	Domestic resource mobilization	
	Aid and its effectiveness	
	External debt	
	FDI and other private external flows	
Arrangements for implementation, follow-up and monitoring	Main orientations	Role of the United Nations system
	National, regional and global arrangements	National level
		Subregional and regional levels
		Global level

Paris Programme of Action 1990s	
Objectives/issues	**Priority areas for action**
Productive capacity	Infrastructure
	Energy
	Science, technology and innovation
	Private sector development
Agriculture, food security and rural development	
Trade	
Commodities	
Human and social development	Education and training
	Population and primary health
	Youth development
	Shelter
	Water and sanitation
	Gender equality and empowerment of women
	Social protection
Multiple crises and other emerging challenges	Economic shocks
	Climate change and environmental sustainability
	Disaster risk reduction
Mobilizing financial resources for development and capacity-building	Domestic resource mobilization
	Official development assistance
	External debt
	Foreign direct investment
	Remittances
Good governance at all levels	
The complementary role of South-South cooperation	
Graduation and smooth transition	
Implementation, follow-up and monitoring	