

COMMITTEE FOR DEVELOPMENT PLANNING

REPORT ON THE TWENTY-FOURTH SESSION

(New York, 12-15 April 1988)

ECONOMIC AND SOCIAL COUNCIL

OFFICIAL RECORDS, 1988

SUPPLEMENT No. 6



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NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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EXPLANATORY NOTES

Reference to "dollars" (\$) indicates United States dollars, unless otherwise stated.

Reference to "tons" indicates metric tons, unless otherwise stated.

The term "billion" signifies a thousand million.

Annual rates of growth or change refer to annual compound rates, unless otherwise stated.

A hyphen between years (e.g., 1984-1985) indicates the full period involved, including the beginning and end years; a slash (e.g., 1984/85) indicates a financial year, school year or crop year.

A point (.) is used to indicate decimals.

The following symbols have been used in the tables:

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

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

A hyphen (-) indicates that the item is not applicable.

A minus sign (-) before a number indicates a deficit or decrease, except as indicated.

Details and percentages in tables do not necessarily add to totals because of rounding.

I. MAIN FINDINGS AND RECOMMENDATIONS

1. Prospects for the world economy are clouded by market volatility and the uncertainty surrounding present unsustainable trends. It is uncertain how the fiscal and current account imbalances among the developed market economy countries will be reduced, whether the international trading environment will become more or less protectionist, and what will be the future of net capital flows to developing countries.
2. The multilateral response to the structural imbalances in the world economy has been far from adequate, and the international system needs strengthening. As a new régime is established, the role of development strategies will come to the fore.
3. Prompt action to reduce the international debts of debt-distressed developing countries, particularly in Africa and Latin America, is an essential prerequisite of any successful strategy to deal with the critical long-term issues of the 1990s.
4. In the view of the Committee for Development Planning, such action would include a multi-year moratorium for African countries, on interest and principal payments on public and publicly guaranteed debts, with highly concessional interest rates on the rescheduled amounts for low-income severely debt-distressed countries; and reduced interest rates on Paris Club reschedulings for others.
5. As far as private debt is concerned - particularly that of the middle-income countries in Latin America and elsewhere - official action is needed to facilitate an orderly process of debt reduction on the part of commercial banks.
6. The response of developing countries to the adverse external economic environment of the 1980s has not been uniform, but appropriate long-term adjustments have been introduced in many countries. However, even with revised policies in place, development prospects remain bleak. Only in about a dozen developing countries is economic growth expected to exceed population growth significantly in 1988.
7. In all parts of the third world there have been long-run improvements in the basic capabilities of people - reflected in life expectancy, infant mortality, nutrition and school enrolment. However, those trends have been interrupted and continue to be threatened by the severity of the economic problems facing many developing countries.
8. In the 1980s debt-distressed countries have cut investment, reduced public expenditure and imposed deflationary contraction on their economies. In the low-income countries the share of public expenditure on education and health fell by 40 per cent and 20 per cent, respectively; in contrast, expenditure on defence and general public administration rose.
9. The pendulum has swung too far towards the neglect of human development. When Governments face the need of adjusting to short-term economic and fiscal constraints, there are policy choices to be made. For reasons both of efficiency and equity, the objectives of policy should be to safeguard human development programmes. Greater national and international priority should be given to restructuring human development programmes in order to reduce inefficiency and to improve delivery and targeting, for example, through low-cost technologies and

emphasis on basic services and, where necessary, through selective cost recovery to maintain and enlarge programmes providing non-basic services.

10. The ultimate objective of economic development should be human development. Putting people first is not a formula that can be applied mechanically, but it does contain ingredients - participation, local resource mobilization, support of the informal sector - which distinguish it from current approaches and which, in an appropriate context, can contribute much to growth with greater equity.

II. THE WORLD ECONOMY

A. The world economic situation

11. World economic output continued to advance in 1987, although its growth was unevenly distributed (see tables 1 and 2). Per capita income is lower today in much of Africa, Latin America and West Asia than eight years ago. In contrast, there has been substantial growth in income per head in China and in South and South-East Asia. Per capita income increased also in the developed economies. But unemployment remained exceptionally high in many developed and developing countries and affected severely the lower-income groups within developing countries.

12. In the face of major structural imbalances in the world economy, inadequacies of both national policies and international co-operation threaten the sustainability of growth in many countries and regions. Secular developments also affect prospects for world growth. Technological change, shifting comparative advantage, and population and environmental changes complicate the formulation of effective national policies and increase the need for international co-operation.

13. Diversity continued to characterize the economic performance of individual countries in 1987. In both Japan and the United Kingdom of Great Britain and Northern Ireland, per capita income increased by more than 3 per cent. The United States of America exhibited strong GDP growth in the fourth quarter of 1987, and for the year as a whole. Growth in Western Europe as a whole was slower. Unemployment eased marginally but stayed at an exceptionally high level by the standards of the previous three decades. The rate of increase in prices in the developed market economies was the lowest for two decades.

14. In the developing world, economic performance in 1987 was less satisfactory. Even the large countries showed virtually no increase in GDP, although China was a notable exception with per capita output growing at about 8 per cent. Pakistan grew fast as well, but Bangladesh and India suffered set-backs from adverse climatic conditions. Brazil, Mexico and Nigeria were held back by towering debt problems.

15. In 1987, per capita incomes in the majority of the medium-sized and smaller developing countries continued to decline. High indebtedness remains a stumbling block to resumed economic growth in most countries in Latin America and Africa. Although the debts of African countries pale in absolute magnitude compared to those of Latin America, they are a heavy burden to the economies concerned. African countries as a group reversed the decline in output that occurred in 1986, but their growth was insufficient to match the increase in population, and per capita GDP continued to fall.

16. Efforts on the part of highly indebted developing countries and others to increase export earnings have been frustrated, in part, by the sustained decline in the prices of primary commodities. As may be seen from table 3, real prices of non-fuel primary commodities fell steadily from their average 1979-1981 levels and by 1987 had fallen nearly 40 per cent. During the same period, the real price of oil fell by 50 per cent. While real prices of primary commodities on average now appear unlikely to fall further, their prospects do not appear particularly promising in the near future.

Table 1. Growth of per capita gross domestic product and population, by major country groupings, 1987-1989

	Per capita gross domestic product (annual percentage change)			Population in 1985 (millions)
	1987 <u>a/</u>	1988 <u>b/</u>	1989 <u>b/</u>	
	World	1.4	1.3		1.0	4 837
Developed market economies	2.3	1.8	1.2	789
United States	2.0	1.5	0.5	238
Japan	3.7	3.6	2.2	121
Western Europe	1.8	1.1	1.2	353
Centrally planned economies <u>c/</u>	1.8	3.1	3.2	394
USSR	1.4	3.0	3.0	279
Eastern Europe	2.7	3.5	3.5	115
China	8.2	6.7	6.2	1 060
Developing countries	0.4	0.8	0.9	2 595
Seven largest countries	0.3	0.1	0.8	1 437
Bangladesh	0.3	-0.8	2.5	101
Brazil	0.8	0.5	1.4	136
India	0.7	3.1	3.5	759
Indonesia	1.7	1.1	1.3	166
Mexico	-1.1	-5.2	-4.5	79
Nigeria	-5.4	-2.4	-1.5	95
Pakistan	4.7	3.8	3.8	100
Others	0.7	1.0	0.8	1 158
Energy-importing countries	2.5	2.3	1.7	247
Energy-exporting countries	-2.7	-0.8	-0.7	911

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

a/ Provisional.

b/ Department of International Economic and Social Affairs, based on Project LINK, plan figures for China, Eastern Europe and the USSR, and other sources.

c/ Net material product (NMP).

Table 2. Growth of per capita gross domestic product and population in China and developing countries, by region, 1981-1988

	Per capita gross domestic product (annual percentage change)				Population in 1985 (millions)
	1981-1985	1986	1987	1988	
All developing countries and China	..	1.4	1.4	1.7	4 024
Africa	-3.6	-5.0	-2.0	-1.2	523
Latin America	-1.8	1.2	0.3	-0.8	405
West Asia	-4.3	-3.3	-4.1	-0.5	108
South Asia	2.7	3.0	1.2	3.1	1 030
South-East Asia	2.7	3.9	5.6	4.0	456
Mediterranean <u>a/</u>	0.9	4.0	1.1	2.2	74
China	..	6.6	8.2	6.7	1 060

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

a/ Cyprus, Malta, Turkey and Yugoslavia.

Table 3. Terms of trade a/ of commodities of interest to developing countries in the 1980s

	1983	1984	1985	1986	1987
Index of real prices of non-fuel primary commodities (1979-1981 = 100)	89	92	82	73	62
Oil (official prices per barrel)	114	111	106	49	51

Sources: United Nations, Monthly Bulletin of Statistics, December 1987; UNCTAD, Monthly Commodity Price Bulletin, various issues; OPEC, Annual Statistical Bulletin, various issues. For 1985 and 1986, oil prices are estimated net back values from Petroleum Intelligence Weekly, various issues.

a/ Deflated by the United Nations index of prices of manufactured exports.

17. This sombre picture is brightened by a few exceptions. Exporters of manufactures in South-eastern Asia (Hong Kong, the Republic of Korea, Taiwan Province and Singapore) and a few other countries in that region taking steps towards industrialization (e.g., the Philippines and Thailand) performed well. Corresponding bright spots in other regions last year were Chile, Colombia, the Dominican Republic, Ghana, Kenya, Oman, Peru and Uruguay.

18. In response to prolonged crises, long-term policy adjustments began to be introduced in some countries. Even with revised policies in place, however, short-term prospects remain bleak. Only in about a dozen developing countries is economic growth expected to exceed population growth significantly in 1988.

19. The fact that output per capita in the developed market economies grew by more than 2 per cent during 1987 was all the more noteworthy in view of the financial upheavals during the last quarter of the year. At that time, the dollar fell abruptly, following an unprecedentedly large drop in equity prices around the world. Policy makers responded by heavy intervention in foreign currency markets and with some relaxation of monetary policy.

20. The most recent economic indicators suggest that in 1988 the larger developed market economies are not experiencing as much of a slow-down as was feared at the end of 1987 and are making some progress in remedying their external imbalances. Under such circumstances, and barring a repetition of the unfavourable climatic conditions that adversely affected some of them in 1987, the larger developing countries should improve their performance in 1988. Improved performance is also expected on the part of energy-exporting countries. The centrally planned economies are expected to accelerate growth in 1988.

21. In 1989, however, growth in the developed market economies is expected to slow further. In many developing countries some of the present policies designed to address longer-term structural problems may, however, begin to have a positive impact, and somewhat higher growth rates are expected than in 1988. None the less, growth of per capita GDP in the developing countries as a whole is expected to be less than 1.0 per cent. Under a scenario of improved policy co-ordination, the major developed market economy countries could reduce the severity of the slow-down expected in 1989 which could add nearly another percentage point to the rate of growth of GDP in the developing countries.

B. Policy issues for the 1990s

1. The experience of the 1980s

22. During the decade of the 1980s, all countries faced an extremely adverse external economic environment, as well as droughts, other natural disasters, and regional or internal armed conflict. The decade began in recession among the industrialized countries, which depressed export volumes and the commodity terms of trade to an unprecedented degree. This was accompanied by extremely high interest rates. Trade policies stiffened vis-à-vis exports of manufacturers from developing countries. Following the second round of oil price increases in 1979 and 1980, these factors helped prolong the upsurge in developing country borrowing from commercial banks, which had begun in the mid-1970s as part of the process of "recycling" the surpluses of the oil-exporting countries.

23. The unco-ordinated economic policies adopted by the major industrial countries in approaching their domestic problems had serious implications for the world economic environment. The reliance on monetary policy to contain inflation in the United States, in the face of an expansionary fiscal policy, raised real interest rates to a high level, which exacerbated the international debt problem. Negotiations among the United States, Japan, and the Federal Republic of Germany about co-ordination of fiscal policy in order to maintain the level of world demand in the course of adjustment of the prevailing imbalances proved extremely difficult.

24. At the international level, the failure to provide for recycling of the "petrodollars" through official channels in the 1970s, leaving the task to the commercial banks, sowed the seeds of the debt crisis. Failure to co-ordinate monetary and fiscal policies among the developed market economy countries has also been a cause of excessive volatility in exchange rates, money market interest rates and stock prices.

25. The late 1970s and early 1980s confronted Eastern European centrally planned economies with the task of restoring economic balance, and for some of them external debt problems have continued to linger. The restoration of external and - especially - internal balance has also been necessary in China and the Soviet Union. Domestic disequilibria in the form, for example, of sectoral bottlenecks - e.g., in transportation - and shortages in the supply of intermediate and final goods, have been a characteristic of most of these countries for a number of years.

26. By mid decade, the need to revamp economic structures had become widely accepted. This has led to comprehensive economic reforms in the majority of the centrally planned economies. Some countries essentially envisage a broad streamlining of economic structures, while others intend to pursue a course that reaches far into the fabric of society. The common element of the reforms is their emphasis on enterprise autonomy and self-financing.

27. The response of developing countries to the series of external shocks to which they were subjected was not uniform. A number of countries implemented measures to reduce domestic absorption and to expand and diversify their exports. Those that were successful in implementing strategies of this sort by and large avoided falling victim to the debt crisis. A number of countries sought to spread the adjustment process over a longer period of time, relying heavily on external borrowing. However, the reluctance of commercial banks to continue lending after the suspension of debt service payments by Mexico in 1982 provoked debt crises for many of those countries. Others that did not manage to implement effective adjustment strategies spent the remainder of the decade in trying to do so in an atmosphere of virtually permanent debt and balance-of-payments crises.

2. An approach to the formulation of development strategies

28. Policy-making must be based on information that is adequate to provide a basis for decision and choice. In the case of policy options for the longer term, it is necessary to be able to anticipate future trends, including the implications of major international negotiations. For example, the future of international trade will be affected by such events as the recent trade agreement reached by the United States and Canada, by the decision of the European Economic Community to develop a fully integrated internal market by 1992, and the eventual outcome of the Uruguay Round. Levels and directions of official capital flows to developing countries will be affected by commitments to increase official development assistance to Africa. Prospects for large net flows of private external finance mediated through international capital markets appear remote as long as a comprehensive solution to the debt problem of developing countries remains elusive.

29. While such major international policy decisions may significantly alter prospects for developing country exports in world markets or their access to capital markets, other considerations are often more important. Trends in demand for primary commodities, including the impact of changes in demand and sometimes changes in the conditions of their supply are dominant, if not decisive, factors in determining the medium-term evolution of commodity prices and prospects for growth in export volumes.

30. Because actual and potential entrants into the labour force over the next 15 years have already been born, medium-term projections of demographic profiles for countries and world regions are highly reliable. The uncertainties have to do with changes in labour force participation rates and the course of international migration, which has already escalated to a level of high international concern. One of the major problems with which many countries will have to cope will be those associated with the uneven geographical growth of the active labour force. Unemployment and underemployment will be acute in developing countries, and youth unemployment

will remain a worrisome problem in many developed market economy countries. Another major problem will be the funding of pensions in many developed market economies due to the increasing ratios of retirees compared to the working population.

31. Anticipating future trends does not by itself provide a basis for decision and choice. It is also necessary to explore the tradeoffs among alternative strategies. Empirical models of the economic system combined with demographic models and models of the ecological system, and of political and social behaviour, can be of value to policy makers (see Box 1).

Box 1. Global modelling and development planning

During the past two decades a number of global models have been developed inside and outside the United Nations system, and the number of countries and sectors incorporated in them has gradually increased. As seen in the table, the Project LINK world econometric model, for example, which is used for short-term and medium-term macro-economic analysis, divides the world economy into 79 countries and regions with trade linkages for four commodity groupings, and forecasts approximately 20,000 variables. Another example is the United Nations world input/output model (WIOM), which divides the world into 15 regions, each with 59 sectors, and determines about 4,000 variables. These models explore mainly economic variables. The GLOBUS model assigns approximately equal weight to economic and political relationships. The economic model describes some 25 national economies and six economic sectors. The primary agents in the political model are national Governments which are assumed to monitor their bilateral relationships with other Governments and to adjust foreign and domestic policies such as tariffs, trade discrimination and the composition of governmental expenditures between defence and non-defence purposes accordingly.

Despite the increasing attention paid to individual countries and economic sectors, there remains considerable room for improvement. More effort has gone into short-term and economic issues than into long-term and socio-political issues. Even in the case of the former, relatively few models succeed in incorporating market adjustment mechanisms such as the effect of changes in relative prices and exchange rates in reconciling ex-ante imbalances between demand and supply, or the relations of stocks (capital, labor force, assets and liabilities) to flows (investment, employment and population changes, savings and borrowing). Very few global models deal adequately with international capital flows and service trade, which for many countries have come to be as important as commodity trade. Some socio-economic variables are highly relevant to international policy decisions - for example, income distribution, poverty, demographic behaviour, environment and political decisions. Modelling their interaction with more narrowly defined economic factors, when possible, would improve the relevance of global models. In the case of long-term models, more attention might be given to changes in technology and industrial structure and their impact on comparative advantage in international trade, difficult as that may be.

As circumstances change and new conditions develop, some relationships estimated on the basis of past data become irrelevant. Data required for more detailed models may be available for only relatively short time periods, and therefore estimated relationships may have less statistical significance. In such cases, basic relationships of economic and social variables may be captured by developing relatively compact models - perhaps several - each for a specific purpose. The results might then be used to calibrate the larger models whose greater detail may be needed for policy analysis. This may be cost-effective for some modelling teams since building a large global model can be extremely expensive.

Of great importance is the appropriate use of models. The proper use of projections and policy simulations with global models requires careful communication of the assumptions underlying the characteristics of the models and the choice made for exogenous variables in the models. Implicit assumptions about political and social matters should be clearly presented and discussed. In the same vein, central or baseline scenarios should be presented, together with variations. This is particularly important at times like the present, when uncertainty is so great regarding the course of policy or the behaviour of especially volatile markets.

Global models have been used by national economic planners as a source of assumptions regarding trends in the rest of the world and in international forums to assist in the assessment of the quantitative effects of alternative international and national economic policies and their greater co-ordination. Facilitating access to existing global models, especially via on-line computer linkages, would increase their utility to economic planners in developing countries.

Table. The level of detail in global models

Study	Horizon	Regions	Sectors	Factors	Trade	Data-Size
LIMITS	2 100	1	6	2	0	500
WIM	2 025	12	15	5	15	5 000
LA	2 060	4	9	3	3	3 000
WIOM	2 000	15	45	2	45	5 000
SARUM	2 020	12	11	3	11	4 000
FUGI/GIOM	2 000	14	14	2	10	2 000
FUGI/GMEM	2 000	62	3	3	3	100 000
LINK	1 992	79	4	2	4	20 000
INFORUM	1 990	15	190	2	119	10 000
DIESA/GEM	2 000	130	3	2	3	2 000
DIESA/WTM	2 000	80	5		5	3 000
WB/SIMLINK	1 995	30	10	2	35	1 000
WB/WDR	1 995	30	6	2	10	3 000
IMF/WTM	1 988	45			30	
UNCTAD/SIGMA	2 000	15	4	2	4	1 500
UNITAD	2 000	9	12	4	11	4 000
UNITAR	2 020	6	3	3	3	300
SIMPEST	1 990	3	3	3	3	1 000
GLOBUS	2 015	25	6	3	6	4 000

LIMITS Limits to growth model

WIM Strategy for survival and world integrated model

LA Latin American (Bariloche) model

WIOM	United Nations world input/output model (Leontief)
SARUM	Systems analysis research unit model
FUGI/GIOM	Future of global interdependence global input/output model
FUGI/GMEM	Future of global interdependence global macro-economic model
LINK	Project LINK World econometric model
INFORUM	International system of input/output models and bilateral trade flows
DIESA/GEM	Global econometric model
DIESA/WTM	World trade model
WB/SIMLINK	World Bank simulated trade linkages
WB/WDR	World Development Report model
IMF/WTM	International Monetary Fund world trade model
UNCTAD/SIGMA	System for interlinked global modelling and analysis
UNITAD	United Nations industry, trade and development model
UNITAR	United Nations Institute for Training and Research model
SIMPEST	Simulation Political Economic Strategic Interaction
GLOBUS	Generating Long-term Options by Using Simulation

Note: This table is based on Sam Cole, "Global models and development: a critical appraisal", a paper prepared for the Working Group on the Changing Global Economy.

32. Market volatility and uncertainty as to how unsustainable trends will be resolved now cloud the prospects for the world economy in the medium term. Uncertainty prevails about how the debt problem will be resolved, how the fiscal and current account imbalances among the developed market economy countries will be reduced, whether the international trading environment will become more or less protectionist, what will be the level and composition of net capital flows to developing countries, and what will be the implications of the reforms within the centrally planned economies. These uncertainties discourage investment and distort its allocation.

33. If policy makers in developing countries facing such uncertain prospects are to be able to fashion appropriate development strategies for the 1990s, policies to deal with abrupt and unexpected changes at the international level need to be strengthened. Measures are needed to reduce vulnerability of the world economy, especially the economies of the developing countries, to exogenous shocks. At the international level such measures should include improvements in compensatory financial arrangements for developing countries facing external shocks, standby provision of food aid, and stock-piling of strategic raw materials.

3. Critical international policy issues

34. A major issue is the extensive and acute poverty in the world. The population living below a minimally acceptable level has increased during the present decade in Latin America and sub-Saharan Africa. For much of the population in developing countries, food availability is a crucial factor. National policies of food security have to guarantee access to food at affordable prices when growing conditions turn unfavourable or when advances in agricultural technique result in displacing subsistence producers.

35. Another challenge is that of accelerating industrial restructuring. New technologies tend to be both energy-saving, raw-material-saving and labour-saving. The first two factors combined with the tendency of demand in developed countries to shift from goods to services will accentuate the slow growth of demand for raw materials. Since GDP growth in the developed market economies is likely to be in the range of 2.5-3.0 per cent, the prospects for growth in world demand for the primary commodities traditionally exported by developing countries are not promising. Increasing their exports at a sufficiently rapid rate to satisfy the import requirements of even modest growth in per capita incomes will require accelerated redeployment of production in some primary commodities, such as industrial raw materials, and in manufacturing from the developed to the developing countries.

36. The displacement effects on labour of this restructuring in the industrial countries is, of course, aggravated by the labour-saving character of new technologies in the large portion of production which would continue to be located in the developed market economy countries. Thus the counterpart to global industrial restructuring must be vigorous positive adjustment policies in order to mitigate the adverse effects on employment generally and on the local economy of regions heavily dependent on industries vulnerable to competition from the exports of developing countries.

37. Agricultural protection in the developed market economies is for many developing countries a more significant barrier to export diversification and expansion than industrial protection. Subsidization of exports of surplus agricultural products depresses developing country exports in third markets. Reducing or eliminating agricultural subsidies and other barriers to trade in agricultural commodities would improve the export prospects of developing countries and reduce pressure on government budgets in the developed market economy countries.

38. The need to ease the process of accelerated industrial restructuring underscores the increasing importance of macro-economic policy co-ordination and reform of international mechanisms in this sphere. Current efforts at international monetary and policy co-ordination give the appearance of

"brinkmanship". The problems of unsustainable imbalances, slow growth and instability are systemic and require improved mechanisms for international economic co-operation.

39. Reform of the international monetary system is necessary to ensure adequate levels and an appropriate distribution of international liquidity, more symmetrical balance-of-payment adjustment processes, and less volatile exchange rates. Particular responsibilities rest with the major industrialized countries to achieve greater co-operation in the pursuit of their national and fiscal policies in the interest of global economic growth and stability.

40. Even more urgent is an enduring and comprehensive solution to the problem of the external debt of the developing countries. The extensive debate in recent years has gone far to clarify the major issues involved. The need is for prompt action. Because of the importance that the Committee for Development Planning attaches to the resolution of the debt problem, it took the unusual step of issuing a special statement on the problem, which is reproduced in box 2.

Box 2. Proposals to reduce the debt burdens of developing countries*

Action must be taken to reduce the international debts of debt-distressed developing countries, particularly in sub-Saharan Africa and Latin America, as well as other countries, to make possible a consideration of appropriate development strategies for the 1990s. It is not possible for the Committee for Development Planning to contemplate the prospects for sustained longer-term development in the debt-distressed countries without first resolving their current debt problems.

Excessively generalized schemes would not be appropriate, but a realistic assessment of the situation of debt-distressed countries leads to the conclusion that many of them are insolvent in the sense that they could not in the foreseeable future service their debts in any circumstances. Others might be able to continue to pay interest on their debt at the cost of cutting further living standards, damaging the natural resource base and postponing investments needed for future growth, but this would not be a viable strategy.

The indebted developing countries face three kinds of creditors: official ones whose claims consist largely of bilateral loans and guaranteed export credits; private commercial banks; and the international financial institutions, notably the International Monetary Fund (IMF), the World Bank and the regional development banks.

* Text of a special statement on the debt problem formulated by the Committee for Development Planning during its twenty-fourth session and issued as a press release (DEV/1767), 14 April 1988.

The first type of debt is rescheduled in the Paris Club where payments are deferred but at unchanged interest rates. This builds up snowballing debts, while the capacity to service them often declines. As far as the low-income debtors are concerned, the improved terms of recent Paris Club reschedulings of official debt should be supplemented by debt relief in the form of substantially reduced interest rates on rescheduled payments.

Private creditors have already made significant provisions against losses on their loans. The debts of a number of Latin American and other countries to commercial banks are already valued at deep discounts. In the absence of an international facility, an arrangement has been made by Bolivia, allowing it, with the help of donor Governments and the support of IMF, to buy back about half of its debt at a substantial discount. Mexico recently has innovated in the securitization of a portion of its commercial bank debt. Those measures have not yet provided the necessary debt relief.

It is paradoxical that the IMF and the World Bank are taking out more money than they are providing in fresh loans in some of the poorest countries in the world, notably in sub-Saharan Africa where incomes were steadily declining. Recently, however, the World Bank has launched a Special Programme for Africa with extensive co-financing by bilateral donors and the IMF has sought a substantial enlargement of its facility for structural adjustment lending to the poorest countries. These steps, if successfully carried out, will alleviate the problem.

The medium- and longer-term prospects for development are at present threatened by the persistent negative impact of the third world's unsustainable debt servicing obligations. The debt problem is itself, largely, a consequence of economic policies in both industrial and developing countries and the Committee urges that, in addition to improved policies relating directly to balance-of-payments management, those policies stress in the 1990s more efficient allocation of resources through competition and higher levels of investment in the development of human capabilities, especially education, health, and nutrition. The mandate of the Committee relates to the longer-term needs for development; in its future work it will address the prospects for the international system to supply adequate finance and encourage appropriate economic policies for global development.

Whatever the circumstances that generated the current difficulties surrounding so much of the third world's debt, the responsibility for resolving current problems is an international one, involving both debtors and creditors. The need for adjustment with growth and for adequate international finance for this to be achieved has been internationally recognized at least since the announcement of the Baker Plan in October 1985. Net transfers from developing debtor countries to creditor banks, Governments, and international financial institutions continues to inhibit local investment and growth prospects, while imposing harsh burdens upon the debtor countries' peoples.

The need for extensive debt relief is now widely recognized. Each debtor country nevertheless represents a unique case; while some

developing country debtors have no debt-servicing problems at all, others face increasing difficulties. Those that are experiencing debt-servicing difficulties can be categorized broadly as either low-income countries with debts that were principally owed to Governments and multilateral financial institutions; or middle-income countries owing the bulk of their debt to commercial banks. The resolution of individual debtors' difficulties can only be pursued within the context of their overall financial situations, and hence on a case-by-case basis. But it is time to recognize the potential positive role of creditor nation Governments in the provision of debt relief to countries in both broad categories.

The Committee endorses the recommendations of the Wass Committee on African finance that there be a three-year Paris Club moratorium on interest and principal payments, with highly concessional interest rates on the rescheduled amounts for low-income severely debt-distressed countries; and reduced interest rates on Paris Club reschedulings for other less severely debt-distressed countries.

As far as private debt, particularly that of middle-income countries, is concerned, it is time to recognize the advantages of official action to facilitate an orderly process of debt reduction on the part of commercial banks. The process of debt reduction has been too slow. The dangers and uncertainties of continuing delays in the inevitable provision of debt relief on private debt are great. At the international level, as in domestic banking and financial affairs, there is an important role for official policies in support of efficiency, stability and equity, particularly in times like these of instability and uncertainty.

A number of proposals have recently been made which would establish a special facility to assist developing countries in facilitating market-based debt reductions. However, in facilitating debt reduction with the support of the international donor community, resources required should not come at the expense of other developing countries. Although the proposals vary in detail, they all involve the participation of the multilateral lending institutions, particularly the World Bank and IMF, and appropriate policy reform in the debtor countries. Such proposals should be given the most serious considerations.

41. As the World Commission on Environment and Development argued in its report to the General Assembly at its forty-second session (A/42/427), environmental concerns should be more consistently integrated into economic decision-making. Some environmental issues such as desertification and water quality are susceptible of solution at the local and regional levels. Developing countries will, however, need technical assistance and external financial support in order to devote increased resources to environmental protection. Other aspects of environmental protection, such as the reduction of carbon dioxide and other airborne emissions, require international co-operation along the lines of the recently negotiated agreement on fluorocarbons. At both levels, mechanisms need to be created or improved to establish priorities among the many environmental issues.

42. Much of international migration involves the movement of people from poorer countries to richer ones in search of better livelihoods. For a few developed market economy countries with slowly growing labour forces, immigration may help to ease the problem of increasing dependency ratios. However, the persistence of large unemployment is likely to prevent Governments from adopting significantly more liberal immigration policies. Migration also involves people displaced by war, social conflict and natural catastrophes. The millions of such displaced persons represent a large cost for the many developing countries who receive them. Moreover, their failure to return to their countries of origin or to integrate successfully into the society of the host country is a source of future social conflict.

4. Critical national policy issues

43. Many of the national policy issues arising for developing countries have already been mentioned, such as those relating to the reduction of absolute poverty, export diversification, and the environment. Other critical domestic issues vary from country to country.

44. In formulating recommendations on a development strategy for the 1990s, Governments will have to take into account the diversity of country experience and the fact that policy options available to countries at a low level of development are severely limited.

45. Policy stances in many developing countries have changed as policy makers have digested the results of the differing experiences of other countries and now pursue greater autonomy and market discipline for state enterprises, more emphasis on encouraging entrepreneurship in the private sector, reforms of pricing policies, fiscal systems and so forth.

46. Income distribution is at the heart of political controversies over national economic policies. Incentive pricing policies, for example, alter the urban/rural terms of trade, and the regional allocation of public expenditure has important consequences. In times of adjustment and austerity, the burden tends to be shifted to the poor, as discussed in chapter III below.

47. The severity of the external financial constraints together with increasing protectionist pressures in developed market economy countries has given new impetus to efforts at regional integration. Strengthening established customs unions and clearing houses and creating new ones may well be a prominent feature of development strategies in the 1990s.

48. A critical social issue in all countries is unemployment and marginalization. In developing countries, underemployment, or disguised unemployment, is more important than open unemployment. A very large informal sector absorbs workers who would otherwise be unemployed. In the developed market economy countries, extensive unemployment insurance has broken the link between unemployment and acute poverty. Nevertheless, failure to provide jobs for as much as 10 per cent of the work force in many developed market economy countries year after year has led to a process of marginalization in which some young people are likely never to find steady work.

49. The mobilization of resources for development is a central task in developing countries. The bulk of the required investment finance in most countries must come from mobilization of domestic resources, as it has in the past. In all countries there is scope for improving financial intermediation and the functioning of domestic capital markets in order to utilize private savings better. There is also the need for fiscal reform to increase revenues and for reducing military expenditures and subsidies to urban consumers and inefficient state enterprises. In the developed market economy countries, official development finance could be more readily increased if military expenditures were to pre-empt a smaller proportion of public expenditures. Progress towards partial disarmament by the major industrial countries could make such a shift possible.

50. Development strategies should aim over time at an appropriate degree of "openness" to world markets for traded goods and international finance. This involves assessing the trade-offs between the efficiency to be gained from trade liberalization and the greater vulnerability to external shocks. Developing countries need counter-cyclical policies in order to face external and domestic shocks. These may include guaranteed commodity prices for domestic producers, sinking funds to retire debt accumulated during a period of slack export demand or to sustain income levels during a drought or other exogenous disturbance to domestic supply, and special measures to protect vulnerable groups, although financial constraints limit governmental capacities to implement such measures. Other approaches which may facilitate more flexible responses to shocks include decentralized decision-making in the state enterprise sector. Several countries, for example, are experimenting with performance contracts to strengthen incentives of managers to minimize costs. In some cases, privatization may offer possibilities of increasing efficiency. However, often the size of the firms in relation to the markets they serve requires an appropriate regulatory régime to ensure against abuse of their monopoly power.

III. HUMAN RESOURCES DEVELOPMENT: THE NEGLECTED DIMENSION

51. "The process of economic development" as Amartya Sen has said, "can be seen as a process of expanding the capabilities of people". That is, we are ultimately concerned with what people are capable or incapable of doing or being. Can they live long lives? Can they be well nourished? Can they escape avoidable illness? Can they obtain dignity and self-respect? Can they read and write and communicate and develop their minds? The ultimate objective of economic development should be human development.

52. According to this view, development is concerned with much more than expanding the supplies of commodities. The enhancement of capabilities often requires changing technologies, institutions and social values so that the creativity within human beings can be unblocked. This, in turn, results in economic growth. But, growth in GDP is not the same as growth in people's capabilities. The two are, of course, linked, but they are not identical.

53. Development planners have traditionally concentrated on the production of goods and services and on rates of growth. Increased physical output has been assumed to give rise to greater economic welfare. More recently, greater emphasis has been placed on the distribution of goods among people and to considerations of need and equity. The philosopher John Rawls defined deprivation in terms of the availability of "primary goods" or "things it is supposed a rational man wants, whatever else he wants". The International Labour Organisation attempted to translate the concept into operational terms with its advocacy of "basic needs". Basic needs, however, remains a goods-oriented view of development, whereas what is wanted is a view that puts people first.

54. This is the great merit of the human capabilities approach, pioneered by Sen. The connection between goods and capabilities can be simply illustrated. Food, for instance, is a good; by providing basic nourishment, it gives a person the capability to develop a sound body and mind. Thus, increased food production is a means to an end: a rise in the standard of living comes about not so much through an expansion of food supplies as through an enhancement of the associated capabilities (e.g., declines in infant mortality, increases in life expectancy and improvements in other indicators of well-being). It is the concept of capabilities that comes closest to our notion of the standard of living and, more generally, to our notion of development. Goods may provide the basis for a high standard of living, but they are not in themselves constituents of it. An illiterate person in poor health would not enjoy the same capabilities, and thus the same standard of living, as an otherwise identical person, not only because he would be likely to have a lower income but also because literacy and health directly affect capabilities.

55. Although there is some relationship between income per head and human well-being, the statistical association is not close, and divergences from the general tendency are at least as striking as the general tendency itself. Human fulfilment is about whether people live or die, whether people eat well, are malnourished or starve, whether women lead healthy and tolerable lives or are burdened with annual child-bearing, a high risk of maternal mortality, the certainty of life-long drudgery; whether people can control their lives at work; whether their conditions of work are tough and unpleasant; whether people have access to work at all; whether people control their political lives; whether they

have the education to be full members of society with some control over their destiny. Although these are all aspects of the standard of living, they are only loosely included - or not included at all - in the measure of GNP per capita.

56. Any approach that puts people first must come to terms with the fact that the average age of the population in the third world is low. In 1980 in the developing countries as a whole, 39 per cent of the population was less than 15 years old, as compared to 23 per cent in the developed countries. Conversely, only 4 per cent of the population of the third world is over 65 years old, whereas in the developed countries about 12 per cent of the population was older than 65. Thus, human development in the third world is necessarily concerned in large part with enhancing the capabilities of the young.

57. Public expenditures on human development must keep pace with the growing numbers of young persons. But, the effective role of the State in development may be less - not greater - with increasing reliance on people to develop their own capabilities and become agents of constructive change.

A. Long-run trends

58. It is natural to inquire whether economic growth in the past two decades has accompanied, or been accompanied by, increased human capabilities. Certainly there has been growth in spite of the 1980-1983 world recession: only in the low-income African countries did per capita income fail to rise between 1965 and 1985. Some groups of countries did much better than others, however. The developing countries as a whole grew faster (3 per cent a year) than the industrial market economies (viz. 2.4 per cent a year). But within the third world, there was a tendency for the poorest countries to fall relatively further behind the less poor. China, where GNP per capita increased 4.8 per cent a year, was the great exception. Among the middle-income countries, East Asia did much better than Latin America. As shown below, human capabilities increased relatively most rapidly in China and East Asia.

59. A rise in average incomes may well be a misleading guide to the income gains of the poor. In some countries, including very large ones, the incidence of poverty remains high. This often is due in part to a high and even rising degree of inequality in the distribution of income. A large number of cross-sectional studies of countries support this hypothesis. Moreover, a number of studies of individual countries, based on time-series data, show that inequality has increased along with a rise in average incomes. Indeed some authors have attempted to show that not only has inequality increased but that in some countries for quite long periods the absolute standard of living of some sections of the poor has declined. It cannot be assumed, therefore, that the incomes and basic human capabilities of the poor have risen to the same extent as the average.

60. The debate today is not over whether inequality within countries has increased but whether increased inequality is inevitable. The balance of recent evidence suggests that the degree of inequality is not closely related to the level of income per head, as was once thought, but to factors dependent upon the strategy of development that is followed. These factors include the distribution of productive assets (particularly land), the distribution of educational opportunities, the employment intensity of the development path and the general policy stance of the Government. It is possible, therefore, for Governments to pursue both

distributive-equity objectives and growth objectives successfully. Similarly, Governments have it within their power to promote the enhancement of human capabilities by means of their education, health, nutrition, participation and other policies. Moreover, the twin objectives of distributive equity and human development will often involve the same policies.

61. Taking a long view, there is no doubt that human capabilities have increased in the third world. Perhaps the best indicator of this is the increase in life expectancy at birth since around 1950. In the poorest countries life expectancy at mid century was between 30 and 40 years; today it is at least 50 years in most countries and rises to 70 or more for females in such countries as China, Malaysia, Sri Lanka, Chile and Argentina.

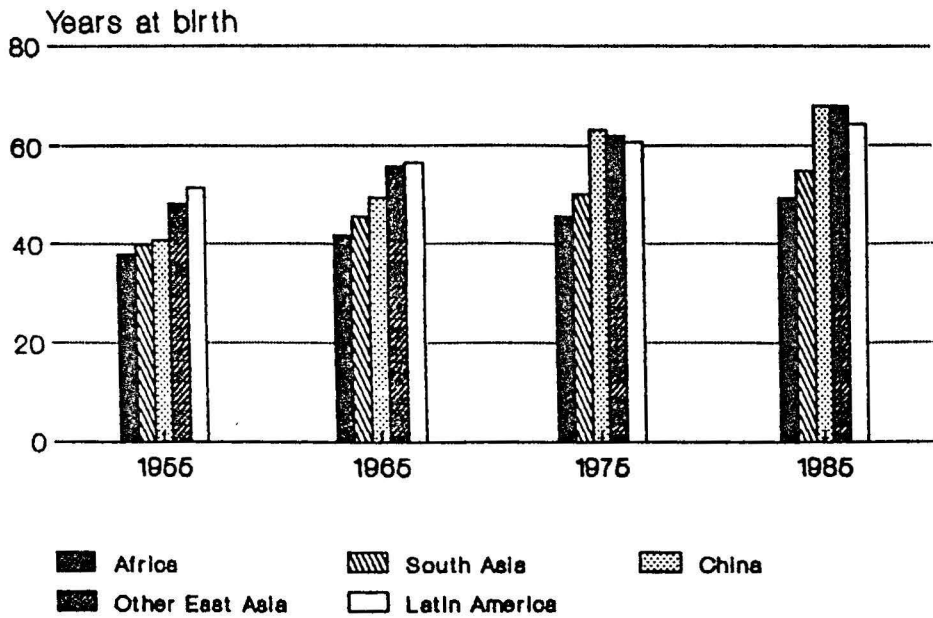
62. The data on infant mortality tell a similar story. There has been a long-run decline everywhere, and in some countries the decline has been dramatic, with the rate falling by 50 per cent or more. This is true in Latin America for Argentina, Chile and Colombia, and in Asia for China, Malaysia, the Philippines and Sri Lanka. However, infant mortality rates remain very high - i.e., above 100 per 1,000 infants less than one year old - in Bangladesh, Pakistan, the United Republic of Tanzania and Côte d'Ivoire. As with life expectancy, there is only a weak correspondence between infant mortality rates and per capita incomes.

63. Data on life expectancy and infant mortality for the period 1955-1985 are portrayed in figures I and II. The long-run improvements in both indexes are apparent for all regions. However, as with income, averages may overestimate somewhat the gains to the poor, whose access to health services is marginal in many countries. There is much evidence that health delivery systems (oriented towards hospital-based, high-technology, specialized services) provide limited population coverage and contribute to an unequal distribution of health services.

64. Primary education is one of the great success stories of the third world, at least in quantitative terms. It is less certain that there have been improvements in the quality of education. School enrolments have expanded rapidly in the past 20 years and in most countries primary education for boys is universal, or nearly so. The position of girls is less good, but even so, in over half the countries, over 90 per cent of girls attend primary school, although they are less likely than boys to complete their primary education. Less favourable treatment in educating young girls continues to be a problem, above all in Pakistan (where twice as many boys as girls attend school) but also in India, Bangladesh, Egypt and Côte d'Ivoire. Although illiteracy rates are still over 52 per cent in Africa and South Asia, one can anticipate that they will continue to fall as the proportion of the population with a primary school education rises. None the less, the absolute number of illiterate persons will probably increase for years to come.

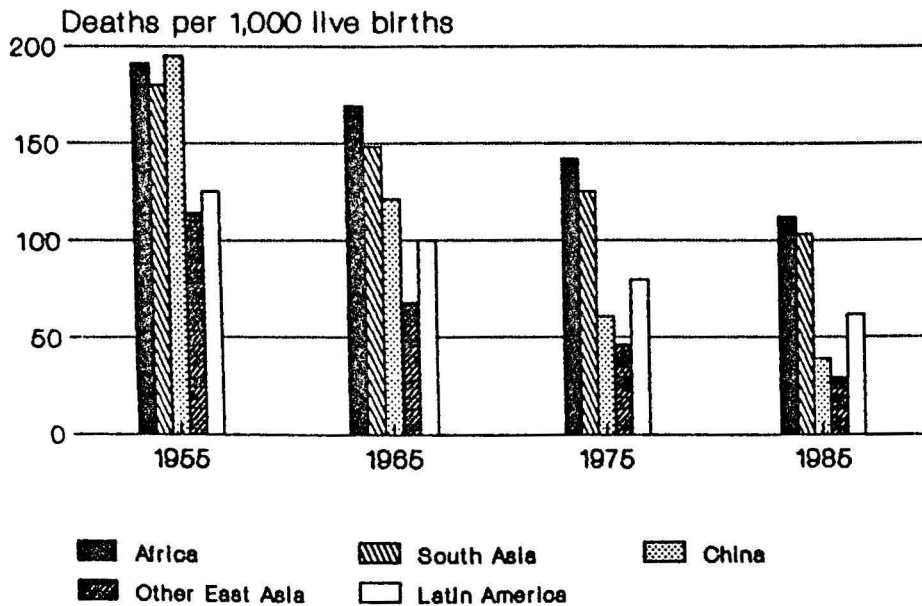
65. Secondary education has also grown rapidly, although often from a very small base. Still, between one and two thirds of the relevant age group attends a secondary school in most third world countries, including the two largest, India and China. The third largest - Indonesia - has expanded its secondary school system very rapidly and has overtaken the two Asian giants. Serious shortcomings remain in Pakistan and Bangladesh (where expansion of the system has been slow) and in sub-Saharan Africa (where, apart from the United Republic of Tanzania, expansion has been fast). Given the difficulties encountered in Asia and Africa at the time of independence, progress in secondary education has been remarkable.

Figure I. Life expectancy in the developing regions, 1955-1985



Source: United Nations Secretariat.

Figure II. Infant mortality in the developing regions, 1955-1985



Source: United Nations Secretariat.

66. However, one caveat to enrolment statistics is the high incidence of child labour. According to a 1976 ILO estimate, some 8 per cent of the children in developing countries between the ages of 5 and 15 years work or are out of school seeking work.

67. Overall, the indicators suggest that there has been a long-term increase in human capabilities in the third world. The growth in not only output but also in capabilities reflects the application by society of cumulative collective knowledge. Never before has the stock of knowledge in the world increased so rapidly or been so widely disseminated as it has in the past 40 or 50 years. None the less, world-wide access to science and technology is unequal. The diversity of the world's languages is a source of enrichment and cultural plurality and in many countries language is a unifying force. But in some countries linguistic heterogeneity is a source of disunity and conflict, and between countries language can act as a barrier, restricting access of hundreds of millions of people to world knowledge. Yet the barriers are slowly being overcome, not least because language teaching has greatly increased the number of people who can speak more than one language.

68. Nationally and internationally there have been dramatic changes in the ways information and culture are transmitted. There was a time in human history when most education occurred within the family. Knowledge was handed down from one generation to another by parents and relatives, the women playing a particularly important role, often supplemented by a father passing on his skills to his son. Gradually, however, the transmission of knowledge became institutionalized, first within the church and other religious organizations and later within state schools and - to a lesser extent - private schools. More recently, superimposed on these inherited means of spreading knowledge, information and cultural values, the mass media have become increasingly prominent. Both deliberately and unintentionally, in both formal and informal ways, the mass media now exercise an enormous influence over what people know, how people interpret and understand the world, and what values people adopt and act upon.

B. The current economic context

69. Although viewed from a long-term perspective, there has been remarkable progress in human development in the third world, recent short-term developments have been unfavourable, and in some countries a full-scale crisis has emerged. The most obvious sign of crisis is the dramatic slowing-down in the rate of growth of per capita GDP between the last half of the 1970s and the present. The deceleration of growth occurred in all regions of the third world (excluding China), and in every region except South Asia and East Asia, average incomes fell markedly.

70. Parallel to the decline in growth rates has been a decline in the rate of growth of the productivity of labour. The phenomenon is widespread throughout Asia, Africa and Latin America. Moreover, in Africa and Latin America during 1980-1985 the average level of productivity also declined - 1.5 per cent a year in Africa and 2.7 per cent a year in Latin America. This reflects the fact that in Africa and Latin America total output increased less rapidly than the size of the labour force; in Latin America, in fact, total output actually declined. A reduction in value-added per employed worker is, of course, desirable in a period of recession in so far as it allows large numbers of people to continue to secure a

livelihood rather than become openly unemployed. On the other hand, a fall in output per person-year inevitably puts downward pressure on the real wages and incomes of those who remain in employment and on the level of profits (and hence on investment and long-term growth of output and employment).

71. In practice, rates of urban unemployment in the major cities of Latin America tended to rise (see table 4) and non-agricultural real wages in Africa and parts of Latin America tended to fall (see table 5). In Latin America and the Caribbean the rate of open urban unemployment rose from 6.8 per cent in 1970 to 7.1 per cent in 1980 to an estimated 10.3 per cent in 1986. In some countries, of course, unemployment rates were considerably higher than this - e.g., in Colombia, Chile, Peru and Venezuela.

Table 4. Open urban unemployment, 1970-1986

(Percentage)

	1970	1980	1986
Argentina	4.9	2.6	5.2
Brazil	6.5	6.2	3.6
Chile	4.1	11.7	13.1
Colombia	10.6	9.7	13.8
Mexico	7.0	4.5	4.8
Peru	8.3	10.9	11.8
Venezuela	7.8	6.6	11.8

Source: ILO, Overview of the Employment Situation in the World (Geneva, November 1987), table 9, p. 39.

Table 5. Real wages in non-agricultural activities

(Index: 1980 = 100)

<u>Africa</u>	<u>Year</u>	<u>Index</u>
Kenya	1985	78
Malawi	1984	76
United Republic of Tanzania	1983	60
Zambia	1984	67
Zimbabwe	1984	89
<u>Latin America a/</u>		
Argentina	1986	104
Brazil	1986	113
Chile	1986	92
Colombia	1986	117
Mexico	1986	66
Peru	1986	66
Venezuela	1985	105

Source: ILO, "Background document, High-level Meeting on Employment and Structural Adjustment", Geneva, November 1987, table 9, p. 28 and table 10, p. 32.

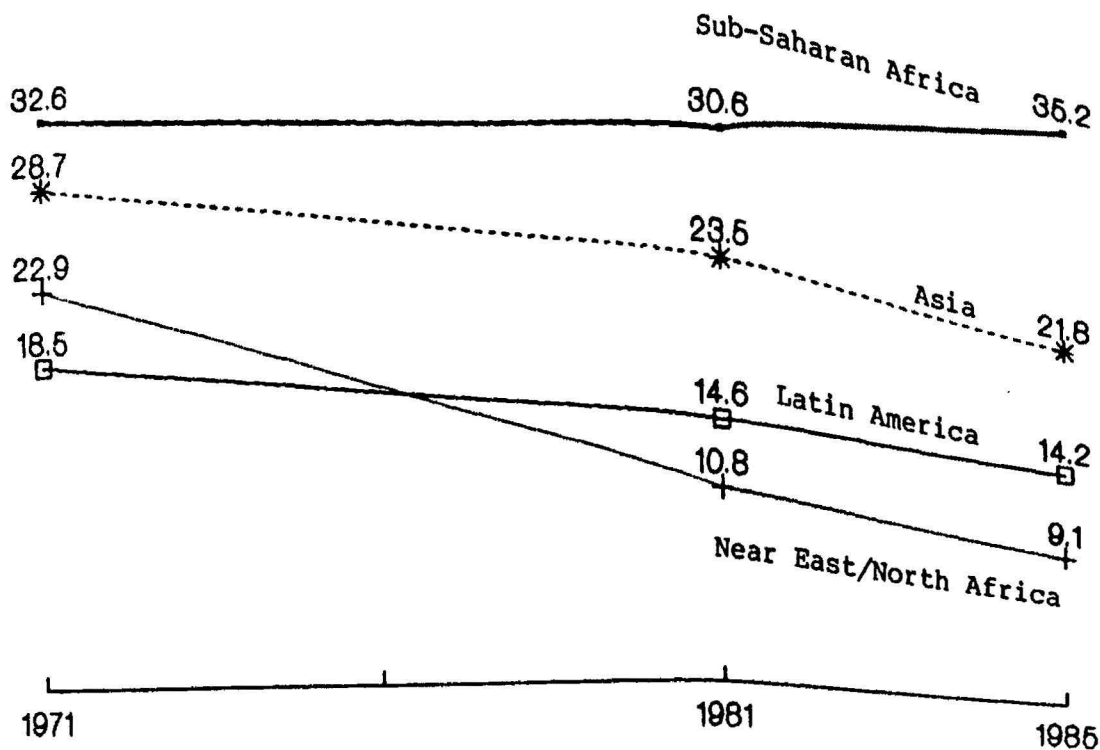
a/ Wages in industry.

72. In Chile, real industrial wages in 1986 were 8 per cent lower than they had been in 1980. In Mexico the fall was 34 per cent and in Peru, 35 per cent. The situation in parts of Africa was equally bad. In Kenya, for example, real non-agricultural wages in 1985 were 22 per cent lower than they had been in 1980, whereas in the United Republic of Tanzania in 1983 the fall was 40 per cent.

73. Population growth and economic decline (i.e., slow output growth, declining productivity, rising unemployment and falling real wages and average incomes) have resulted in increased poverty and an acceleration in the number of hungry people in the world. Between 1970 and 1980, according to the World Food Council, the number of hungry persons grew by 15 million, or an average of 1.5 million people a year. The first half of the 1980s added almost 40 million hungry people, or close to 8 million per year - a fivefold increase in the average annual growth rate. The absolute number of under-nourished people increased in every region of the third world, but only in Africa did the proportion of under-nourished people rise. Changes in under-nutrition, using FAO data and standards, over the period 1971-1985, are presented in figure III.

74. Problems of environmental, ecological and political deterioration exacerbate the long term economic problem in some parts of the third world. In the Sahel, the Himalayas and the Andes, economic progress is hampered by desertification or erosion, partly the result of climatic change and partly of population pressure. In other areas deforestation is upsetting the ecological balance to the detriment of poor people. In many developing countries, war and political instability exacerbate the poverty problem by draining confidence in the currency, diverting scarce resources, destroying assets, disrupting assistance programmes and sapping incentives and motivation at family and community levels.

Population (per cent)



Source: Food and Agriculture Organization of the United Nations.

75. It is important to recognize that current economic problems in those countries have been induced to a significant degree by the policies of Governments in both developing and industrialized countries.

76. Debt-distressed countries have cut investment, reduced public expenditure and imposed deflationary contraction on their economies. At the same time attempts have been made to shift resources in favour of the efficient import-substituting and export sectors. This process is described as "structural adjustment". These changes reflect the need for long-term development strategies which do not assume substantial resource inflows in the future.

77. Structural adjustment has forced Governments to reveal their expenditure priorities and, unfortunately, many Governments have shown that in practice human development receives very low priority. Indeed, in many countries central government outlays on the social sectors have decreased relative to total government expenditure and in real per capita terms. Education and health have been particularly hard hit. In contrast, the proportion of central government expenditure on general public administration has risen between 1972 and 1985 from 36 to 39 per cent in the low-income countries, from 24 to 36 per cent in the lower middle-income countries and from 18 to 32 per cent in the upper middle-income countries. Some data for selected countries are presented in table 6.

78. In each of the three groups of countries included in table 6, central government expenditure on education and health in 1985 was proportionately lower than it was in 1972. In the low-income countries, for example, education accounted for 13 per cent of central government expenditure in 1972 but less than 8 per cent in 1985; health accounted for 5 per cent in 1972 but less than 4 per cent in 1985. Expenditure on defence (table 7), in contrast, actually rose from 17 per cent of government expenditure in 1972 to about 19 per cent in 1985. That is, in the latter year expenditure on the military in the poorest countries of the world was about two-thirds higher than central government spending on education and health combined.

79. In the low-income countries the share of education in central government expenditure fell 42 per cent between 1972 and 1985 whereas the share of health fell 20 per cent. The pattern of cuts was reversed in the middle-income countries: in the lower middle-income countries the share of education declined almost 16 per cent compared to a cut of about 27 per cent in health expenditure, and in the upper middle-income countries there were cuts in shares of some 14 per cent and 42 per cent in education and health, respectively.

Table 6. Central government expenditure on education, health and public administration as a percentage of total government expenditure

	Education		Health		Public administration	
	1972	1985	1972	1985	1972	1985
Low-income countries, of which:	13.2	7.6	4.9	3.7	36.2	39.1
Burkina Faso	20.6	16.9	8.2	5.5	37.6	37.9
Malawi	15.8	12.3	5.5	7.9	36.7	36.4
Zaire	15.2	0.8	2.3	1.8	56.1	86.2
Kenya	21.9	19.8	7.9	6.7	30.2	35.3
United Republic of Tanzania	17.3	7.2	7.2	4.9	22.6	48.6
Sri Lanka	13.0	6.4	6.4	3.6	37.7	66.2
Lower middle-income countries, of which:	16.4	13.8	5.2	3.8	24.0	36.1
Bolivia	31.3	12.2	6.2	1.5	31.2	70.2
Indonesia	7.4	11.3	1.4	2.5	41.2	33.9
Turkey	18.1	10.0	3.2	1.8	18.3	54.1
Tunisia	30.5	14.3	7.4	6.5	25.1	25.7
Chile	20.0	13.2	10.0	6.1	20.0	18.4
Upper middle-income countries, of which:	12.3	10.6	7.9	4.6	18.3	32.3
Brazil	8.3	3.2	6.7	7.6	18.3	38.0
Mexico	16.4	12.4	5.1	1.5	15.2	44.4
Argentina	20.0	9.5	0.0	1.8	20.0	21.3
Venezuela	18.6	17.7	11.7	7.6	24.8	31.1

Source: World Bank, World Development Report 1987.

Note: Public administration covers expenditure on the general administration of government not included in other categories of economic and social services. Especially in large countries where lower levels of government have considerable autonomy and are responsible for many social services, central government expenditure on education and health may account for only a small fraction of the total.

Table 7. Defence expenditure as a percentage of total central government expenditure in selected countries, 1972 and 1985

	1972	1985
Low-income countries	17.2	18.6
Burkina Faso	11.5	18.2
Burma	31.6	18.5
Ghana	7.9	7.5
Kenya	6.0	12.9
Malawi	3.1	5.7
Nepal	7.2	6.2
Pakistan	39.9	32.3
Sri Lanka	3.1	2.6
Uganda	23.1	16.7
United Republic of Tanzania	11.9	13.8
Zaire	11.1	5.2
Lower middle-income countries	15.7	14.2
Bolivia	18.8	5.4
Chile	10.0	11.5
Costa Rica	2.8	3.0
Dominican Republic	8.5	8.4
Ecuador	15.7	11.3
El Salvador	6.6	20.3
Indonesia	18.6	12.9
Mauritius	0.8	0.8
Morocco	12.3	14.9
Paraguay	13.8	10.2
Philippines	10.9	11.9
Thailand	20.2	20.2
Tunisia	4.9	7.9
Turkey	15.5	10.9
Upper middle-income countries	14.4	9.7
Argentina	10.0	8.8
Brazil	8.3	4.0
Israel	40.0	27.8
Mexico	4.2	2.7
Oman	39.3	43.0
Republic of Korea	25.8	29.7
Singapore	35.3	20.1
Uruguay	5.6	10.8
Venezuela	10.3	6.1
Yugoslavia	20.5	54.8
High-income oil exporters	9.0	23.6
Kuwait	8.4	14.6
United Arab Emirates	24.4	45.3

Source: World Bank, World Development Report 1987 (Washington, D.C., 1987).

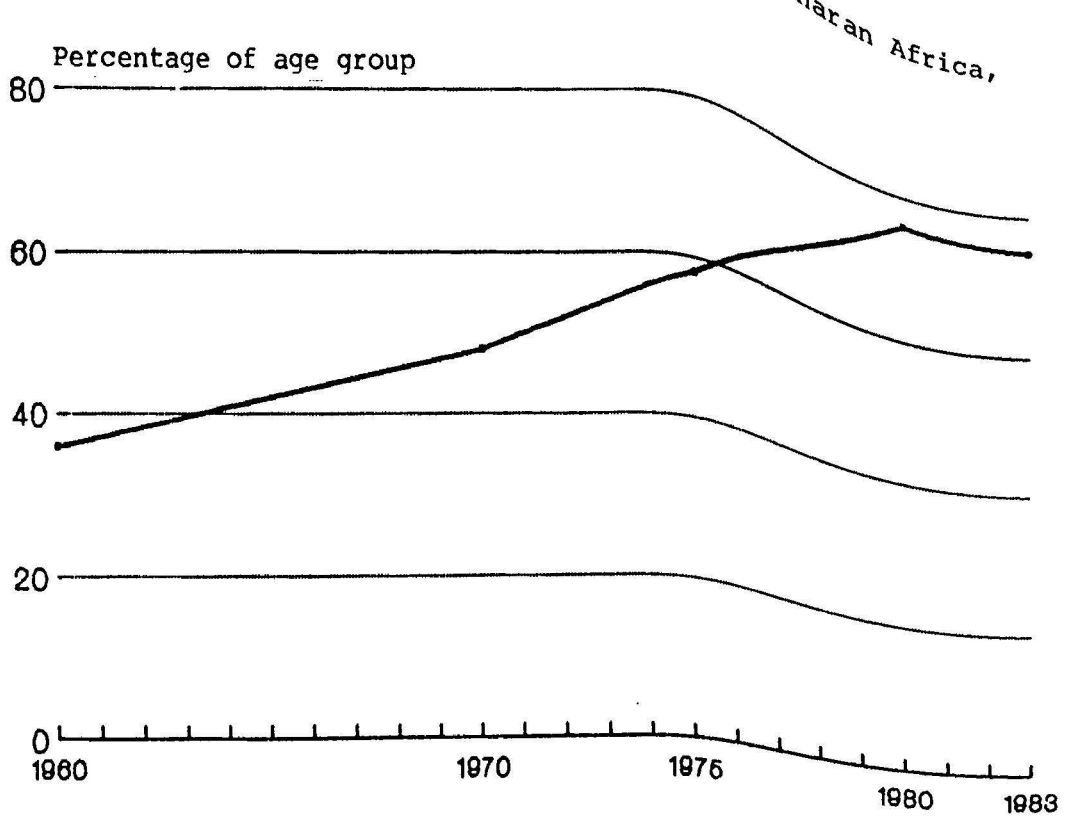
80. The share of education fell in all the six low-income countries selected for the table. Indeed, in Zaire, government expenditure on education virtually ceased. The situation as regards health expenditure was as bad or, considering the initial conditions, even worse. In most third world countries, government expenditure on health services was low even in 1972. By 1985 the share of health in total public expenditure had fallen in each of the groups of countries and in almost all the countries listed.

81. Overall, then, the picture is not encouraging. There seems to be a clear bias within the political system towards a reduction of public expenditure on human development in times of distress. This possibly reflects underlying changes in currents of thought about the appropriate role of government, as mentioned above. This change in economic philosophy appears to have originated in the advanced industrial economies, particularly in the United States, West Germany and the United Kingdom, and to have spread from there to many developing countries. But in addition to the change in currents of thought, the reduction in expenditure on human development appears to have been a short-run and, as discussed below, a short-sighted response to the series of crises in which Governments found themselves. Given the need for structural adjustment, many Governments believed it was easier or more expedient to reduce expenditure on human development than on other items in the central government's budget.

82. Recent data is more readily available for expenditures than for real variables, but there are already signs of deterioration in child mortality, nutrition and schooling. The data for schooling parallels that for nutrition (which was cited in para. 73 above). Primary-school enrolment fell in Angola, Mozambique, Somalia and Togo between 1980 and 1983. Less complete World Bank data suggest declines also in Benin, parts of Nigeria and the poorer parts of the Sahelian countries. In half of the 39 countries of sub-Saharan Africa, primary school enrolments are increasing more slowly than the school age population; that is, their enrolment ratios are falling. As shown in figure IV, sub-Saharan Africa's rapid progress between 1960 and 1980, when primary enrolments nearly doubled, has now stagnated.

83. The situation, however, is not altogether bleak. There has been continued improvement in countries that have been able to maintain economic growth and avoid the worst impact of the 1980s recession. The above-average performance of the South and East Asian countries, of 2.7 per cent GDP growth per capita per year in 1981-1985, was accompanied by continuing progress, and even some acceleration, in health and nutritional trends. Sectoral policies emphasizing the need for accelerating agricultural production in formerly food-importing countries and for expanding low-cost, wide-coverage programmes in health, nutrition and water supply have been important contributory factors.

84. Several countries in Africa, Asia and Latin America have been able to sustain expenditure on human development even while implementing structural adjustment programmes. For instance, throughout the 1970s and early 1980s Chile achieved continuous declines in infant and child mortality despite serious economic fluctuations; and the drought relief programme in Botswana, backed up by a comprehensive system of monitoring nutritional status, was successful. Indonesia is one of the countries that managed to expand expenditure on education and health as a proportion of total governmental expenditure, from some 9 per cent in 1972 to 14 per cent in 1985 (see table 6).



Source: World Bank.

85. There are policy choices to be made; there are a number of alternative responses open to Governments. Even in times of economic crisis and reduced public resources, Governments can choose among the following:

(a) A cut-back in the quantity of services provided - e.g., by curtailing the volume of food distributed through public channels such as food-for-work programmes or government-owned ration shops;

(b) A deterioration in the quality of services provided - e.g., by allowing teacher/pupil ratios to fall sharply or, because of foreign exchange shortages, by reducing expenditure on school textbooks;

(c) Reducing inefficiency within the public services - e.g., by eliminating wasteful use of construction materials or by inviting suppliers to tender bids;

(d) An improvement in targeting to favour the poor - e.g., by switching health expenditure from large urban hospitals to rural clinics or by reallocating educational expenditure from university to primary education;

(e) Greater cost recovery of publicly provided services - e.g., by introducing tuition fees for university studies (combined with scholarships for the poor) or by charging for certain types of medical care.

86. In our view the objectives of policy during periods of structural adjustment should be to safeguard human development programmes whenever possible and, if curtailment of public expenditure is unavoidable, to ensure that the burdens of adjustment are borne by those most able to do so. In many third world countries the opposite has occurred: human development programmes have been savagely cut and the brunt of the adjustment has fallen on the poor. This has weakened long-run prospects for development while increasing inequality and poverty. It would instead have been much better to restructure human development programmes, to reduce inefficiency, to improve targeting and, where necessary in order to maintain the existing level of services, to introduce discriminatory user charges. The case for this approach will be presented at greater length in the sections below.

C. The human capabilities approach: scope and definition

87. The development of human capabilities should be seen not as an objective with a definitive end-point but as a process continuing without end. It is an approach to overall development which puts the well-being of people first, which regards human beings simultaneously as both the means and the ends of social and economy policy. It is not, of course, a formula that can be applied mechanically, but it does contain ingredients which distinguish it from commodity-centred approaches to development. It places considerable emphasis on local resource mobilization as a way of allowing people to develop their capabilities and on participation as an agent of constructive change.

88. In many third world countries, government is highly centralized and, at times, authoritarian. The legal system is underdeveloped. People are often fearful and distrustful of government. Particularly in rural areas and the informal sector, and above all among the poor, government officials are seen more as coercive than as persuasive agents. Thus the relationship between the State and the majority of the people is not altogether conducive to the mobilization of large numbers of

people for development. At the very least, a strategy which gives priority to the development of human capabilities requires decentralized administration to the local level and administration at that level by officials who enjoy the confidence and support of the great majority of the population.

89. Beyond this is the need to organize the population so that it can participate in its own development. Participation, or the opportunity to participate if one wishes, is of course an end in itself, but participation also has a number of instrumental values which make it attractive to a process of human development. First, participation in representative community-based organizations can help to identify local priorities, determine which needs are essential or basic and which are of secondary importance, and define the content of development programmes and projects so that they reflect local needs, aspirations and demands accurately. Next, participation in functional organizations (for example, service co-operatives, land reform committees, irrigation societies, women's groups) can be used to mobilize support for national and local policies and programmes and local projects. Lastly, participation can be used to reduce the cost of public services and investment projects by shifting responsibility from central and local government (where costs tend to be relatively high) to the grass-roots organizations (where costs can be low). In some cases, it may be possible to organize the beneficiaries of an investment project and persuade them to contribute their labour voluntarily to help defray construction costs. In other cases, some of the public services (clinics, nursery schools) can be organized, staffed and run by local groups rather than by relatively highly paid civil servants brought in from outside. Thus in an appropriate context, participation can flourish and in so doing contribute much to development.

90. The value of participation and human development is not limited to the economic sphere. It also extends to other spheres of life. There is, for example, a political dimension to human development. If formal democracy is not to be an empty shell, people must have an education and information so that all groups in society are aware of the issues facing the country and can participate effectively in the political process.

91. Human development is of intrinsic value. In some respects the development of human capabilities is increasingly regarded as a right to which all people are entitled. This right in many societies includes the ability to read and write, access to basic health care and freedom from starvation. In addition, certain aspects of human development are akin to consumption goods in the sense that they are sources of satisfaction or pleasure. Education is desired in part for its own sake; employment, too, provides direct satisfaction by giving a person the sense of being engaged in something worthwhile; and a clean and healthy environment can be a source of aesthetic pleasure.

92. The Committee is particularly concerned, however, with the ability of human development expenditures to increase the productive capacity of an economy and raise the level of material prosperity. There are several ways it can do this. First, human development expenditure can raise the physical, mental and cognitive skills of the population through education and training. Secondly, public policy which focuses on human development can assist in the efficient deployment and full utilization of knowledge and skills; it can increase entrepreneurial and managerial capabilities; and it can transform theoretical knowledge into applied technology through research and development programmes. Thirdly, public policy can establish an institutional framework which enhances incentives, removes impediments to

resource mobility and resource mobilization and increases participation in decision-making, which in turn can help to improve economic efficiency.

93. Many programmes could be classified as human development programmes, but in the discussion below consideration is restricted to three broad categories: education and training; health services, water supply and sanitation; food security and nutrition policies. It must be stressed, however, that although these programmes can be listed separately, there are in fact a great many complementarities among them.

94. For example, a programme of school meals, intended to improve the nutrition of young people, often leads to reduced school drop-out rates and hence to an increase in the quality of the education system. Similarly, reduced infant mortality rates, combined with greater education for women and greater non-farm employment opportunities for women, are associated with lower fertility rates and a lower rate of increase of the population. Women, indeed, play a key role in human development not only because they account for half or more of the total population but also because they have a major responsibility in most societies for ensuring adequate nutrition for the family, caring for the sick and educating the very young before they enter the formal education system. In addition, recent research has shown that the weight at birth and the subsequent development of young children are affected by the state of health of the mother during pregnancy. Hence there is complementarity between the health of the mother and that of the child.

95. In most developing countries women have much less access to education, jobs, income and power than men. Women's levels of health and nutrition are often inferior to men's. Women generally account for the largest proportion of deprived people. The improvement of human capabilities requires, in particular, that the capabilities of women be improved. In some countries attitudes and customs will have to change. Governments can play a role in this process - e.g., through programmes that reach out to women.

96. Employment, too, is complementary to many human development programmes. Employment requires and is dependent upon skills being present in the labour force. But employment also generates skills in a process of learning by doing, and conversely lack of employment can easily lead to the loss of skills. Therefore, unemployment represents a loss not only of current output, but, by destroying skills, of future output as well.

D. Human capital formation

97. Expenditures on improving human capabilities have the potential to yield a return to society no less than the return from physical capital formation. Take the example of education (see table 8). First, the private rate of return to all levels of education is normally extremely high, reflecting in part the governmental subsidization of education. The high private rates of return help to explain the strength of private demand and of political pressure for education, which in turn have contributed to its rapid expansion in recent decades. Secondly, when all costs and benefits are taken into account (and not just the private ones), the social rates of return to all levels of education, although consistently lower than the corresponding private rates, turn out generally to be no less than the average rates on fixed capital investments. Thus, despite the rapid expansion, in many

developing countries education is still under-provided. Thirdly, the estimated social rate of return is generally highest at the primary level and lowest at the tertiary level of education.

Table 8. Returns on investment in education, by region, type and level

(Annual average, percentage)

Number of countries	Region	Social			Private		
		Primary	Secondary	Tertiary	Primary	Secondary	Tertiary
16	Africa	28	17	13	45	26	32
10	Asia	27	15	13	31	15	18
10	Latin America	26	18	16	32	23	23
45	Developing countries	24	15	13	31	19	22
15	Developed countries	..	11	9	..	12	12

Source: World Bank, Financing Education in Developing Countries. An Exploration of Policy Options (Washington, D.C., 1986), p. 7.

98. The social return to expansion of primary education in agrarian societies depends largely on its effects on the productivity of peasant farmers. The evidence suggests that this in turn depends on whether farmers are operating in a traditional or a modernizing environment - that is, one in which change is rapid. Education assists farmers to obtain and evaluate information about improved technology and new economic opportunities, and thus to innovate. The level of education required depends on the levels of technology currently in use and potentially suitable. Education being complementary to other inputs, its value cannot be assessed in isolation. It depends on the degree of access to credit, extension services, new seeds and other inputs. The greatest impact on rural development can thus be made where education is part of a package of measures.

99. Perhaps because of the rapid expansion of education in many developing countries, the quality of education is frequently unsatisfactory. The same educational attainment may require more years of schooling in a developing than in a developed economy. In part, this reflects a lack of early environmental stimulation of children and the inadequacy of their health and nutrition. However, it also reflects the quality of teacher-training and the strain on resources - often associated with rapid quantitative expansion - such as overcrowded classrooms, high pupil/teacher ratios, lack of textbooks and ill-equipped facilities. In times of fiscal restriction, expenditure on physical inputs is squeezed more than salaries. In some countries there is also a problem of incentives. If the priorities of pupils and their teachers are to perform well in examinations in order to secure good jobs, and if examinations test rote-learning, then repetition, memorization and rigid book-learning are encouraged in the schools - the so-called "diploma disease". Research has suggested that in Brazil the social rate of return on expenditure to improve the quality of primary schooling would exceed that on increasing its quantity.

100. In a sense, Governments, perceiving a choice between high-quality education for a few and low-quality education for many, have opted for the latter. Indeed, the decision may not have been a conscious one in that educational expansion has often proceeded uncontrolled, impelled by political pressures. Yet low educational quality is not inevitable. In the first place, improvements in quality may be possible without raising costs - e.g., through curricular and examination reform or less reliance on seniority rules in promotions. Secondly, some expenditures on qualitative improvements may yield very high rates of return - e.g., training courses in leadership and management for head teachers. Thirdly, the use of pupil fees for particular purposes such as additional textbooks and the involvement of parents and communities in supportive actions may harness the enthusiasm for educational improvement.

101. There now exist economically feasible solutions to most of the health and nutrition problems that afflict many millions of people in the poor countries. The basic ingredients of primary health care would include: a simple pregnancy management programme; oral rehydration therapy to cure digestive tract infections, and improved water supply, sanitation and health education to prevent them; immunization against the six major communicable diseases; and an essential drug programme covering some 15-20 basic products.

102. The reduction of malnutrition is more difficult: people are hungry because they lack the resources to grow or buy enough food. The fundamental solution to protein-energy malnutrition may thus require a redistribution of resources, but directed food subsidies and direct feeding schemes can assist. Recent improvements in food technology can help overcome micronutrient deficiencies - e.g. by fortifying salt with iron or iodine.

103. Studies have shown that improvements in water supply can have dramatic effects on the incidence of diarrhoeal diseases. The cost of providing vaccine doses against the six main vaccine-preventable diseases is about \$1.20 per child. The per capita cost of 15 essential drugs needed at the village health-post level is only some \$0.50-0.60 per year, and an episode of diarrhoea can be treated with oral rehydration salt available commercially at \$0.15-0.20. The cost of combating micronutrient deficiencies is very low: vitamin A capsules cost \$0.10; the cost of iodizing salt is \$0.05; and iron fortification of salt or centrally processed grains cost \$0.05-0.09, all per person/year.

104. The costs of providing primary health care are low, and yet provision is not as widespread as it could be. According to a WHO estimate, some three quarters of all health-spending in the developing world is being used to provide expensive medical care for a relatively small urban minority. Moreover, modern hospitals and costly medical technology absorb the great majority of health-related foreign aid to developing countries. There is a case for reallocating resources towards low-cost, high-impact primary health care measures.

105. Health expenditures of that sort can be justified not only by their effects on peoples' capabilities to enjoy life but also by their effects on productivity. There is evidence that dietary energy improvements have an immediate effect on the performance of workers and that supplements of micronutrients can have an even more dramatic effect on anaemic workers. Growth retardation at an early age and even prior to birth, caused by dietary deficiency or infection, perpetuates the vicious circle of poverty, malnutrition and stunted growth. Severe malnutrition of children under five leads to lifelong impairment of cognitive and physical

performance. If children can be protected from these harmful effects, their long-run productivity and income could be greatly enhanced; and the resources required for their subsequent health care could also be reduced. Nor need the benefits stop there: primary health care lends itself to social mobilization and community participation in the design and delivery of programmes, and this is likely to result in communities being better organized, more self-reliant and more vocal.

106. Investing in human resources is one thing; utilizing them effectively is another. For human resources to be used fully and productively, the right environment and incentives are important. Their effective use requires that factor prices should reflect their scarcities. The failure of markets to secure this outcome can result in economic inefficiency, associated with - e.g. - mismatch of supply and demand, unemployment of labour and brain drain. A potential problem is that the free market outcome may well conflict with income distribution objectives of government. In that case the better solution may be to pursue income distribution objectives by means of other instruments.

107. Human capabilities may be dormant, waiting to be tapped, lacking perhaps in organizational initiative. Sometimes these capabilities can be tapped through greater participation of people at the grass-roots level. The obstacles may arise from gross inequalities in power, wealth and income between different groups and classes in society. A lack of freedom of association and organization may constitute a barrier in some cases. There are also societies where discriminatory practices based on gender, race, caste, religion, etc., effectively preclude equal economic or social participation by some groups. Illiteracy, limited education and knowledge, lack of confidence, passivity etc., also constitute barriers to the participation of individuals and groups in society.

108. Some of these obstacles are more amenable to policy than others. The role of government has to be examined carefully. Experience suggests that local people will not be motivated if group activities are both controlled and taxed by government. Perhaps the proper role of government is to provide information and an organizational framework, ensure that the incentives are right, and let people do the rest.

E. Distribution of income

109. It is widely believed that expenditure on human development programmes is either distributionally neutral or discriminatory in favour of the poor. This view, however, is not generally correct. The major beneficiaries of human development programmes tend to be males, households in large urban areas, and people with middle or high incomes. Females, residents in rural areas and those with relatively low incomes benefit proportionately less. This is due in part to "urban bias" in the provision of services, in part to a failure, for cultural and sociological reasons, on the part of some of the intended beneficiaries to use the public services and facilities that are provided, but above all to a pattern of unequal subsidies among programmes that effectively favour upper-income groups. The per capita subsidy of human development programmes used disproportionately by the relatively better off (such as university education) tends to be much higher than the per capita subsidy of programmes used largely by the poor (such as health clinics in rural areas). Consequently, the potential of expenditure on human development to reduce social rigidities, increase social mobility and thereby ameliorate inequality remains largely unexploited.

110. There is thus a need, particularly in times of structural adjustment, for governments to change the composition of their human development expenditure programmes to ensure that, on balance, most of the benefits accrue to those in the lower half of the income distribution. This can be done, for example, by switching resources from expenditure on urban hospitals to expenditure on primary health care (particularly in countries where hospitals account for 50-60 per cent of government health funds), and by switching resources from university education to primary and secondary education (particularly since expenditure per university student often is 30-40 times greater than expenditure per primary school student).

111. It must be recognized, however, that inequality and social expenditure intended to reduce inequality interact. A high degree of inequality, for instance, creates a strong demand from upper-income groups for higher education. If this demand is not satisfied and higher education facilities are not provided domestically, the children of upper-income groups may seek educational opportunities abroad and this in turn may result in a "brain drain", greater scarcity of highly qualified people and, hence, increased inequality.

112. There may be a case in some countries for introducing user charges to help cover part of the cost of human development programmes. If the tax system were optimal and progressive and if the benefits of public expenditure programmes were equitably distributed, the case against user charges would be quite strong and the case in favour of universal free education and health services would be attractive. But since tax systems in the developing countries often are, in practice, regressive, and since the benefits of many human development programmes are reaped disproportionately by the better-off, there may be an argument on grounds of equity for charging for services. In addition, where the alternative to imposing charges is to cut services, there may be an argument on grounds of long-term development for requiring users to cover at least part of the cost.

113. It is of course essential that, if user charges are introduced, they be designed so that they do not add to the regressivity of the tax system. This can be done in several ways. First, user charges should be avoided as much as possible on services largely used by the poor - e.g., primary education, primary health care and public water points. Secondly, in the case of services and facilities used by both the poor and the rich - e.g., secondary education, non-basic health services and piped water - user charges should be selective, discriminating among users according to per capita income. Thirdly, full-cost charges should be imposed on services used largely by upper income groups - e.g., university education and sophisticated medical treatment available only to a few. But, fourthly, where full-cost charges are imposed, low-income groups should be entitled to scholarships (e.g., for university education), exempted from the charge or subject to only a nominal charge. In this way a system of user charges can actually be used to create a more egalitarian society.

114. No system of user charges, however, can counteract discrimination in access to services. This is something that requires positive intervention by the State. One of the clearest cases of discrimination is that against women. In some countries - namely, Bhutan, Nepal, India and Pakistan - the bias is so blatant that, contrary to the pattern everywhere else, the life expectancy of women is less than that of men. This reflects, in part, a lower regard for the health of female infants than for male infants. In education, too, there is great discrimination. On average, the illiteracy rate among females in the developing countries is 75 per cent higher than among males - i.e., 49 per cent among women as compared to 28 per cent among

men. In primary school, women account for 44 per cent of the pupils in the developing countries; in secondary schools, 39 per cent; in tertiary education, 36 per cent. In the least developed countries the situation is even worse: women account for only 20 per cent of those studying in tertiary education and 11 per cent of the teaching staff in tertiary education.

115. In addition to discrimination based on sex, there is discrimination based on race and religion. Finally, there are specific problems associated with people of a particular age. There may be a case in some circumstances for affirmative action in favour of ethnic groups (or women) that have fallen substantially behind the national average. In some countries the problem takes the form of child labour - i.e., of some children entering the labour force before they have received primary and secondary education. In others, it is reflected in a disproportionately high incidence of unemployment among urban youth, a high incidence of long-term unemployment and consequently of unemployability among some sections of the young and, partly as a result of this, a sense of hopelessness accompanied by social disorders such as criminality and drug addiction.

116. The distribution of the benefits of human development programmes to the various social classes is slightly paradoxical. Most of the absolute benefits of public services in health, nutrition, education, housing and transport accrue to the non-poor, but even so, public subsidies and benefits in kind account for a higher proportion of the total income of the poor than of the non-poor. Everything else being equal, therefore, a reduction in public expenditure is likely to fall most severely on the poor.

117. To avoid this, the Committee has suggested that Governments should alter the composition of public expenditure and introduce discriminatory user charges. In the section below the possibility of more accurate targeting of benefits in favour of the poor will be discussed. It must be recognized, however, that a redistribution of public resources in favour of the poor may in some circumstances be at the expense not of the rich but of the lower-middle classes. This could easily occur, for example, as a by-product of a switch of expenditure from urban to rural areas. Such a reallocation of resources might well be politically difficult to achieve, particularly if the urban population is more vociferous and better organized than the scattered rural population. In other words, the political economy of public expenditure cannot be ignored when human development programmes are designed - politics do impose constraints on policy-makers - but at the same time it must be recognized that in many developing countries large sections of the poor have been denied an equitable share of the benefits of government programmes.

F. Alleviation of poverty

118. There is a temporal dimension to the alleviation of poverty. It is important to know whether policies that alleviate poverty in the short term do so at the expense of those that alleviate it in the long term, and whether they make it easier to achieve long-term success. Sustained economic growth is necessary for reducing poverty in the long run. Among the decisive factors are the rates at which resources, such as physical and human capital, accumulate and technical progress occur in relation to the growth of the population and labour force. The converse relationship may also be true, however. That is - immediate poverty alleviation may be good for growth. For instance, in so far as measures to enhance human capabilities through improved knowledge and health help people to escape from

a vicious circle of poverty, they may make possible further, long-run improvements in their condition. The view that capital expenditures promote growth whereas current expenditures raise only current welfare needs not hold for such measures.

119. While economic growth is not sufficient to ensure human development, sustained growth is likely to be central in the long run to policies intended to expand the capabilities of all people in the third world. The austerity currently experienced in many parts of Latin America and Africa is likely, if continued for much longer, to be incompatible with the maintenance of democratic political processes and with the continuation of human development programmes at acceptable levels. In Latin America, for example, the debt crisis has forced countries to undergo a massive contraction in aggregate demand, substantial depreciation of exchange rates and often, after more than a decade of trade liberalization, a reimposition of non-tariff barriers to trade and very high tariffs on imports. The result has been a decline in the real value of imports by more than 45 per cent between 1980 and 1985 (as well as a fall in the real value of exports because of lower commodity prices). Employment, investment and growth have all suffered severely. Unfortunately, the adjustment measures that have had to be adopted in many parts of Africa and West Asia have been even more deleterious. A revival of growth is essential in all three of these regions.

120. None the less, it may be possible to adopt medium-term measures to contain poverty during the period of financial and economic crisis. One way to do this is to target the benefits of human development programmes to favour the poor. Targeting presupposes, of course, that it is possible to identify the poor in general or those with specific needs - e.g., for improved nutrition. This in turn requires that data be available and in a form which permits analysis in terms of relevant social categories - e.g., by level of income, occupational group, social class, age etc.

121. The difficulties and costs of accurate targeting should not be underestimated, and in some cases it may be cheaper and more efficient to provide a universal service rather than attempt to discriminate in favour of particular groups. Moreover there is a danger - indeed a virtual certainty - that every targeted programme will fail to reach some of the intended beneficiaries while providing services to some unintended beneficiaries. A study of the Indian integrated rural development programme, for example, showed that 20 per cent of the actual beneficiaries had incomes above the poverty line and hence, in principle, were not eligible for participation in the scheme.

122. Targeted programmes which rely upon the exercise of discretion by government officials are vulnerable to corruption and abuse. Programmes targeted on people with an income below an arbitrary minimum or with food consumption below an arbitrary daily caloric minimum fall into this category. More likely to be successful are programmes which rely on self-targeting or are universally available within a restricted category - for example, free lunches to all primary school children or rationed food supplies available only to inhabitants of rural areas. The chances of corruption in such cases are quite low, but conversely, the chances of providing benefits to many who are not poor are quite high.

123. Self-selection of beneficiaries has great appeal because, in principle, it is possible to offer universal coverage while, in practice, designing the programme so that it is attractive primarily to those most in need of assistance. Food-for-work programmes, for instance, can be open to all, yet they will appeal primarily to the

unemployed from households where average food consumption and incomes are low. Similarly, it is possible to design a limited food rationing system which everyone may use but which favours the poor, the rest of the community voluntarily obtaining its supplies elsewhere. The easiest way to do this is by concentrating on varieties of foodgrains and qualities of products which are of special interest to low-income groups and which are characterized by low or even negative income elasticities of demand.

124. The general point is that it may be possible to redesign human development programmes - e.g., by better targeting - to ensure that particularly in times of increased hardship a higher proportion of total benefits accrues to the poor. This point can be extended by considering whether it is possible within a context of falling public expenditure to change the composition of public expenditure in order to give higher priority to reducing poverty. This raises the issue of the importance given by policy makers to human development as compared to claims for spending by other government services.

125. Military expenditure can be used to illustrate the choices facing Governments. In extreme cases, expenditure on defence is a multiple of expenditure on education and health. The data must be interpreted with caution since statistical conventions appear to vary from one country to another, but the figures may provide a rough indication of orders of magnitude (see table 7). In the low-income countries as a whole, average expenditure on defence in 1985 was about 19 per cent of total central government expenditure, whereas education and health combined accounted for 11 per cent. In the lower middle-income countries the proportions were about 14 and 18 per cent, respectively.

126. Governments need to ask themselves whether reduced expenditure on the military would lead to reduced national security. In many cases, it is doubtful that it would. Governments should also consider whether slackness and inefficiency in the armed services is greater than in other areas of public expenditure. Anecdotal evidence suggests that it often is. Similarly, defence procurement policies could be reconsidered: the market for military equipment is in general oligopolistically organized and hence not very competitive, and the price mark-up on supplies is high. The scope for financial savings in the defence budget may be much greater than in other areas of public spending and, if so, it may be possible to release resources for human development programmes without impairing a country's ability to defend itself.

127. Finally, it may be possible, particularly during a relatively short period of economic crisis, to use some of the resources allocated to the military services to support human resources, anti-poverty and public investment programmes. It is common for the armed forces to be used to help the civilian population when natural catastrophes such as floods and earthquakes occur. The question being raised here is whether the armed forces could play a constructive role over a longer period when economic catastrophes occur. The manpower and construction equipment of the armed forces might be used to sustain public investment in infrastructure (roads, bridges) and to construct the physical facilities needed for human resources programmes (rural clinics, primary schools). Equally, the training facilities of the armed forces could be used to train the civilian labour force in useful skills (electricians, mechanics). In this way the conflict in priorities between military expenditure and human resource development could at least be reduced. In other words, whenever possible, ways should be found to reduce the very high opportunity cost of military expenditure.

128. There may also be opportunities to reduce poverty by mobilizing slack local resources. The ease with which this can be done depends in part upon the degree of grass-roots participation, a topic that was briefly discussed above. Particularly in the rural areas, and particularly during the off-peak seasons, the supply of labour is likely to be highly elastic and its opportunity cost low. If this labour is combined with technology of low-capital intensity, it should be possible to generate substantial employment, raise the incomes of the working poor and produce productive assets of lasting value. The organizational intensity of a strategy of local resource mobilization, however, is likely to be high. In effect, the mobilization of labour is used as a substitute for physical capital. But again, the cost of mobilizing slack local resources can be kept to a minimum if the local population already has been organized around institutions intended to promote their well-being.

129. The capability of small-scale, locally based development to be self-sustaining is often underestimated. If resource mobilization is successful in raising rural incomes, experience shows that a significant proportion of the additional income may be ploughed back into investment, which then raises incomes further in the next period. In other words, marginal savings rates are potentially quite high even among very low-income households. Thus, human development programmes based in rural areas should not be regarded as income transfers to the poor but as an efficient way of raising the incomes of the poor on a sustained basis.

130. In the urban areas, particularly in what is known as the informal sector, it may be possible to mobilize slack resources and release entrepreneurial initiative simply by removing government-imposed obstacles to progress. Quite often government policy towards the urban informal sector contains too few elements of positive support and promotion and too many elements of inaction, restriction and harassment. The punitive demolition of squatter settlements merely destroys the housing of the poor; it does not result in better health or a more sanitary environment. Similarly, trade licensing systems create monopoly rents for licence holders while discouraging investment in the informal sector. The effect of this is to harm the lower-income groups by reducing employment as well as the supply of goods and services originating in the informal sector which the poor consume. From Kenya to Peru, the informal economy is usually thought of as a problem rather than as a reservoir of frustrated initiative and untapped talent and a way out of underdevelopment for many of the poor.

131. Yet especially at a time when public expenditure is falling - and expenditure on human development is falling faster than average - a strong case can be made for removing laws and regulations which make it difficult for the poor to help themselves, to put a roof over their heads, to obtain a job, to establish a small shop or enterprise. If the ability of the State to help the poor in a time of economic crisis is declining, the least that can be done is to make certain that the state does not aggravate the problem of poverty or obstruct the efforts of low-income groups to improve their situation through their own exertions.

G. Conclusions

132. The peak of enthusiasm for "investment in human beings" occurred in the 1960s. Since the first oil crisis, the pendulum has swung in the other direction. The question is now how to manage the economic crisis and return to economic growth. There is again a tendency to consider education, health and social

services as consumer goods - luxuries to be afforded in good times but not in bad. The pendulum has swung too far towards the neglect of human resource development.

133. The Committee has sought to provide a counterweight. When Governments have to choose between adjusting to short-term economic and fiscal constraints and pursuing long-term human resource goals, there is a danger that the former will dominate the latter. For instance, the costs of neglecting the former are more calculable and more attributable than the costs of neglecting the latter. Nevertheless, solving the short-term problems of the present may contribute to a series of equally pressing short-term problems in the future.

134. The Committee advocates that a broader view be taken of the development process - one that encompasses not only the growth of national per capita income and improvements in its distribution but also the enhancement of the capabilities of women and men to be and do more things and lead fuller lives. Education, health and nutrition have an important role to play in helping people develop their capabilities. The enhancement of human capabilities is both an end in itself and a means to higher production and income. There is evidence that the economic return on expenditures on education and health can be high. Thus, even in the fiscal squeeze that generally accompanies economic recession and structural adjustment programmes, there is a good case for protecting expenditure on human resources.

135. Although the distributional effects of government taxation and expenditure are often regressive, with richer households receiving larger benefits, it is the poor who may suffer most from public expenditure cuts, in that the smaller absolute benefit to the poor is nevertheless a more important part of their income. The basic public services, such as primary education and basic health care, in particular, need to be protected, for reasons of both efficiency and equity. There is a case for greater targeting of subsidized public services on the poor - e.g., by concentrating on poor rural areas and using self-selective schemes like food-for-work. If it is naive to expect that, in a period of curtailment, additional funds will be provided or that funds will be diverted from other activities, such as defence, for those activities that enhance human capabilities, then at least the basic services should continue to be generally provided free and, where it would not be a regressive move, selective cost recovery might be introduced to maintain and enlarge programmes providing non-basic services.

IV. IDENTIFICATION OF THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES

136. The Committee considered the cases of Mozambique and Zambia for inclusion in the list of the least developed among the developing countries. The case of Mozambique had been referred to the Committee by decision 105 taken by the Economic and Social Council at its organizational session in February 1988. The case of Zambia had been carried over from the previous session of the Committee when, after an examination of the case, the Committee had decided "to suspend judgement for at least one year and see how the economic situation evolves".

137. The Committee examined the available data on the two countries pertaining to the three formal criteria: 1/ per capita GDP, share of manufacturing in GDP, and literacy rate. The data are summarized in table 9. The data on per capita GDP and share of manufacturing in GDP are annual averages for the three-year period 1984-1986. It will be noted that availability of data on per capita GDP sets a constraint to the period average for which the country data can be used for strict application of the criteria. At any rate, where available, country data for 1987 is also included in the table and has been examined by the Committee. Information on the literacy rates shown in the table pertains to the latest year for which they are available. In addition to data relating to the formal criteria, the Committee reviewed information on the salient features of the two economies and their evolution in the recent past, obtained from the Governments, the International Monetary Fund (IMF) and the World Bank.

A. Mozambique

138. Since colonial times Mozambique has relied mainly on two sources of foreign exchange - remittances from migrant workers in South Africa and earnings from transit services to neighbouring countries. Since independence in 1975, income from both sources have declined as the number of work permits granted to Mozambican miners have been reduced and the volume of goods trans-shipped through Maputo has decreased. In addition, the economy has suffered disruptions caused by armed attacks in the countryside. The attacks have resulted in the destruction of infrastructure and productive facilities and have served as disincentives for agricultural production. In the 1980s, droughts, floods and cyclones have also taken a heavy toll on the economy. At present industry is estimated to be operating at only 20 per cent of capacity, and the country's rail and port facilities, which are important to neighbouring countries as well, are largely inoperative. During 1975-1981, the economy grew at a mere 2.6 per cent per annum on average. In the following years, even that modest rate of growth could not be sustained. Between 1980 and 1986, output is estimated to have fallen by some 30-40 per cent. The current account deficit has been consistently high in the 1980s, and debt service obligations have swollen. In 1987, the debt-service ratio was estimated at 270 per cent. After debt relief, it still stood at 45 per cent. In 1987, the Government introduced a sweeping economic recovery programme with substantial support from the international community, which seems to have already had some beneficial effects.

Table 9. Indicators for Mozambique and Zambia

Source	Per capita GDP at current market prices (US dollars)		Percentage share of manufacturing in GDP at current factor cost		Adult literacy rate a/	
	Annual average (1984-1986)	1987	Annual average (1984-1986)	1987	Year	Per-centage
<u>Mozambique</u>						
(Population in 1987: 14.5 million)						
United Nations	245	..	..	..	..	..
Government <u>b/</u>	105	96	8.0	..	1980	12.3 <u>c/</u>
World Bank	245 <u>d/</u>	100 <u>e/</u>	11.0 <u>f/</u>	..	1980	28.0 <u>g/</u>
IMF	244	99 <u>h/</u>	10.8 <u>i/</u>	..	1986	30.0 <u>j/</u>
UNESCO	..	..	..	..	1985	38.0 <u>k/</u>
<u>Zambia</u>						
(Population in 1987: 7.2 million)						
United Nations	352	..	21.0	..	..	..
Government	349	249	22.0 <u>l/</u>	22.0	1988	35.0 <u>m/</u>
World Bank	357	284 <u>n/</u>	21.0 <u>o/</u>	28.9 <u>p/</u>	1985	76.0 <u>q/</u>
IMF	334	280	22.0	30.8	1985	76.0
UNESCO	..	..	..	..	1985	75.7

Note: SO Statistical Office, Department of International Economic and Social Affairs, United Nations Secretariat

IMF International Monetary Fund

UNESCO United Nations Educational, Scientific and Cultural Organization

(Footnotes on following page)

-
- a/ Percentage of literate population 15 years of age and above.
- b/ Estimate of National Planning Commission.
- c/ Population of 15 years of age and above with a grade of primary or higher education.
- d/ The World Bank has pointed out that for the period 1983-1986, the exchange rate was considerably overvalued, which significantly distorts the estimates for that period.
- e/ Provisional.
- f/ Annual average for the three-year period 1981-1983.
- g/ Estimate for population 7 years of age and above.
- h/ Estimate.
- i/ Annual average for the three-year period 1981-1983.
- j/ Estimate for population 7 years of age and above.
- k/ UNESCO, Statistical Yearbook, 1985 (Paris).
- l/ The Government has pointed out that "the share of manufacturing output in GDP is relatively high because a number of manufacturing activities are indirectly linked to the copper mining industry which has a dominant position in the economy". These activities include the manufacture of chemicals and basic and fabricated metal products.
- m/ The Government has pointed out that "the adult literacy rate as per the 1980 census when the population was 5.66 million was 53 per cent". The increase in population to 7.2 million combined with the shortage of school places suggests that the adult literacy rate is now lower than reported in 1980. When a measure of functional literacy is used, the adult literacy rate is much lower than the figure reported here. A World Bank preliminary estimate placed the functional adult literacy rate at 35 per cent.
- n/ Provisional.
- o/ The World Bank has reported a second figure for share of manufacturing of 9.6 per cent annual average for the period 1984-1986. This figure excludes value added by basic metal industries, metal products and ores and other type of manufactures consumed by the mining industry.
- p/ Provisional.
- q/ The World Bank has pointed out that the definition of literacy is the one used by UNESCO, whereby an individual is considered literate if he/she can read at a very basic level.

B. Zambia

139. Last year, the Committee examined the economic situation of Zambia and reported its findings to the Council. No improvement has taken place in the economy of Zambia since the last session of the Committee. In spite of the beneficial effects of higher copper prices on the mining sector, the mainstay of the Zambian economy, real GDP declined, and inflation accelerated to more than 50 per cent in 1987. More recently, copper prices have declined, and projections indicate little improvement over the next few years. Moreover, copper production is not expected to rise much above current levels of some 480,000 tons. Widespread shortages of both consumer and investment goods persist. Investment ratios have fallen drastically in the past decade - from 29 per cent in 1977 to 12 per cent in 1985. Industry is, at present, operating at around 40 per cent of capacity. Physical infrastructure is in a state of disrepair. The economy continues to be encumbered by a large external debt and arrears on debt servicing obligations. The debt service ratio is currently estimated at over 100 per cent. For various reasons, economic reform measures introduced in the recent past have failed so far to have the desired effects.

C. Conclusions

140. After examining the available information, the Committee concluded that Mozambique met the existing application of the criteria for inclusion in the list of the least developed among the developing countries and recommended that its name be included in the list.

141. As far as Zambia was concerned, while concerned about the deteriorating state of the economy, the Committee concluded that the existing criteria and the current procedures for their application did not warrant the inclusion of that country in the list.

142. Once again the Committee expressed reluctance to apply the existing criteria which it has for some time deemed inadequate. In the report on its twenty-third session, it stated that, if so requested, it "would be willing to reappraise the issue with a view to formulating a new set of criteria in the light of data now available". ^{2/} In view of its deep concern about the criteria, the Committee has included this item in its programme of work for its next session.

V. ARRANGEMENTS FOR FUTURE WORK

143. The Committee agreed that preparations for its twenty-fifth session (May 1988) would be undertaken by two working groups, supported by appropriate studies carried out by the Secretariat and outside experts, in the areas specified below. Depending on the needs felt and expressed by the Economic and Social Council or the General Assembly, a third working group, on the international development strategy, might also be convened. Finally, the Secretariat was requested to revise and update its account of the history and experience of various classifications currently in use in respect of low-income countries.

144. The Committee stressed the need for intensive substantive preparations before the regular sessions of the Committee, including the work of consultants as well as the Secretariat. The Committee had been informed by the Secretariat that its proposed work programme could be carried out within the current budgetary appropriations.

A. Trade, debt and finance

145. The prospects for international trade in the 1990s would be considerably different from those in the past. The growing importance of services in international trade, the impact of transnational corporations, and the Uruguay round of GATT negotiations would all alter the international trading environment. Perhaps of even greater importance were new developments in regional trading arrangements, such as the decision by the EEC to unify its internal market by the year 1992, the trade agreements between the United States and Canada and between the United States and Mexico, and the establishment by the developing countries of the Global System of Trade Preferences.

146. As was emphasized in the statement on external debt by the Committee, reproduced above, a comprehensive and durable resolution of the problem was considered essential for a restoration of vigorous growth in the developing countries. Recently, a consensus had begun to emerge on the nature of the debt problem and on the need for continued adjustment of debt service levels to debt-servicing capacity. There was less agreement as to means, but recently a number of new proposals had been advanced regarding the establishment of a multilateral debt rescheduling facility.

147. Moreover, the problems of debt servicing for the highly indebted countries and their trade prospects were closely connected and should be analysed jointly. The Committee proposed convening a representative working group of from five to eight members and technical experts to consider the topic, under the chairmanship of P. N. Dhar (New York, 2-5 November 1988).

B. Water resources management

148. One of the emerging environmental issues likely to assume growing importance during the coming decade was that of conserving and properly utilizing water resources. The issue had both national and international dimensions, involving the impact of desertification, toxic waste and excessive utilization on aquifers, and of pollution on downstream users of rivers etc. The Committee proposed convening a

representative working group of from five to eight members and technical experts to consider the topic, under the chairmanship of Solita Collas-MONSOD (Geneva, December 1988).

149. In connection with both working groups, the Committee requested the Secretariat to make the arrangements necessary for the preparation of the studies required, inviting the contributions of relevant international organizations and national research institutions. Such studies would be suitable for publication in the Journal of Development Planning.

C. International development strategy

150. The Committee noted that chapters II and III of its report and the topics selected for deliberation at its twenty-fifth session were highly relevant to the question of an appropriate international development strategy for the decade of the 1990s. In addition, it was prepared to convene a third working group for more specific work related to an international development strategy, should that appear to be needed by members of the Council or the General Assembly.

D. Criteria for inclusion on the list of least developed among the developing countries

151. Regarding the criteria used for considering the eligibility of countries for inclusion on the list of least developed among the developing countries, and their current method of application, the Committee reviewed a paper prepared by the Secretariat documenting the history of the eligibility criteria, the experience and current status of other classifications, of low-income or adversely affected countries, and the consequent benefits entailed by such classifications. The Committee found the paper useful and informative. Many members felt that the paper strengthened the case for a review of the criteria and their application, which had not been done since 1981. Accordingly, the Committee requested the Secretariat to revise and update the paper for its twenty-fifth session. The paper should also include some analysis of other criteria which might be used to supplement or replace some of the current ones and their application in the case of countries whose economic situations, over a lengthy period of time worsened or improved quite significantly.

VI. ORGANIZATION OF THE SESSION

152. The twenty-fourth session of the Committee for Development Planning was held at United Nations Headquarters from 12 to 15 April 1988. Nineteen members of the Committee attended: Abdlatif Y. AL-HAMAD, Gerasimos D. ARSENIS, Edmar BACHA, Bernard CHIDZERO, Solita Collas-MONSOD, P. N. DHAR, Just FAALAND, Keith B. GRIFFIN, Patrick GUILLAUMONT, Mahbub ul HAQ, Gerald K. HELLEINER, Helen HUGHES, Shinichi ICHIMURA, Henry NAU, Jozef PAJESTKA, Mihaly SIMAI, Udo E. SIMONIS, Igor SYSOYEV and Ferdinand VAN DAM. Five members were unable to attend: Nicolas ARDITO-BARLETTA, Adama DIALLO, Xiang HUAN, G. O. NWANKWO and Hernando de SOTO.

153. The officers elected at the twenty-third session for the term ending on 31 December 1989 were: Abdlatif Y. AL-HAMAD (Chairman), Mihaly SIMAI (Vice-Chairman) and Just FAALAND (Rapporteur).

154. The Committee noted with sadness the demise of Armin GUTOWSKI, a member since 1984.

155. The Committee welcomed Solita Collas-MONSOD and Udo SIMONIS as new members.

156. The session was opened by the Under-Secretary-General for International Economic and Social Affairs, who remarked on the structural imbalances in the world economy and the need for a more adequate multilateral response, particularly to mitigate the impact on the development of the developing countries. The President of the Economic and Social Council had invited the Committee's views on that priority theme of the Council's second regular session of 1988.

157. Preparations for the session had been carried out by two working groups of the Committee. The Working Group on Human Resource Development (held at Geneva from 16 to 18 November 1987) comprised Gerasimos ARSENIS (Chairman), Keith GRIFFIN (Rapporteur), P. N. DHAR, Jozef PAJESTKA and, as co-opted experts, Dharam GHAI, Manfred HOLTHUS, John KNIGHT and Juan VILLARZU. The Working Group on the Changing Global Economy (held in New York from 7 to 9 December 1987) comprised Shinichi ICHIMURA (Chairman), Just FAALAND (Rapporteur), Adama DIALLO, Patrick GUILLAUMONT, Igor SYSOYEV, Ferdinand VAN DAM, Benjamin HOPENHAYN (co-opted expert) and Sam COLE (consultant).

158. Substantive services for the session were provided by the Department of International Economic and Social Affairs of the United Nations Secretariat. The following bodies were represented at the session: the Centre for Science and Technology for Development, the Centre for Social Development and Humanitarian Affairs, the United Nations Children's Fund, the United Nations Conference on Trade and Development, the United Nations Development Programme, the World Institute for Development Economics Research of United Nations University, the Economic Commission for Europe, the Economic Commission for Latin America and the Caribbean, the Economic and Social Commission for Western Asia, the United Nations Centre for Human Settlements, the World Food Council, the World Food Programme, the International Labour Organisation, the Food and Agriculture Organization of the United Nations, the United Nations Educational, Scientific and Cultural Organization, the World Health Organization, the World Bank, the International Monetary Fund, the International Fund for Agricultural Development, the United

Nations Industrial Development Organization, the International Atomic Energy Agency, the Organisation for Economic Co-operation and Development, and the Commonwealth Secretariat.

Notes

1/ For details concerning quantification and application of the criteria see, Official Records of the Economic and Social Council, 1987, Supplement No. 10 (E/1987/23).

2/ Official Records of the Economic and Social Council, 1987, Supplement No. 10 (E/1987/23), para 65.

Annex I

AGENDA

1. Adoption of the agenda and organization of work.
2. World economic situation and prospects.
3. Report of the Working Group on the Changing Global Economy.
4. Report of the Working Group on Human Resource Development.
5. Identification of the least developed among the developing countries: Mozambique and Zambia.
6. Work programme for 1988-1989.
7. Adoption of the report of the Committee.

Annex II

LIST OF DOCUMENTS

A. Documents of the Committee

1. "Provisional agenda" (E/AC.54/1988/1).
2. "The world economic situation and prospects in 1987-1989: short-term disruption amidst longer term adjustment": note by the Secretariat (E/AC.54/1988/L.1).
3. "Project LINK global outlook 1988-1991" (E/AC.54/1988/L.2).
4. "Report of the Working Group on the Changing Global Economy" (Conference room paper, 28 March 1988).
5. "Report of the Working Group on Human Resource Development" (Conference room paper, 28 March 1988).
6. "Identification of the least developed among the developing countries: the cases of Mozambique and Zambia" (Conference room paper, 10 March 1988).
7. "Criteria for country classification and benefits derived by countries from membership in different classifications" (Conference room paper, 18 March 1988).

B. Background papers

1. "Basic statistics on the low-income and the least developed countries" (April 1988)
2. ECLAC, "Restrictions on sustained development in Latin America and the Caribbean and the requisites for overcoming them" (LC/G.1488[Ses. 22/3]/Rev.1, 9 February 1988).
3. ECE, Over-all Economic Perspective to the Year 2000 (United Nations publication, Sales No. E.88.II.E.4, 1988).
4. IMF, "Note on Fund surveillance activities" (April 1988).
5. Pope John Paul II, "Encyclical on social concerns" (Vatican City, Vatican Polygot Press, 30 December 1987).

Annex III

LIST OF THE LEAST DEVELOPED AMONG THE
DEVELOPING COUNTRIES*

<u>Country</u>	<u>Date of inclusion on the list</u>
1. Afghanistan	1971
2. Benin	
3. Bhutan	
4. Botswana	
5. Burkina Faso	
6. Burundi	
7. Chad	
8. Ethiopia	
9. Guinea	
10. Haiti	
11. Lao People's Democratic Republic	
12. Lesotho	
13. Malawi	
14. Maldives	
15. Mali	
16. Nepal	
17. Niger	
18. Rwanda	
19. Samoa	
20. Somalia	
21. Sudan	
22. Uganda	
23. United Republic of Tanzania	
24. Yemen	
25. Bangladesh	1975
26. Central African Republic	
27. Democratic Yemen	
28. Gambia	
29. Cape Verde	1977
30. Comoros	
31. Guinea-Bissau	1981
32. Djibouti	1982
33. Equatorial Guinea	
34. Sao Tome and Principe	
35. Sierra Leone	
36. Togo	
37. Vanuatu	1985

<u>Country</u>	<u>Date of inclusion on the list</u>
38. Tuvalu	1986
39. Kiribati	
40. Mauritania	
41. Burma	1987

* Mozambique has been recommended for inclusion by the Committee for Development Planning.

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