

Keynote Address

By

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**on “Resources mobilization and enabling environment for poverty eradication
in the context of the Implementation of the Programme of Action for the Least
Developed Countries for the decade 2001-2010” at the roundtable organized in
preparation for the 2004 High Level Segment of ECOSOC**

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Mr. Moderator,
Distinguished participants,
Ladies and Gentlemen

It gives me a great pleasure to address, on behalf of the Secretary-General of UNCTAD, this roundtable, which deals with issues of central importance to the least developed countries and UNCTAD.

A) Economic performance of LDCs

Between 2000 and 2002, the LDCs as a group grew at a relatively high rate of 4.7 per cent per annum, up from 4.4 per cent in 1998-2000. This was considerably better than other developing countries whose growth slowed down from 2.9 per cent in 1998-2000 to 1.8 per cent in 2000-2002. The average real GDP per capita growth rate of LDCs was 2.4 per cent in 2000-2002 - slightly higher than the 2.1 per cent attained during 1998-2000. Although this performance is significant given the global economic outlook, it is still far short of the growth target of 7 per cent agreed in the Programme of Action for LDCs. It furthermore hides substantial differences within the group. Only few countries from the group registered a real growth rate of 7 per cent or above during 2000-2002; the growth rate in 22 LDCs was less than half the target rate and in 13 of them it declined during the period.

Despite improved economic performance, the incidence of poverty in these countries remains very high and poses formidable challenges to the LDCs and to their development partners. The most distinctive aspect of poverty in the LDCs is that it is generalized - a situation in which a major part of the population lives at or below income levels sufficient to meet their basic needs and in which the available resources in the economy, even when equally distributed, are barely sufficient to cater for the basic needs of the population on a sustainable basis. The total number of people living on less than a dollar a day in the LDCs in the latter part of the 1990s is estimated to be 307 million (over 50 per cent) and the total number of people living on less than \$2 is estimated to be 495 million (about 80 per cent) of the total population of these countries. A serious matter of concern, now, is that if the current trends continue, it is

unlikely that most LDCs will achieve the internationally agreed poverty reduction goals.

B) Domestic resources mobilization

The severe poverty that affects a large proportion of the population in most LDCs is not simply a result of economic stagnation; it is also a cause of economic stagnation. At the heart of such a vicious circle is the lack of domestic resources to promote investment and productivity that is apparent in very low savings rates. In such situations, domestic resources available to finance capital formation and provide for vital public services such as education, health and other social and economic infrastructure, administration and maintenance of law and order, would inevitably be very low. The vicious circle can only be broken by an initial period of sustained growth in the LDC economies, and for that external resources are indispensable.

C) External resource mobilization

Official Development Assistance (ODA) to the LDCs declined in net per capita terms in the 1990s, although the decline was arrested and to some extent reversed after 2000. Net ODA disbursements to LDCs increased (in current dollars) from \$ 12.5 billion in 2000 to \$17.3 billion in 2002. Aggregate net resource flows increased from \$14.2 billion during the mid- 1990s to \$16.7 billion in 2002. This trend reflects an emerging commitment of the donor community to increase ODA allocations to LDCs in line with the Programme of Action and the Monterrey Consensus. However, real net aid flows per capita were still about 16 per cent lower in 2002 than in the early 1990s and donors, with a few exceptions, are still below the aid commitments stipulated in the Brussels Programme of Action. On the other hand, recent trends concerning untying of ODA to LDCs by DAC members are encouraging.

As regards the sectoral distribution of aid flows, both bilateral and multilateral donors continue to prefer ODA commitments into social infrastructure and services. This preference is at the expense of aid flows to economic infrastructure. For example, the share of ODA flows from multilateral institutions into economic infrastructure dropped by 40 per cent from 1997-1999 to 2000-2002. As much as

LDCs need aid for social infrastructure and services, this imbalance raises concerns about the prospects for the development and modernizing their economic base, in particular with regard to the sustainability of their efforts to strengthen local supply capacities.

D) Foreign direct investment

A few natural resource-endowed LDCs are attracting substantial amounts of FDI in relation to the size of their economies. However for the group as whole total inflows of FDI are very low. FDI inflows have continued to concentrate on only a few countries and few sectors with 10 LDCs alone accounting for over 86 per cent of FDI flows into all LDCs in the period 1998-2000. Moreover a matter for concern is the fact that higher overall level of FDI inflows to LDCs has led to significantly higher profit remittances, which almost doubled from 1997-1999 to 2000-2002.

E) Market access

The share of the LDCs in world trade has continued to decline since the 1980s, accounting for only about 0.4 per cent of world trade in average terms over the last couple of decades. Recent market access initiatives such as the “Everything But Arms” initiative of the European Union and the Africa Growth and Opportunity Act of the USA and other bilateral preferential market access offers can make a positive contribution in the fight against poverty. Nevertheless, weak supply capacity of LDCs have negatively affected the degree of utilization of the special market preferences granted to them. It is critical not only to address market access problems facing LDCs but to undertake specific actions to address their supply-side problems. Priority should be given to ensuring that more aid is targeted to productive sectors and the economic infrastructure of the LDCs. In fact, the concepts of “aid for trade” and “investment for trade” should be genuinely explored so as to enhance supply capacities in LDCs.

F) External debt

High levels of external indebtedness continue to impede economic performance in many LDCs. As shown in UNCTAD LDC Report 2002, for a sample

of 42 LDCs for which data are available, the ratio of debt stocks to GDP declined in 18 countries in 2000. Overall, the debt stock of LDCs that has shown a sign of decline from about \$ 154.4 billion in 1998 to \$ 137.3 billion in 2001 has resurged to well over \$145 billion in 2002. This increasing trend is in spite of the fact that several LDCs have benefited from recent debt relief measures including from the enhanced HIPIC initiative. Currently, 32 of the 49 LDCs are classified as HIPCs where 7 have reached the completion point, 14 have reached decision points, 9 did not reach decision points and two oil- exporting LDCs are identified as potentially sustainable cases. This problem requires urgent and comprehensive response from creditor countries and international financial institutions.

Conclusion

For the LDCs as a group, access to external resources looks better today than a few years back. This reflects efforts undertaken by both donors, which endeavour to live up to their commitments, and by the LDCs themselves, which have made progress in improving the political and economic environment for the mobilization of external resources. Nevertheless, there is still much to be done by both LDCs and by donors, who should continue their current efforts in order to reach the internationally agreed aid targets. The hope is that the positive elements that have recently emerged in the external resource situation of LDCs mark the beginning of a long-term trend towards more effective cooperation between LDCs and their development partners in the common search for the development of LDCs.