UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

The Least Developed Countries 1989 Report

HIGHLIGHTS

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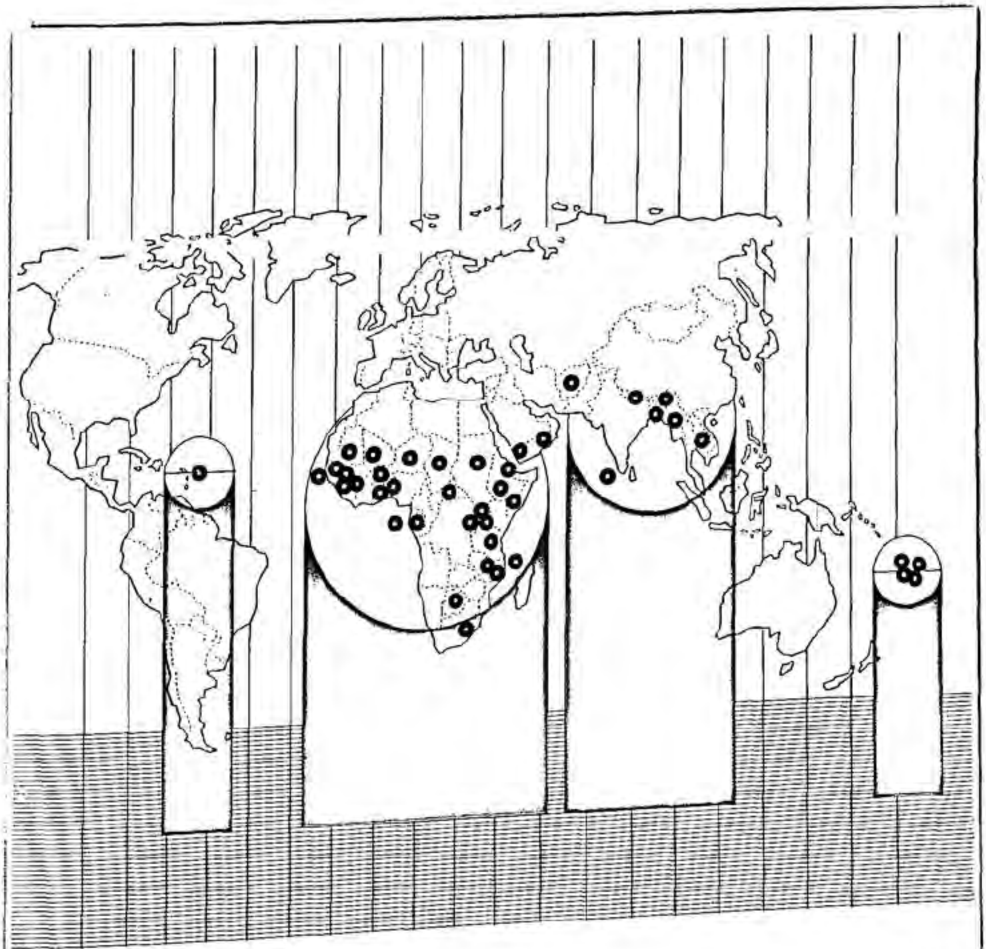

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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
Geneva

The least developed countries' experience in the 1980s

HIGHLIGHTS

Prepared by the UNCTAD secretariat

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NOTE

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TD/B/1248 (Highlights)

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I. GROWTH AND STRUCTURAL ADJUSTMENT

A. Overall performance

For the LDCs as a group, the 1980s has been a period of major disappointment, despite the commitments undertaken by them and their development partners in the Substantial New Programme of Action for the 1980s for the Least Developed Countries (SNPA), adopted at the first United Nations Conference on the Least Developed Countries in 1981. The SNPA established an internationally agreed annual target growth rate of 7.2 per cent, but the reality has been a growth rate of only 2.3 per cent. This growth was even below the 2.4 per cent growth rate of population, resulting in per capita declines in GDP. Thus, the experience of the 1980s stands in sharp contrast to that of the 1970s, when the LDCs achieved a growth rate of 3.4 per cent. Domestic savings dropped sharply and investments declined by an annual average of 2.0 per cent during the period 1980-1987. Agricultural production increased by only 1.6 per cent during the period 1980-1988, as compared with an SNPA target of 4 per cent. Import dependence in food increased as food production failed to match population growth, with average per capita production declining by 0.8 per cent in the period 1980-1988. And far from declining - as the SNPA envisaged - the numbers of the population suffering from nutritional and caloric deficiencies increased. Manufacturing output too increased by only 2.3 per cent annually, while the SNPA envisaged a 9 per cent annual increase. Health and education standards declined and environmental deterioration gathered pace, compounded by an increasing incidence of drought and other natural calamities.

Moreover, within the world economy, the LDCs were marginalized even further. From its already tiny 1.4 per cent level in 1960, their share in world exports had declined to an infinitesimal 0.3 per cent by 1988. In addition, LDC terms of trade declined from 100 in 1980 to 97 in 1985 to 84 in 1988. Worse still, the external support in terms of development assistance called for in the SNPA failed to materialize. The ODA target of 0.15 per cent of GNP was not achieved, and in 1988 the donor contribution amounted to only 0.09 per cent of GNP (and this for 42 LDCs with a population of 413 million, as compared with a population of 348 million in the 31 LDCs at the time the SNPA was negotiated). Finally, the total external debt of LDCs almost doubled between 1982 and 1988 as a direct consequence of the failure of growth and trade and of non-compliance with SNPA conditions for resource flows.

However, against this generally dismal background it must be noted that a few LDCs managed to achieve GDP growth rates above population expansion, and five of them (Bhutan, Botswana, Cape Verde, Maldives and Yemen) achieved an average GDP annual growth greater than 6 per cent during the 1980s. Average annual growth of agricultural production during the period was above 4 per cent in six LDCs: Benin, Bhutan, Burkina Faso, Cape Verde, Guinea-Bissau and Yemen. As regards manufacturing output, two LDCs met or surpassed the annual SNPA target of 9 per cent during 1980-1987. And 5 out of 36 LDCs for which data are available succeeded in maintaining gross domestic savings rates consistently in excess of 10 per cent of GDP during the period 1980-1987. These cases of good performance are limited in number. However, they demonstrate that the disquieting trends recorded in the 1980s do not apply to all LDCs, and this provides hope for the future.

B. Major impediments to development

The dismal performance of the LDCs in the 1980s can be attributed to three broad factors:

- Basic structural constraints;
- Adverse trends in the world economy;
- Domestic policy shortcomings.

1. Basic structural constraints

Many LDCs suffer from severe geographical and ecological handicaps. Of the 42 countries, 15 are land-locked and another 9 are small island countries with highly fragile eco-systems and often probenefits. The need to promote rural development has been underestimated. This failure has triggered a rapid urbanization process and thus placed an unbearable burden on the urban infrastructure. Income redistribution, land reform and decentralization continue to be viewed as policy options based exclusively on equity considerations, rather than also as inescapable development imperatives having profound efficiency implications. Private sector development in pursuit of national objectives has not always been facilitated by modern investment codes and regulations and by dynamic institutions providing financial, technical and related support. The parastatal sector has not been given the degree of autonomy, or developed the level of effectiveness, necessary for the success of national development efforts. Efforts to expand the financial network and to stimulate domestic savings have remained limited, with only a few salient success cases. The development role that women should be enabled to play is hindered by a number of barriers (institutional, cultural and economic). The need to allow the natural talents of people to flourish through, among other things, respect of their human rights has not always been fully understood. Compounding these problems has been military and civil strife and external destabilization, leading to diversion of valuable resources from productive ends.

Moreover, structural adjustment policies, pursued often at the behest of international financial institutions, stressed short-term demand management at the expense of long-run development. In addition, the design of these programmes did not take adequately into account the diversity of country experience, and the prescribed policies failed to integrate such exogenous factors as trends in world commodity prices, levels of financial support and adverse natural conditions.

C. Structural adjustment

There is wide agreement that the structure of most LDC economies requires considerable adjustment and reshaping if these economies are to become growth-oriented and their long-term development is to accelerate. Evidence of this conviction can be seen in the fact that, during the period mid-1981 to mid-1989, 27 LDCs implemented structural adjustment programmes negotiated with the IMF. The performance of the LDCs in the 1980s must, therefore, be seen in the context of these programmes, as they covered almost every key economic variable in these countries. The policy reforms undertaken included external sector adjustment, demand management measures, mobilization of domestic savings and of human resources, and stimuli for the role of the private sector and for the efficiency of public enterprises.

Thus, exchange rate devaluations, liberalization of both exports and imports, reduced public expenditures, restriction on monetary and credit expansion, privatization of public sector enterprises, greater efficiency and autonomy of public sector enterprises, and incentives for the private sector were bundled together in varying proportions in each LDC structural adjustment programme. In addition, multilateral and bilateral donor assistance were co-ordinated, and aid conditionality was made even tighter to support the implementation of these measures.

In the light of this major effort by the LDCs themselves, it is appropriate to ask what has been the experience of structural adjustment in these countries. It has become evident that the performance of the 12 LDCs which have had consecutive programmes throughout most of the 1980s does not differ significantly from that of the LDCs as a whole. Only four of them registered a higher average annual rate of growth in 1980-1987 than that of the LDCs as a whole (2.3 per cent), and only three improved their growth performance in 1980-1987 as compared to the 1970s. Inflation rates were reduced significantly between the 1970s and the 1980s in half of these LDCs, whereas they increased noticeably in the other half. By contrast, more success was registered with the current account deficit, its value as a proportion of the value of exports of goods decreasing markedly or steadily over the period in 8 of the 12 LDCs.

The lack of any consistent relationship between the existence of adjustment programmes and economic performance, as reflected in both growth and inflation rates, leaves open the question of the adequacy of these programmes for the LDCs. Moreover, as currently defined, such programmes could even bring about undesired effects, in particular in terms of high social costs and a weakening of the LDCs' ability to achieve long-term economic development.

In order to pursue these points, detailed assessments were made by the UNCTAD secretariat for Bangladesh, Botswana, Lesotho, Malawi, Nepal, Niger, Sudan and the United Republic of Tanzania.[1] The reviews of their experience lead to a number of conclusions regarding the design and impact of structural adjustment programmes in the LDCs:

- In addition to the fact that the initial changes of policy cause some unavoidable distress to vulnerable groups, the adjustment programmes have so far produced mixed results and achieved, at most, limited success;
- Adjustment in LDCs has too often focused on demand-restraint measures, which have led already poor economies to operate at even lower levels of output;
- Devaluation, which is a common feature of the stabilization and adjustment programmes, appears to have had little effect in stimulating exports;
- The strong emphasis given by adjustment programmes to redirecting resources from public bodies to private entrepreneurs is of questionable efficacy, as LDCs generally have a very poorly developed entrepreneurial class and depend heavily on public institutions to sustain development;
- Social services have suffered under adjustment, largely on account of cuts in development budgets and inadequate maintenance and operational budgets;
- Additional financial resources directed to LDCs appear not to have been sufficient to support their adjustment efforts. Moreover, the share of grants in aid disbursements has declined, and conditions attached to aid have become more stringent;
- Adjustment programmes have not taken the problems of external debt sufficiently into account in their design;
- Current adjustment strategies are not building up the linkages required to assist in the long-run transformation of LDC economies. The adjustment strategies which have been adopted, by focusing so strongly on short-term balance-of-payments management, may have neglected to develop the longer-run potentials of the national economy;

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1 See: UNCTAD, *Trade and Development Report, 1989* (UNCTAD/TDR/9), pp. 177 *et seq*.

- The adjustment programmes have also failed to make provision for the flexibility to adapt - as the vulnerable LDCs must inevitably do - to unforeseen factors, be they internal, regional or global in origin, which are beyond LDCs' control;
- Finally, excessive emphasis on securing short-term payments correction has led to policy approaches that do not focus sufficiently on promoting long-run development. The sort of changes that are required call for additional resources, a longer timeframe and careful sequencing of policy implementation.

It is worth noting that the end of the 1980s has witnessed a debate on the relevance, effectiveness and the general impact of structural adjustment programmes implemented in LDCs. As a consequence, the international financial institutions monitoring the implementation of these programmes in their latest pronouncements have recognized the shortcomings, and in particular, the negative effects on human resources developments, of these programmes. The key importance of developing human resources in LDCs thus appears to be an area where there is common agreement. There has also emerged a greater awareness that the fragile economic structure of the LDCs creates particularly difficult problems for the design of structural adjustment programmes. Thus, structural adjustment programmes should be supportive of LDCs' long-term endeavours and adapted to the particular problems, needs and objectives of these countries. Exogenous conditions, such as unpropitious developments in world commodity markets, protectionist trends and natural disasters, should be duly taken into account in the design and review of such programmes and in the performance criteria applied to these countries by multilateral lending institutions. These and other lessons of structural adjustment in the 1980s are vital to aid conditionality and policy reform in the next decade.

II. IMPROVING ECONOMIC EFFICIENCY

A. Domestic savings

The most important constraint on the level of domestic savings in the LDCs is their low average per capita income of $227 (1987). However, even with such low per capita incomes, LDCs saved 6.3 per cent of GDP in the period 1970-1980. But in the 1980s, the savings rate collapsed by more than half to just 3 per cent in 1980-1987. At least 15 of the 36 LDCs for which data are available recorded negative savings in the 1980s, while only 6 achieved a savings rate of over 10 per cent throughout this period. The shortage of domestic savings has affected the level of investment and has also created significant constraints on recurrent expenditures for maintenance and on the financing of local costs of projects and programmes. ODA therefore increasingly needs to be diverted to local cost financing to ensure the cost-effectiveness of investments.

In view of this, LDCs in the 1980s initiated several measures to mobilize higher amounts of domestic savings. One of the factors depressing the savings rate is the small size of the monetized sector in most LDCs, and efforts have therefore been directed to its expansion. Thus, the network of banking institutions has been expanded to cover rural areas where informal credit and financial markets have historically been dominant. Interest rate reforms have been introduced, although in many LDCs the rate of inflation remains higher than the rate of interest. Attempts have also been made to improve the functioning of capital markets in countries such as Bangladesh, Nepal and Vanuatu, although these have been limited in their impact. Innovative approaches have been adopted in developing banking institutions to reach out to poorer groups of people, as illustrated by the widely known Grameen Bank in Bangladesh, an approach which in recent years has also been tested in some West African LDCs. The development of small-scale agriculture and industry hinges on the wider replication of this kind of approach to savings mobilization and extension of credit.

Apart from private savings, LDCs have attempted, particularly in the context of their structural adjustment programmes, to generate increased public savings through economies in public expenditures and by the divestiture of loss-making public sector ventures. However, the contribution of these reforms to increased savings has not yet been significant. Tax reforms and the levying of economic user charges for services have also led to increased savings, though the scope for mobilizing greater savings through these mechanisms is limited.

B. Technology

Technology development in LDCs has suffered as a result of three interlocking factors. First, most imported technology has been aid-related, so that the LDCs themselves did not have effective control over the choice of technology, with the result that inappropriate technologies are to be seen in almost every sector. Secondly, the models for industrial and technological development adopted by LDCs in the 1980s have not facilitated the development of indigenous technologies, since the tendency has been to implant foreign technologies without adequate regard either to resource costs or to local factor endowments. Finally, the resource constraints arising from debt payment obligations have hampered the purchase of required technologies from the LDCs' own resources. Nor have fiscal and exchange rate policies been supportive of indigenous technological development.

On the other hand, whilst the failure of LDCs to diversify their economies can be partly explained by the inappropriate technology policies they have pursued, some LDCs have successfully built upon their existing indigenous technological bases. Aid donors also appear to be increasingly aware of the limits of sophisticated technology when applied in LDCs. Thus, greater attention has lately been paid to the development of small- and medium-scale enterprises based on relevant technologies.

C. Institutional development

The importance attached by LDCs and donors to structural adjustment during the 1980s has, *inter alia*, involved increasing emphasis on strengthening the institutional capacities of government agencies dealing with macro-economic policy formulation and management. Most LDCs are not yet equipped with these capacities, although a considerable effort has been made through technical assistance programmes in the 1980s. Planning systems themselves have been made more flexible, with greater emphasis on rolling three- or four-year public investment programmes, as contrasted with the fixed five- or six-year plan which was the norm in earlier periods. Co-ordination between the Ministries of Finance and Planning has improved, though there are still critical problems in this area. Thus, whilst the Planning Ministry is in many LDCs assigned the task of allocating capital investment expenditures, the Ministry of Finance deals with recurrent expenditures, and these two streams of expenditure are not adequately convergent. In many instances, therefore, capital investment has been expanded while recurrent and maintenance expenditures have been reduced when the reverse might have been economically more efficient. To rectify this situation to some extent, several LDCs (e.g. Bangladesh and Nepal) have initiated the concept of core investment programmes, through which a small number of high-priority projects is insulated from being adversely affected by resource constraints. Action has also been taken in many LDCs to strengthen the monitoring of new project approvals. Nevertheless, statistical reporting systems continue to be weak and even the monitoring of SNPA-related activities is thereby affected. Finally, the role played by LDCs in developing structural adjustment programmes and in the processes of aid co-ordination has been restricted as a result of their inability to analyse issues and develop options and alternatives. They therefore need to develop their own analytical and research capacities in the broad fields of economic and social policy.

III. ISSUES IN SECTORAL DEVELOPMENT

A. Agriculture

The performance of the agriculture sector holds the key to growth and welfare in the LDCs: three quarters of the labour force is employed in agriculture and women account for a high proportion. Moreover, around 44 per cent of GDP and nearly half of export revenue is contributed by the sector. It is therefore a significant failure that agricultural growth for the period 1981-1988 was only 1.7 per cent, substantially below the growth rate of population of 2.4 per cent and less than half the growth target of 4 per cent in agricultural production set by the International Development Strategy for the 1980s.

However, as more generally, in agriculture too this lack-lustre performance overall conceals much diversity. Thus, six LDCs - Benin, Bhutan, Gambia, Guinea-Bissau, the Lao People's Democratic Republic and Myanmar - achieved average growth in agriculture of between 5 and 7 per cent annually over the 1980s.

The consequences of the weak agricultural performance of LDCs have been harsh. Vast numbers of people and especially women and children have experienced growing malnutrition. The food deficit of these countries has increased, leading to higher import levels and increased food aid, thereby reducing even further the meagre foreign exchange available. Food dependency has increased, pushing these countries even further away from self-reliant food security.

Agricultural performance was adversely affected by several factors of a domestic and external nature. Political and civil disturbances, leading at times to armed conflict, have disrupted agricultural activities in several countries. Natural disasters and the gradual deterioration of environmental support systems - soil erosion, denudation of forests, scarcities of water - have also taken their toll in terms of agricultural productivity. In addition, domestic policy shortcomings - inappropriate exchange rate policies which led to biases against production for exports, the relative neglect of rural development in favour of the urban centres, inadequate pricing policies, lack of agricultural research, failure to develop effective extension systems, lack of adequate systems for managing supplies of inputs - have been instrumental in restraining the growth of agricultural production and productivity.

A convergent set of factors arising primarily from the failure of the international system to implement commitments agreed to in the SNPA has further aggravated a worsening situation. World prices for agricultural commodities have declined in the 1980s, compounded by frequent price fluctuations which - when passed through to the producer - have created major disincentives to agricultural production. Adequate external resources for investment in agriculture have not materialized. Indeed, in terms of constant 1980 prices, ODA support for agricultural investment declined from a yearly average of $2,386 million in the 1980-1982 period to $2,182 million in the 1985-1987 period - a reduction of 8.6 per cent.

Following an extensive drought period in several African LDCs in the middle of the 1980s, agricultural production recovered as rainfall returned. Thus, in 1987, for example, 11 African LDCs attained or surpassed the SNPA target. Moreover, in Asian LDCs, there appears to be modest progress in crop diversification. It is also of importance that, in African LDCs in the five years between 1982 and 1987, the fishery catch - three quarters of which is drawn from inland waters - increased by 25 per cent.

B. Industry

Industry and manufacturing contribute only a small proportion of GDP in LDCs - between 5 and 15 per cent; this is indeed one of their defining characteristics. The experience of the 1980s has been one of disillusionment with the performance of the industrial sector.

In the period 1981-1989, the aggregate annual growth rate of manufacturing value added (MVA) for a group of 37 LDCs was no more than 2.6 per cent, barely sufficient to avoid a decline in per capita terms, and less than a third the target of 9 per cent established in the

SNPA - itself very modest in absolute terms in view of the prevailing small industrial base.

Part of the reason for this poor performance can be found in the structure of the sector: textiles, food processing and wood-based industries predominate. In some instances, export efforts undertaken in these subsectors met protectionist measures in potential export markets. Furthermore, the poor performance of the agricultural sector in a number of LDCs has led the processing industry also to perform poorly. Moreover, austerity measures in the context of structural adjustment have led to weak consumer demand for essential goods, compounding the supply-side problems.

In their policies and strategies underpinning the various programmes of industrialization, the LDCs, like many other developing countries, have often failed to benefit from comparative advantages. Instead, policies pursued during extended periods (e.g. subsidies, overvaluation of exchange rates, high tariffs and restriction of imports) have hampered the competitiveness, both internal and external, of their industries. Moreover, the industrial performance of most LDCs was adversely affected by shortages of funds for imports of capital goods, intermediate products and raw material. Indeed, the scarcity of foreign exchange led to major cutbacks in imports, and this caused heavy under-utilization of capacity: fragmentary evidence indicates that in several LDCs capacity utilization rates collapsed by half, from 60 per cent in 1981 to around 30 per cent in the mid-1980s.

In the light of this experience, many LDCs have undertaken an extensive reassessment of their industrial policy. Priority has been attached to industries supportive of agriculture and food production and to the satisfaction of such essential needs as pharmaceuticals. There appears also to be a greater awareness of the need to upgrade indigenous technology and to use more locally available inputs. Finally, the relative roles of the State and private sector have undergone significant changes, with greater opportunities offered to the private sector and a restructuring of public sector enterprises to make them self-financing, eliminating the government subsidies which were a recurrent feature previously.

C. Infrastructure

Inadequate infrastructure, particularly in the transport and communications sectors, continued to be a major impediment to economic growth in most LDCs and requires significant investment for improvement and expansion. The failure to meet SNPA targets for aid commitments has particularly affected infrastructural development because LDCs depend primarily on external resources to finance such investments: in 25 LDCs in Africa, 87 per cent of the total cost of $2.3 billion for 127 road projects is required from external financing sources. Another infrastructural sector which depends upon extensive external resources - energy - failed to receive adequate attention in the 1980s, particularly as regards the development of energy resources to substitute for rapidly depleting fuelwood supplies in most LDCs.

D. External trade

Trade was no engine of growth for most of the LDCs in the 1980s. In contrast to annual growth rates in the 1970s of 12.4 and 17.5 per cent for exports and imports respectively, the 1980s saw a near stagnation of both. Export values for the LDCs as a group averaged $8 billion annually, less than ODA receipts in recent years. The declines in the commodity prices of interest to LDCs and the increases in prices of imports (manufactures, food, energy) led to major terms-of-trade losses in the 1980s. Imports thus had to be severely compressed, resulting in high levels of under-utilized capacity and scarcities of incentive goods in the local economies.

The export base of LDCs is primarily dependent on agricultural commodities - particularly coffee, cotton and cocoa - which account for nearly 60 per cent of all exports. Concentration is also high: for most LDCs the three main agricultural export crops accounted for between 80 and 95 per cent of total agricultural export earnings in the 1980s. A few LDCs nevertheless continue to export minerals and metals (Botswana, Guinea, Niger, Mauritania and Togo). And some LDC countries have been successful in diversifying their exports, particularly in the clothing and textile sectors, but also in jute and leather goods. In the main, however, the commodity concentration of exports has remained high: for 12 LDCs 1 product, and for another 19 LDCs 3 products, provided more than 65 per cent of the value of their merchandise exports.

Domestic and external circumstances combined to produce the LDCs' poor trade performance in the 1980s. Structural constraints apart, natural calamities and civilian disturbances caused major export supply disruption, primarily of agricultural commodities, so that volumes fluctuated by over 80 per cent in several years. Domestic policy shortcomings leading to a bias against exports - in particular, inappropriate pricing and exchange rate policies - were also contributory factors.

It is worth noting that the five LDCs having registered GDP per capita growth above 6 per cent during the 1980s have non-traditional items as the main source of foreign exchange earnings. Apart from this common feature, this sub-set of LDCs does not present any other major common characteristic, be it continental location, size of the country, geographical situation, environmental strength, or even relative weight of the debt and debt-service burden. The capacity to generate foreign exchange otherwise than through traditional commodities appears, therefore, to be necessary. But it is not a sufficient condition for high GDP growth in LDCs: some other LDCs have non-traditional items as the main source of foreign exchange earnings, and yet they have not attained high GDP growth during the 1980s.

E. Management of the environment

The need to better protect the natural environment in the LDCs and to manage their natural resources more efficiently has gained importance during the 1980s. Desertification, deforestation, water pollution and scarcity and other phenomena of environmental degradation have become more pronounced in these countries, whilst natural resources constitute for the vast majority of the population their productive base. As a result of this process, soil erosion has assumed significant proportions in LDCs, and the subsequent loss of vegetative cover has profoundly affected soil fertility and agricultural productivity. Natural disasters which can be related to environmental change have heavily impaired the development potential of several LDCs. In addition, global problems of environmental damage such as global warming, damage to the ozone layer, the disposal of chemical wastes across international frontiers and international marine pollution do not leave the LDCs unaffected.

During the 1980s, LDCs have become more aware of both the environmental risks they are facing and the economic and social benefits of sound policies for protecting and improving the natural environment. In this connection, it should be noted that two geographical areas of special environmental concern, the Himalayas and the Sahel, are constituted mostly of LDCs. Integrated approaches to the development of these regions have been considered for some time, but in view of the costs involved, effective programmes have been slow to emerge. On the whole, environmental aspects are increasingly reflected in national development plans. These welcome developments need to be strengthened in the 1990s if the environment is to be protected from further decline in the decade ahead.

IV. HUMAN RESOURCES DEVELOPMENT

A. The demographic challenge

During the 1980s the population of the LDCs grew at an average rate of 2.4 per cent per annum, showing a trend towards acceleration in the latter half of the period. It will accelerate further to 2.9 per cent in the 1990s. In 1990, the population of the LDCs will be 440 million and by the mid-1990s it will reach the half billion mark.

The rapid increase in population in the 1980s has seriously strained the economic, financial and environmental resources available to LDCs. Economic growth and food production lagged behind the growth rate of population, and the pressures of population on land, water, soils and forests have become evident in the form of floods, droughts and deforestation in a large number of LDCs. Rapid population growth has also skewed the demographic structure highly in favour of the younger age group, so that the economically active age group between 15 and 64 years constitute only a little over half the population. The scarce resources of the education and health budgets in the LDCs have accordingly come under extremely strong pressure - just at a time when structural adjustment programmes have required reductions or reduced growth in these budgets.

Coupled with the skewing of the age distribution of the LDC population has been the phenomenon of significant change in its spatial distribution. Migration to urban areas has been a common feature, and towns and cities have grown beyond the capacities of the machinery of local administration to deliver even basic essential services. An urban informal sector has grown to absorb some of the migrants, but at low wages and low levels of productivity.

To monitor and attempt to control the demographic challenge, many LDC Governments have formulated and to an extent implemented population and family planning policies in the 1980s. Thus, in 1986, 20 African LDCs had active policies and provided direct support for the use of modern methods of fertility regulation. With the support of international agencies and NGOs, the delivery of family planning services has been improved and they have been integrated with primary health care services. It has also been recognized that population growth rates can be reduced only in the context of improved education and health facilities and an increase in productive opportunities, especially for women. But the basic problem remains that low income and poor employment prospects incite parents to produce children who - although adding to the mouths to feed and backs to clothe - will also contribute to the meagre aggregate family income.

Adding in some LDCs to the burdens of a growing indigenous population is the phenomenon of political and ecological refugees. It is estimated that 1.5 million political refugees have sought asylum in recent years in several African LDCs. Ecological refugees are also to be seen in many LDCs, leaving their traditional homelands to avoid drought and desertification. International efforts to deal with such problems in the 1980s have been concentrated more on relief than on developmental measures.

B. Education

A primary objective of the SNPA was the eradication of illiteracy by the year 2000, a goal which will remain elusive for many LDCs. For 31 LDCs for which data are available, illiterates aged 15 years and over increased from 95 million in the early 1970s to 110 million in the early 1980s. However, despite the increase in absolute numbers, the rate of illiteracy actually declined in the 1980s: between 1980 and 1985, in the 27 LDCs for which data are available, only four were below the 20 per cent literacy rate level, which was one of the original defining features of the LDCs. The reduction of the illiteracy rates during the 1980s ranged from 1.8 per cent in Burkina Faso to 27.4 per cent in Ethiopia.

However, the education sector suffered cutbacks in the wake of structural adjustment. The SNPA objective that the LDCs "should aim at making primary education free and compulsory by 1990 at the latest" remains virtually a dead letter. Thus, although enrolment ratios at the primary level increased from 39 to 60 per cent between 1970 and 1987, the quality of education declined at all levels, as a result of low teacher salaries; lack of, or poor standards in, teacher training; acute scarcities of reading, writing and other forms of instructional material; and sub-standard buildings. This in turn derived from scarcities which have led to sharp cutbacks in the already low prevailing level of educational expenditures.

Compounding these problems is the unfortunate fact that education policies in LDCs have not been cost-effective. In most LDCs, disproportionate emphasis is placed on higher education, 20-30 per cent of the education budget being spent on a sector which involves only 1 per cent of total students. In contrast, primary and secondary education, as well as vocational and technical training, have not received the priority they deserve: for example, the gross enrolment ratio at the secondary level in African LDCs ranged between 4 per cent in Burundi, Malawi and the United Republic of Tanzania and 34 per cent in Botswana. Female enrolment at all levels continues to be much lower than for males, as policies have yet to be developed to bridge the gender gap. And a marked emphasis on studies in the arts and humanities has led to shortfalls in technically trained manpower, exacerbating the mismatch between employment opportunities and educational qualifications.

In the light of these deficiencies, most LDCs have embarked on educational reform. In particular, non-formal systems of education are being stimulated, especially for vocational skills, and curricula are being developed at the primary and secondary levels which are more relevant to the needs of these countries. However, resource constraints have stood - and continue to stand - in the way of effective educational reform.

C. Health

The SNPA accorded priority to primary health care in the 1980s. Safe drinking water, low-cost sanitation, expanded immunization, improved nutrition, supply of essential drugs, and access to health care for mothers and children were the key issues to be addressed. Although LDCs have taken some steps in these directions, the results have been modest, and performance has varied among LDCs.

Thus, life expectancy increased, to just under 50 years, but this was not a great improvement compared with the expectancy of 47 years in 1980-1985. Infant mortality declined on average from 132 in 1980-1985 to 122 in 1985-1990, but infectious and parasitic diseases - diarrhoeal diseases, malaria, schistosomiasis and many others - continue to be widely prevalent. Local health care services covered only 50 per cent of the people in 1985 which, although an improvement, must be compared with nearly 75 per cent in other developing countries. Moreover, although the present immunization campaigns in the LDCs constitute a major public health gain, the coverage remains inadequate: eight LDCs in 1987 reported less than 15 per cent coverage. And although between 1980 and 1988 urban water coverage increased, the improvement was modest: from 47 to 54 per cent; the same is true for sanitation coverage, which rose from 36 to 46 per cent. (In rural areas the increase was from 27 to 38 per cent for drinkable water and from 9 to 14 per cent in terms of access to sanitation.) Finally, though a few LDCs, such as Bangladesh, pursued relatively successful essential drugs policies, for most of the population in most LDCs, essential drugs continued to be unavailable. And to cap all the health vicissitudes of an expanding population, the visitation of AIDS has cast an ominous shadow over several LDCs.

A major reason for the persistence of these problems lies in the fact that the implementation of effective health policies has been obstructed by the cutbacks in health expenditures in most LDCs as a consequence of structural adjustment programmes: according to UNICEF, the 37 poorest nations (most of them LDCs) have reduced their health spending by 50 per cent in the last few years. The difficulties arising from these cutbacks have been compounded by a continuing misallocation of resources within the sector: primary health care is starved of funds, whilst urban hospitals serving a small clientele absorb 75 per cent of central government health expenditure, and curative care still receives priority over preventive health care.

D. Role of women

The contribution of women to development has remained under-estimated in most LDCs during the 1980s. Although women are a vital resource in the rural and urban economies, their role in farming and livestock raising, post-harvest processing, storage and marketing, petty trade and services, home-based manufacturing, provision of food, health care and education and in other household activities is only inadequately recognized and respected in many LDCs. Women in LDCs have often found themselves in a disadvantaged position and are often confronted with attitudes which discriminate against them. This situation is at the root of their poor nutrition, chronic or episodic illness, illiteracy or inadequate schooling, lack of relevant skills, limited employment opportunities, low returns to labour, low social status, and restricted legal rights. In addition, high fertility under impoverished conditions affects the women's health.

The discrimination against women in LDCs is particularly evident in their limited access to education. By the mid-1980s, fewer than one third of all adult women were literate, as against half of adult men. At the same time, fewer than half of all girls of primary school age in LDCs were enrolled in school, fewer than 10 per cent of those of secondary school age, and fewer than 1 per cent of eligible age groups at the post-secondary level.

However, there were encouraging developments during the 1980s, indicating new emphasis on activities by both Governments and bilateral and multilateral donors aimed at improving the status of women in these countries. In addition, women in LDCs have increasingly voiced their own expectations and become active in both establishing and implementing their demands and rights. The emerging women's movements in LDCs have often been actively involved in the design and implementation of infrastructural measures such as the setting-up of primary health care centres or the provision of public utilities (water, electricity, sewage disposal) which help alleviate the burden of their household chores and, in the final analysis, allow them to fulfill their tasks in better conditions. Furthermore, the judicial system in many LDCs recognizes the right of women to own land and to launch private ventures, thus contributing to economic independence of women. Although women in the LDCs may still have a long way to go before overcoming social and institutional barriers, the 1980s may be perceived as the decade in which this development gained momentum.

V. INTERNATIONAL SUPPORT MEASURES

A. Resource transfers

1. *Volume trends*

The 1980s have been marked by a general deceleration in real financial flows to the developing countries, including the LDCs. Trends were determined by a slowdown in the provision of ODA (in constant prices) and the drastic fall in private flows such as export credits and direct investment, with the virtual stoppage of commercial lending. In the meantime, LDCs' resource needs grew substantially as their export earnings and purchasing power fell, while debt service obligations increased and additional financial requirements to support rehabilitation and adjustment programmes rose. In relation to these needs and given their difficulties in mobilizing increased domestic savings, the volume of ODA, which is so crucial to the development of these countries, has been clearly insufficient throughout the period.

In the SNPA, it was assumed that concessional assistance would rise by 1990 to \$24 billion at 1980 prices to support the implementation of the country programmes presented to the Conference. A matching target of 0.15 per cent of donor GNP was established. This has not been realized, and the average of DAC country contributions remained at 0.08 to 0.09 per cent of GNP throughout the 1980s, although a few individual DAC countries' contributions far exceed this percentage.

In current terms, ODA flows increased by over one half during the 1980s, reaching \$12.3 billion in 1988 as compared to \$7.9 billion in 1980. However, they almost stagnated from 1980 to 1984, and the increases registered in subsequent years mainly reflect emergency aid to African LDCs (in 1985) and the re-evaluation of donors' currencies vis-à-vis the US dollar (in 1986 and 1987). A further increase was recorded in 1988, which is likely to have been due to the accidental concentration in that calendar year of overall disbursements (by DAC member countries) of funds available for the two fiscal years 1987/1988 and 1988/1989 rather than to a change in underlying policies.

It is further worth noting that the geographical distribution of aid showed large variations, per capita, as between LDCs: those LDCs with larger populations in general tended to obtain less ODA per capita than those with smaller populations. Concessional funding by multilateral agencies partly offset this bias, as the geographical distribution of their assistance is based on specific objective criteria for all LDCs, and multilateral agencies disbursed about one third of all ODA in the late 1980s, as compared with less than 30 per cent in the early 1980s. The negative side to the increase in multilateral financing, even when concessional, is that a large proportion is in the form of loans with associated debt service obligations.

The 1980s also saw a virtual drying up of non-concessional forms of assistance to the LDCs - export credits, multilateral non-concessional finance, borrowings from capital markets, and direct foreign investment; apart from the latter in two or three countries, these are no longer sources of tenable finance.

2. *Terms and conditions*

A striking feature of the 1980s has been that through increased policy-based lending, the IMF and the World Bank in particular have come to exercise an important influence on the majority of LDCs, especially through the design and monitoring of the implementation of structural adjustment programmes. Co-ordination between these agencies and donor countries has become closer and has led to an increase in co-financing arrangements with attached conditionality.

On the other hand, the rise in policy-based lending has led to an increase in recent years of quickly-disbursable programme and sectoral lending, especially from the multilateral agencies. It is not clear whether non-project forms of aid from bilateral donors have increased to any significant extent.

The concessionality of ODA to the LDCs has remained high during the decade, and a number of donors have taken further steps to improve the terms of their aid. Thus, in 1988, with the exception of France and Japan, all DAC donors met the DAC target norm (grant element reaching 86 per cent on average over three years, or 90 per cent in one year) for LDCs in the period 1986-1988. Loans with grant elements much lower than the DAC norm have been a feature of ODA to LDCs from a few DAC donors, OPEC countries and agencies, and socialist countries. Such non-grant aid adds to the debt burden. In addition, the tying of aid, especially by DAC donor countries and socialist countries, continued in the 1980s, adding to the cost of aid. OPEC assistance is generally free from procurement restrictions.

A common phenomenon in most LDCs is the acute shortage of local counterpart funds for financing local project and programme costs and for recurrent expenditures. In consequence, donors have been urged to examine the implications of new projects on future recurrent expenditures and to assist LDCs by financing recurrent costs following project completion. In response, many donors have recently reported higher ceilings for local cost financing in their aid programmes.

The 1980s also saw an important development in aid co-ordination, as a part of the follow-up to the SNPA, in the form of the country review mechanism, which has established itself in many LDCs as a forum for a dialogue on policy and for aid commitments, including specific project commitments in response to LDCs priorities. However, a recent study commissioned by UNCTAD[2] has shown that to improve the functioning of aid co-ordination mechanisms for LDCs would require longer-term development strategies than are implied in current structural adjustment programmes, a more articulate role for LDC Governments in the co-ordination process, and the re-direction of donor assistance to build up the capacities of LDC institutions which co-ordinate and manage resources.

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2 *Aid co-ordination and effectiveness: least developed countries, 1981-1989*, study prepared by Mr. D.R. Panday and Mr. M. Williams (UNCLDC II/4).

3. *NGOs as channels of aid*

The importance of NGOs in ODA to the LDCs has increased in the 1980s. It is estimated that the NGO contribution to LDCs is about $1 billion annually. NGOs have been allocating their resources primarily to the building up of human resource capacities in LDCs, and half of NGO resources go to health and education. NGO programmes are also directed at the poorest groups and are especially focused on remote and difficult areas. NGOs have also been particularly strong in developing innovative and flexible low-cost small-scale projects and programmes. At the same time, developed countries' NGOs have worked alongside indigenous LDC NGOs, and this partnership has brought mutual benefits.

B. Debt and debt relief

Economic developments during the 1980s, e.g. falling prices for LDCs' major export commodities, have aggravated the debt problems of the LDCs during the decade. Most of these countries have a less diversified production structure and a narrow range of exports which are vulnerable to external shocks. The expenditure of LDC Governments, dependent on uncertain export receipts, is not easily adjustable, inducing them to have recourse to external borrowing to maintain a minimum level of domestic investment and consumption. Given the low rate of domestic savings, the LDCs are also heavily dependent on long-term foreign borrowing to finance development expenditure necessary for the transformation of their economies. It will be extremely difficult for the LDCs to surmount their debt problems in the short to medium term, as the expansion of their productive capacity is constrained by the structural rigidity of their economies.

There has been a pronounced deterioration in the external debt position of the LDCs, with total outstanding debt, including use of IMF credit, almost doubling from $35.8 billion in 1982 to $69.3 billion in 1988. Of the 42 LDCs, Bangladesh and the Sudan, which together account for almost a third of the total external debt of the LDCs, have each accumulated debts of around $10 billion. Seventeen other LDCs have accumulated debts exceeding $1 billion.

The average accumulated debt of the LDCs was already almost half of their GDP in 1982 (47 per cent), and by 1987 this ratio had reached 72 per cent. In 1987, nearly three quarters of the LDCs had debt/GDP ratios which equalled or exceeded more than half of their GDP.

LDCs' debt service payments, including use of IMF credit, rose to \$3.5 billion in 1988 from a level of 2.2 billion in 1982 - an increase from around 20 per cent to 27 per cent of exports. Debt service of this magnitude absorbs almost one third of what is given as ODA. Apart from the growth of the debt stocks and diminished export earnings, other factors such as the rise in real interest rates and the adverse effects of changes of exchange rates have also contributed to increasing the debt servicing burden of the LDCs.

International action on debt relief to LDCs has been patchy. Since the adoption of Trade and Development Board resolution 165 (S-IX), 34 LDCs have been forgiven debt to the tune of \$3 billion by DAC countries - a small amount compared to total debt. However, in 1987, over 80 per cent of the LDCs' ODA debt to DAC countries was owed to Japan, the United States and France, and recent events indicate that significant debt cancellations by these countries are under way. The USSR has signalled similar intentions.

During the 1980s, 17 LDCs rescheduled a total of \$6.3 billion of their non-concessional official and officially supported debts to OECD countries within the framework of the Paris Club. However, several countries have had to reschedule their debt repeatedly, a fact which clearly indicates the deficiencies of current approaches to rescheduling. The 1988 Toronto Summit of the Group of 7 agreed upon a menu of options for debt relief on a case-by-case basis, conditioned on undertakings to implement internationally approved adjustment programmes, but benefits have been limited so far. As of end 1989, 12 LDCs had benefited from the Toronto measures. In this context, two countries, Sweden and France, have recently announced bilateral debt forgiveness on guaranteed export credits, which can be of special benefit to selected LDCs.

The relief on debt owed to multilateral agencies has so far been very limited. Recently, the World Bank established a refinancing scheme to ease the burden of non-concessional multilateral debt payments. Under this scheme, a reserve fund financed from repayments of IDA credits is used to help defray the interest on past non-concessional IBRD loans on the part of countries which are now eligible for IDA credits. Five LDCs were among the countries which initially qualified under this scheme. Moreover, no action was taken in the 1980s with regard to repayments due by LDCs to the African Development Bank.

The Debt Reduction Facility (DRF), which was introduced by the World Bank in August 1989 for countries eligible for credits extended by IDA and for which most LDCs qualify, represents an important step forward in dealing more effectively with the alleviation of their commercial debt burden. This scheme provides support on a grant basis for debt reduction operations, most of which are expected to take place through cash buybacks of commercial debt at substantial discounts.

In addition, during the period 1980 to 1988, eight LDCs renegotiated their commercial debt for a cumulative amount totalling $2.7 billion at the London Club. All these reschedulings are, however, limited to principal and thus do not cover interest, and commercial rates of interest are applied.

In summary, the experience of the 1980s has been one of insufficient attention to the heavy burden of LDC debt. Action by creditors has been sporadic, granting some measure of relief when the pressure builds up for default, but debt relief has not been viewed within the framework of the development process in LDCs and the magnitude of external resources required in their implementation. In view of the serious debt problems of LDCs, which constitute a major hindrance to their development, the need for a holistically conceived debt strategy, adressing both the provision of new development assistance and debt relief measures, has markedly increased during the 1980s.

C. Access to markets

The SNPA envisaged that preferential access for exports of LDCs to developed countries would be ensured in the 1980s. LDCs are particularly concerned with the export of tropical products, natural-resource-based products and textiles and clothing. Although two preference schemes have an important impact on the export trade of LDCs - the generalized scheme of preferences (GSP) and the Lomé Convention - these schemes cover only a limited number of commodities of interest to LDCs.

The GSP, which is due for review in 1990, in fact consists of 16 separate schemes involving 22 OECD market-economy countries and 5 Eastern European countries. The LDCs, with a few exceptions, are recognized as beneficiaries by the importing countries, and in the 1980s there has been some increase in terms of country and product coverage in preference-giving to LDCs. However, the product coverage in the OECD countries has remained narrow.

The rules of origin of the GSP schemes, though liberalized in the 1980s, are still a significant obstacle to LDCs: the main issue concerns the acceptable foreign-material component in products exported by LDCs (on a positive note, Canada has raised this level from 40 to 60 per cent). Moreover, it is in agricultural products that LDCs have a comparative advantage, and no incentives have been offered for these products. In sum, therefore, the special measures in favour of LDCs for duty-free and quota-free access for their products through the GSP have had little impact on export diversification and increased processing of commodities.

The preferences accorded under the Lomé Convention apply to only about two thirds of the LDC group of countries. However, the Lomé preferences are more favourable than those prevailing under the GSP, and the enlargement of the Lomé Convention arrangements to include all LDCs should not only lead to simplification and harmonization of the procedures of different systems but also help in terms of increased access to markets for export products of LDCs.

Non-tariff measures have further aggravated the difficulties of LDCs. Developed market-economy countries import goods worth about $4.5 billion (1984 figures) from LDCs, and around 15 per cent of this amount was accounted for by goods subjected to non-tariff measures. Even more important is the extent to which exports from LDCs are prevented as a result of these measures. Many developed countries have imposed high internal taxes on those commodities which are significant to LDCs, especially tropical products. These products do not compete with those of developed countries and the reason for taxing consumption of them appears to be to control imports. The MFA arrangement has restricted exports of LDC textiles, especially from those LDCs which have taken active steps to develop a textile and clothing industry.

D. Compensatory finance

Export earnings of LDCs have been subject to large yearly fluctuations, and in the 1980s they have also experienced a decline.

Part of these shortfalls was compensated by two international schemes: the IMF Compensatory Financing Facility (CFF), which since 1979 has also included a cereals facility for excesses in cereals imports, and the STABEX scheme of the ACP-EEC Lomé Convention. The EEC set up a new scheme, STABEX-LDC-ALA, specifically for non-ACP LDCs in 1987.

For the period 1983-1987, the LDCs' average annual compensation amounted to \$70 million from the IMF-CFF and \$101 million from STABEX. In addition, compensation to three non-ACP LDCs (Bangladesh, Nepal and Yemen) was provided in respect of 1986 shortfalls under STABEX-LDC-ALA for an amount equivalent to \$6.1 million. In respect of the 1987 shortfalls, three countries (Bangladesh, Nepal and Haiti) received compensation worth \$12.2 million under the same scheme.

During the period 1983-1987, 29 LDCs which are members of the ACP Group benefited from STABEX transfers, while only 12 LDCs made use of the IMF-CFF. In 1988, only one LDC country made a purchase under this scheme, and none did so in 1989. Apart from the fact that purchases under the IMF-CFF are not on concessional terms, access to finance under this facility in recent years has become increasingly conditioned on the existence of IMF-approved adjustment programmes for medium-term balance-of-payments difficulties.

In August 1988 the IMF-CFF was replaced by a new scheme, the Compensatory and Contingency Financing Facility (CCFF). This scheme combines a slightly modified compensatory component with a new external contingency financing element designed to provide additional assistance to Fund-supported balance-of-payments adjustment programmes when the programmes are faced with exogenous changes not foreseen when they were negotiated. It covers changes in interest rates on external borrowings, import prices and the prices of specific components of export earnings.

The CCFF entails restrictive elements which make it very unlikely that LDCs will resort to this facility for large borrowings. Indeed, since the new Facility has been in place, no LDC has made a drawing under either the compensatory or the contingency component.

On a more positive note, Switzerland has recently established a new compensatory financing scheme for the poorest countries exporting commodities to Switzerland. Under this scheme, transfers are made in the form of grants, which can be used to support sectoral adjustment programmes intended to stabilize export earnings, promote diversification and improve productivity. In 1988, six African LDCs were compensated for shortfalls incurred in previous years.

E. International commodity agreements (ICAs)

International commodity agreements could have made an important contribution to the stabilization of export earnings of LDCs; however, they have in fact failed to cushion the LDCs from major export earnings fluctuations. Of the nine international commodity agreements which are now in operation, only two - cocoa and rubber - contain economic provisions, and the latter is not significant for LDCs. In the case of cocoa, the agreement, which has provisions for a buffer stock mechanism, has not been in a position to stabilize markets in the context of chronic over-supply. The other international commodity agreements have no economic provisions at the present time. In this regard, a major recent setback has been the collapse of the International Coffee Agreement, whose economic provisions are now in abeyance: coffee is one of the major export commodities of LDCs, and the collapse of this Agreement in 1989 has led to sharp falls in coffee prices, causing major export earnings losses to LDCs.

The commodity agreements on sugar, jute and jute products, and tropical timber, although without economic provisions, have importance for certain LDCs. The lack of finance has hampered the workings of even these limited agreements, thus depriving LDCs of some of the potential benefits, such as increased resources for research and development and marketing.

A recent promising development has been the establishment of the Common Fund for Commodities. The Second Account of the Fund will soon be operational and can be made use of to finance commodity development measures such as research and development, productivity improvements, market research, development of processing technology and other related activities. The Agreement Establishing the Common Fund provides that, in determining its priorities for the use of the resources of the Second Account, the Fund shall give due emphasis to commodities of interest to LDCs. LDCs, together with other producer developing countries, thus have the opportunity to make use of the resources of the Common Fund in developing priority programmes for specific commodities.

F. Economic co-operation among developing countries

Within subregional integration groupings, LDCs are the ones in greatest need of sharing the benefits of integration, since their small domestic markets (a) drastically limit the number of economically viable national import substitution projects, and (b) cause them to be the ones least able to attract foreign investment. Co-operation among neighbouring countries can therefore contribute to a significant interchange of economic transactions and experience. Unfortunately, in the 1980s, the trade of LDCs with other developing countries has on the whole declined.

The first protocol of tariff concessions under the Global System of Trade Preferences among Developing Countries (GSTP), adopted in Belgrade on 13 April 1988, confirmed the need for special treatment for LDCs, enshrined the principle of non-reciprocity for them, and adopted within its framework concrete preferential measures in their favour, particularly more liberal rules of origin and longer lists of eligible products benefiting from GSTP customs duties than the rules and lists applying to other signatories. Thus, products originating in LDCs can benefit from GSTP treatment with a value-added component that is 10 percentage points below the one required for the same products originating in other signatory countries. These more liberal rules also apply to cumulative origin requirements when the last operation occurs in an LDC. However, only six LDCs have signed the GSTP so far.

VI. CONCLUSIONS

Eleven countries have had to be added to the list of LDCs since the adoption of the SNPA at the first United Nations Conference on the Least Developed Countries in 1981. None has been upgraded from this category. Both facts speak for themselves concerning the development constraints which developing countries in general, and LDCs in particular, had to face during the 1980s.

The SNPA was designed to bring about long-term structural change and to provide a durable basis for sustained development in LDCs. However, the period of the SNPA has largely overlapped with a period of austerity and structural adjustment. Resource constraints resulting from adverse trends in the world economy brought with them structural adjustment programmes which were basically designed for the restoration of external and domestic balances over a short period of time. The difference of approach between these two types of policy frameworks - SNPA and structural adjustment programmes - was clearly evident from early on in the decade. At the end of the 1980s, with the hindsight of experience of structural adjustment, there appears to be a growing consensus on according appropriate weight to the long-term demands of economic and social development.

Three major problems have emerged during the 1980s as requiring the urgent attention of the LDCs and their development partners. First is the demographic challenge faced by LDCs, with population growth of 2.4 per cent (1980-1988) and national economies ill-equipped to produce a rate of economic growth at this level. Increases in population are gradually being translated into demands for employment without commensurate expansion of job opportunities. Secondly, a major phenomenon has been the degradation in the natural environment. If the depletion of natural resources were accounted for in the system of national accounts of these countries, it is indeed probable that their (presently low) growth rates would turn negative in absolute terms. Thirdly, the massive build-up of debt to around five times their exports of goods and services has led to repayment obligations which are a tremendous burden on these fragile economies. The failure of international support measures to address adequately the compelling needs of LDCs can nowhere be better seen than in the escalating debt figures of the 1980s.

Resource constraints and the problems described above have had their impact on savings, investment and the general performance of all sectors. Productivity in agriculture declined, leading to higher rates of malnutrition, reduced food security and worsening food deficits at the national level. Economic diversification was brought to a standstill, with manufacturing hardly showing an increase in per capita terms. External trade continued to stagnate, and one of the most negative features has been the compression of imports leading to major losses in production, productivity and welfare. Human resources development was the worst affected of all. At a time when Governments and the international community have initiated successful primary health care policies, resources were denied for their implementation. Education has suffered as increasing enrolment ratios are met by declining standards, with schools unable to equip themselves either with teachers of calibre or instructional materials. Though policies have been designed to improve the status of women, resources do not match up to the most urgent needs. Social spending has continued to decline, with smaller shares being allocated from LDC budgets.

An issue which became increasingly evident during the 1980s was the pattern of resource allocation within sectors in the context of growing scarcity. Where should the available financial resources be allocated within each sector? In agriculture, should priority be given to food rather than export crops when there is competition between the two? In industry, should emphasis be placed on indigenous technologies or on the import of technology? In infrastructure, should it be rural or urban? In health, should it be spending on urban hospitals or primary health care? In education, should primary education obtain a higher share and university education a lesser priority? These issues are extremely critical for the development of effective strategies in LDCs. Low-cost approaches are indeed essential to widen the impact of development programmes and projects. Corresponding adjustments in technology policies appear to be required in almost every sector.

External support measures have clearly been inadequate in the 1980s. In the context of the urgent demands of LDCs, concessional resource flows were inadequate. Debt repayment obligations had a sizeable negative impact on the level and effectiveness of resource transfers. Moreover, the tying of aid has imposed costs on LDCs, as has the - fortunately limited - offering of loans rather than grants. Though various selected actions have been taken to accord preferential treatment to LDCs, external trade was a major source of economic growth in only a few LDCs.

Natural calamities, political and civil strife, domestic policy shortcomings, ineffective management, and insufficient external assistance have led to the present plight of LDCs. The situation in poor countries has attracted attention only when there were dramatic or newsworthy events. The Second United Nations Conference on the Least Developed Countries, scheduled for September 1990, must serve to bring to light the real drama of these countries.

The improvement of the economic and social conditions in LDCs will take decades rather than a few years and will require strengthened commitment to this end. Indeed, it is only through strengthened complementary commitments, both by the least developed countries and by their development partners, that progress in the 1990s could be achieved. The Paris Conference should thus be seen as a forge for a more vigorous partnership aimed at accelerating the development of the least developed countries.[3]

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3 For specific elements of a Programme of Action for the 1990s for LDCs, see UNCTAD document A/CONF.147/PC/5 of 1 February 1990.

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