

THE LEAST DEVELOPED COUNTRIES REPORT 2008

Growth, Poverty and the Terms of Development Partnership

Prepared by the UNCTAD secretariat

Chapter 2:

Trends in Poverty and Progress towards the MDGs



UNITED NATIONS
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Trends in Poverty and Progress Towards the MDGs

A. Introduction

Chapter

2

It is clear from chapter 1 of this Report that since 2000, many least developed countries (LDCs) have achieved higher rates of economic growth than in the 1990s and even higher growth of exports. There is a widespread perception, however, that this is not translating effectively into poverty reduction and improved human well-being for the 785 million people who now live in LDCs. This chapter assesses the extent to which this is true and identifies some of the policy-related factors which influence the degree to which economic growth is translating into improvements in human well-being.

The chapter shows that the basic feature of poverty in most LDCs is that it is “generalized”, that is to say, it is not something which affects a small section of the population. Rather, “a major part of the population lives at or below income levels sufficient to meet their basic needs and 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” (UNCTAD 2002: 40). This Report finds that 75 per cent of people in LDCs subsist on less than \$2 a day and that average private consumption per capita per day in 2006 was just 76 cents per day (when estimated using market exchange rates).

Progress in reducing “\$1-a-day poverty” (extreme or absolute poverty) and “\$2-a-day poverty” (“total poverty” hereafter) in LDCs has been very slow and there has been very little improvement in the rate of progress since the adoption of the Millennium Declaration in 2000. The number of people living on less than \$1 a day in LDCs was higher in 2005 than in 2000. The chapter also finds that although a few countries have made great progress in relation to some human development MDGs, particularly primary education and gender equality in education, most LDCs are off track to meet the MDGs on the majority of human development indicators for which data are available. The soaring food prices of 2007 and 2008 will have particularly adverse consequences for the LDCs and they are likely to slow down — and in some countries reverse — not only progress towards reducing hunger but also progress towards poverty reduction and the achievement of other human development goals.

The reasons why high GDP growth in LDCs is not translating very effectively into improvements in human well-being are complex. But the chapter is founded on what Graham Pyatt has called “a structuralist approach to poverty analysis” (UNCTAD, 2002: 192). This approach starts from the insight that household living standards depend primarily on the generation and sustainability of jobs and livelihoods. From this perspective, poverty trends are related to trends in income-generating and employment opportunities, which are in turn related to the changing structure of the economy and its relationship to the rest of the world. Locating livelihoods within the structure of the economy focuses attention on the influence on living standards of such factors as the sectoral and regional structure of the economy, the importance of, and connections between, formal and informal sector activities, the division of value added between capital and

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The level and distribution of living standards are jointly determined through the way in which production is organized and through the form of integration of the national economy into the global economy.

The weak relationship between economic growth and improvements in human well-being in most LDCs is related to the type of growth which is occurring.

Without the development of productive capacities and associated employment, external integration does not lead to inclusive development.

labour, and the influence of macroeconomic policies. In this approach, both the level and distribution of living standards are jointly determined through the way in which production is organized. Moreover, the generation and sustainability of livelihoods and the structural dynamics of the economy are related to the form of the integration of the national economy into the global economy through trade, aid, private capital flows and debt dynamics. In this way, international economic relations are intimately linked to national poverty dynamics.

Using this structuralist approach, the chapter argues that the weak relationship between economic growth and improvements in human well-being in most LDCs is related to the type of growth which is occurring. The high rates of economic growth in LDCs cannot generally be equated with an inclusive process of development. In most of them, the majority of the population are employed in agriculture but agricultural labour productivity is very low and growing very slowly. As it is difficult to make a living in agriculture, more and more people are seeking work in other sectors of the economy, but remunerative employment opportunities are not being generated quickly enough to meet this growing demand for non-agricultural work.

The trends which are occurring are related to policy choices and in particular the development model which has been pursued in most LDCs. This has sought to deepen the integration of the LDCs into the world economy, increase the efficiency of resource allocation and free markets. Global integration is vital for development and poverty reduction in LDCs. However, without the development of productive capacities and associated employment, external integration does not lead to inclusive development. Export-led growth by itself leads to an exclusive pattern of economic growth. The adverse impact of the soaring international food prices illustrates the vulnerability of LDCs following the current approach, underlining the need for a policy change towards inclusive development.

The chapter is organized in five substantive sections. Section B describes trends in average private consumption per capita. This is a very crude initial proxy for living standards which does not address the multidimensionality of poverty and ignores the effects of distribution on living standards. It does, however, provide an initial overview of material living standards in LDCs. Section C deepens the analysis by examining trends in income poverty, presenting the results of a new internationally comparable data set on income poverty in LDCs which uses both household surveys and national accounts data. This section updates and extends the analysis of poverty trends using the international \$1-a-day and \$2-a-day poverty lines in *The Least Developed Countries Report 2002* (UNCTAD, 2002). Section D discusses some reasons why the growth–poverty relationship is weak. Section E analyses progress towards achieving the human development goals which are part of the Millennium Development Goals (MDGs). It draws on the results of the United Nations system-wide effort to track progress towards the MDGs, presenting an overview of progress towards human development goals in LDCs for which data are available. Section F discusses the impact of rising food prices in 2007–2008 on LDCs and examines the policy implications of the food crisis which many are experiencing. Finally, the conclusion summarizes the major findings.

B. Trends in private consumption

1. OVERALL TRENDS

If the real GDP of an economy grows at 7.2 per cent per year for 10 years, the value of goods and services produced in that economy should double in real terms. What this means at the household level and for individual lives depends critically on how economic growth translates first, into rising household incomes and consumption expenditure, and second, into improved supply of public services, particularly in education, health, water and sanitation.

Trends in average private consumption per capita, as recorded in the national accounts of all countries, provide a general indication of whether household consumption is rising or falling within a country and at what rate, offering a crude indicator of trends in living standards. However, some caution must be exerted, when analysing this variable. First, the national accounts provide aggregates, from which individual averages can be derived by using population data. They do not, however, provide information on the distribution of private consumption among households or within them. Neither do they — in the case of most LDCs — provide any information about the distribution of consumption among different geographical regions (e.g. rural vs. urban areas) within one country. Second, national accounts estimates of private consumption are, conceptually speaking, not exactly the same as those of household consumption expenditure, as they include spending by other institutions besides households, namely the non-profit institutions serving households. Third, private consumption is calculated as a residual from estimates of other macroeconomic aggregates, after the computation of aggregate output, imports, purchases by firms and Government and so on. It is thus far from an error-free number. Despite these shortcomings, trends in private consumption per capita do provide a crude, initial picture of how overall economic performance translates into changes in material well-being at the household level.

Trends in GDP per capita per day and private consumption per capita per day in the LDCs are shown in table 21. The table shows that the record growth performance of the LDCs as a group in 2005 and 2006, with GDP growth exceeding 7 per cent per annum, has resulted in an increase in real private consumption per capita per day of only 5 cents per day (\$0.05 in constant 2000 dollars) between 2004 and 2006. This increase has occurred in the LDCs as a group and also in African and Asian LDCs. However, private consumption per capita in island LDCs stagnated over those years, albeit at a higher level.

Trends in average private consumption per capita offer a crude indicator of trends in living standards.

Record growth performance of the LDCs has resulted in an increase in real private consumption per capita per day of only 5 cents per day.

Table 21. Real GDP, private consumption and domestic resources available for finance, per capita, 1995–2006
(Constant 2000 dollars/day)

	Daily GDP per capita					Daily private consumption per capita					Daily domestic resources available for finance per capita				
	1995	2000	2004	2005	2006	1995	2000	2004	2005	2006	1995	2000	2004	2005	2006
LDCs	0.78	0.89	1.02	1.07	1.13	0.60	0.63	0.71	0.74	0.76	0.18	0.26	0.30	0.33	0.36
African LDCs	0.82	0.91	1.02	1.07	1.13	0.63	0.65	0.73	0.76	0.78	0.19	0.26	0.29	0.31	0.35
Asian LDCs	0.72	0.85	1.00	1.06	1.11	0.55	0.59	0.68	0.70	0.73	0.17	0.26	0.33	0.36	0.38
Island LDCs	1.69	1.87	1.92	1.91	2.00	1.19	1.30	1.33	1.34	1.33	0.50	0.57	0.60	0.58	0.66
<i>Memo item:</i>															
Mineral exporters	0.64	0.62	0.68	0.69	0.72	0.48	0.47	0.50	0.50	0.49	0.15	0.16	0.18	0.20	0.23

Source: UNCTAD secretariat calculations based on data from United Nations/DESA Statistics Division.

Note: Domestic resources available for finance per capita are estimated as the difference between GDP and private consumption per capita.

76 cents per day is an abject consumption standard and an increase of 5 cents per day is simply a slight improvement of this abject consumption standard.

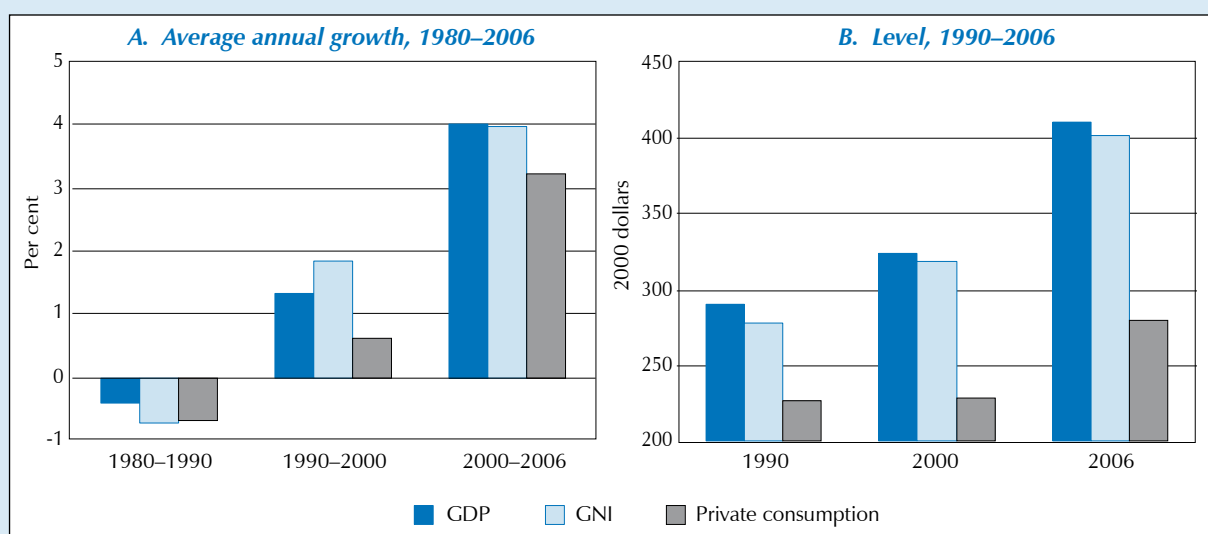
The domestic resources available in LDCs to finance public and private investment and to pay to run all public services amounted to 36 cent per person per day.

The growth of private consumption per capita in the LDCs as a group has certainly been much higher since 2000 than in the 1990s (chart 8). But these rates of growth are occurring from a very low base. The level of private consumption per capita remains pitifully low by international standards. In 2006, average daily private consumption per capita in the LDCs as a group was only \$0.76. It was slightly higher in African LDCs (\$0.78) and slightly lower in Asian LDCs (\$0.73). But the island LDCs stand out as having a much higher level of private consumption per capita — \$1.33 per day (table 21).

These figures are based on market exchange rates rather than the purchasing power parity (PPP) exchange rates used in international comparisons of income and poverty. However, although prices for non-tradable goods and services may be cheaper in LDCs than in other countries, with the opening of their economies, more people in LDCs increasingly depend on imported goods and most local prices are affected by international fuel prices. Daily consumption figures give an indication of the real command of households over resources in an open economy setting where imports represent a rising share of GDP and consumption. From this perspective, 76 cents per day is an abject consumption standard and an increase of 5 cents per day is simply a slight improvement of this abject consumption standard.

It is also significant to note that the difference between average GDP per capita in LDCs and private consumption per capita, when measured at market exchange rates, was only 36 cents per person per day in 2006 (table 21). What this means is that the domestic resources which were on average available in LDCs to finance public and private investment, to pay to run all public services including health, education, the provision of water and sanitation and to finance good governance, including the maintenance of a civil service and the enforcement of law and order, amounted to 36 cents per person per day. It is clear therefore that not only are consumption standards very low in LDCs, but there are also very few domestic resources available to finance good governance, to provide the public goods which support the achievement of basic needs, and to invest in creating a better future. Moreover, there is little — if any — surplus to deal with economic shocks.

Chart 8. Real GDP, GNI and private consumption per capita in LDCs, 1980–2006
(Per cent, 2000 dollars)



Source: UNCTAD secretariat calculations based on data from United Nations/DESA Statistics Division.

Note: GDP – gross domestic product; GNI – gross national income.

2. DIFFERENCES AMONG LDCs

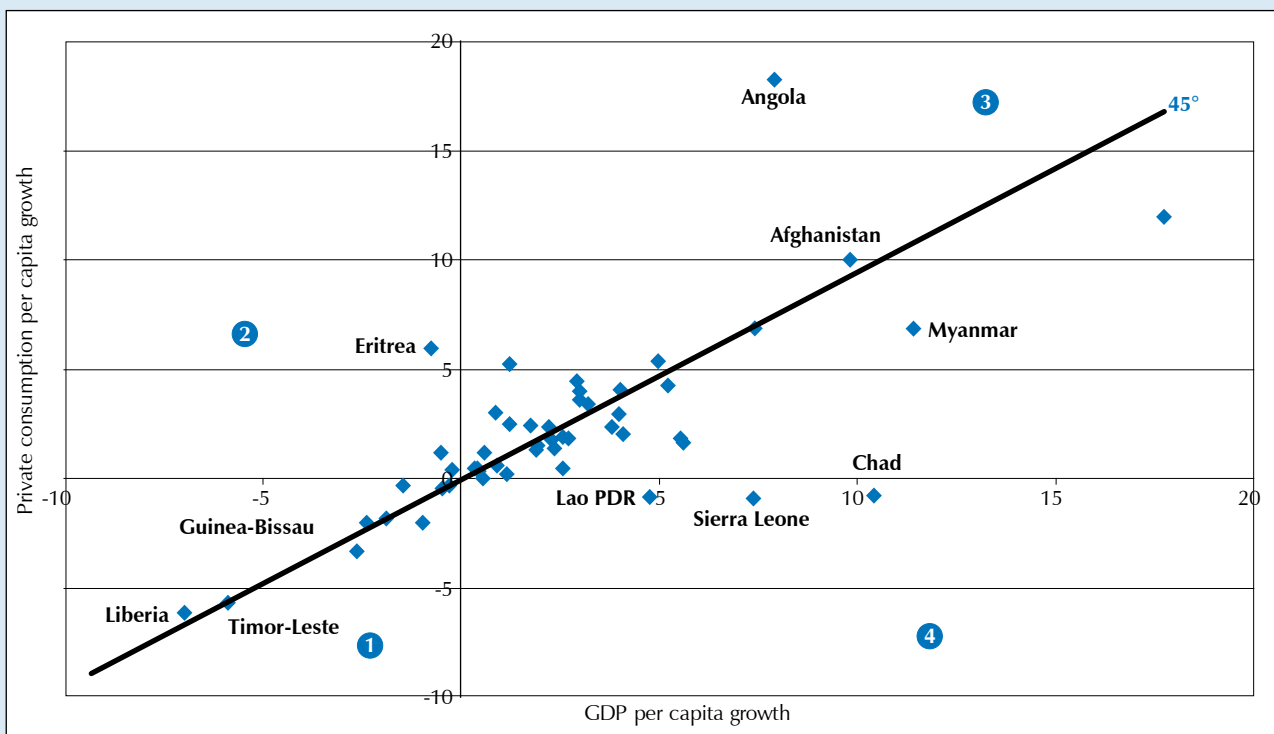
The relationship between private consumption per capita and GDP per capita varies between the LDCs (chart 9). Table 22 classifies the LDCs into four major groups according to whether the changes in GDP per capita and private consumption per capita in 2000–2006 were positive or negative. From the table, it is apparent that most LDCs (35 out of 50) are in the group which experienced both increasing GDP per capita and increasing private consumption per capita (group 3 in table 22). However, there are nine LDCs where both GDP per capita and private consumption per capita fell (group 1) and a further three (Chad, Lao People’s Democratic Republic and Sierra Leone — group 4) where private consumption fell even though GDP per capita rose. The final three LDCs — Eritrea, Comoros and Madagascar (group 2) — had increasing private consumption per capita with decreasing GDP per capita, a pattern which is not sustainable without a continuing inflow of external resources. In all, there are 20 LDCs where private consumption per capita in 2006 was less than in 2000, or where private consumption per capita increased at less than 0.5 per cent per annum during that period.

Focusing on the largest of the four groups, there are 10 LDCs in which private consumption grew faster than GDP per capita (group 3b). This is not likely to be sustainable in the long run as the domestic resources available for financing development are diminishing in relative terms. There are 18 LDCs in which GDP per capita and private consumption per capita both rose, but the latter rose at a slower rate than the former so that domestic resources for financing development also expanded. However, private consumption grew quite slowly in most of these countries. Indeed, only 13 LDCs feature the virtuous combination of rising GDP per capita, private consumption per capita rising at more than 2 per cent per year and rising domestic resources available for finance per capita (estimated as the

Most LDCs experienced both increasing GDP per capita and increasing private consumption per capita.

Only 13 LDCs feature the virtuous combination of rising GDP per capita, private consumption per capita increasing at more than 2 per cent per year and expanding domestic resources available for finance per capita.

Chart 9. Real GDP and private consumption per capita growth in LDCs, 2000–2006
(Average annual growth rates, percentage)



Source: UNCTAD secretariat calculations based on data from United Nations/DESA Statistics Division.

Note: The numbers 1 to 4 refer to the country groups listed in table 22.

Table 22. Classification of countries according to GDP and private consumption per capita performance, 2000–2006*(Comparison between the average annual rate of growth of GDP and private consumption per capita in 2000–2006; the latter figure is provided in percentage)*

Decreasing GDP per capita		Increasing GDP per capita									
Decreasing private consumption per capita	Increasing private consumption per capita	Increasing private consumption per capita (3)								Decreasing private consumption per capita	
		Private consumption per capita increasing slower than GDP per capita		Private consumption per capita increasing faster than GDP per capita		Private consumption per capita increasing at the same rate as GDP per capita					
(1)	(2)	(3a)		(3b)		(3c)		(4)			
Somalia	-0.3	Eritrea	5.9	Equatorial Guinea	12.0	Angola	18.2	Afghanistan	10.0	Chad	-0.8
Vanuatu	-0.3	Comoros	1.2	Myanmar	10.1	Malawi	5.2	Bhutan	5.3	Lao People's Dem. Rep.	-0.8
Togo	-0.5	Madagascar	0.4	Cambodia	6.9	Burkina Faso	4.4	Tuvalu	4.0	Sierra Leone	-0.9
Haiti	-1.9			Sudan	4.2	Samoa	4.0	Ethiopia	3.4		
Burundi	-2.0			Bangladesh	2.4	Zambia	3.6	Sao Tome & Principe	2.4		
Central African Rep.	-2.0			United Rep. of Tanzania	2.0	Gambia	3.0	Solomon Islands	0.4		
Guinea-Bissau	-3.3			Uganda	1.9	Guinea	2.5				
Timor-Leste	-5.7			Cape Verde	1.9	Dem. Rep. of the Congo	2.4				
Liberia	-6.1			Maldives	1.8	Nepal	1.2				
				Mauritania	1.8	Kiribati	0.4				
				Mozambique	1.7						
				Senegal	1.5						
				Rwanda	1.4						
				Lesotho	1.3						
				Yemen	0.6						
				Mali	0.4						
				Niger	0.3						
				Djibouti	0.2						
				Benin	0.0						

Source: UNCTAD secretariat calculations based on data from United Nations/DESA Statistics Division.

Note: Calculations are based on data in constant 2000 dollars.

difference between GDP and private consumption per capita).¹ If present trends persist, average private consumption per capita will double (or more) by 2020 as compared to 2000 in only nine LDCs.

In general, it is striking that if LDCs are classified according to their export specialization, private consumption per capita grew most slowly in mineral-exporting LDCs (at 1.2 per cent per annum). Despite their recent growth surge driven by high commodity prices, average private consumption per capita in mineral-exporting LDCs was actually lower in 2006 than in 2004, and in 2006 it was 36 per cent below the average of the LDCs as a group (table 21). This clearly illustrates that there is no automatic relationship between growth and rising consumption standards while indicating that the type of growth matters for the nature of the relationship.

Poverty reduction is at the heart of national and international development policies but internationally comparable data to identify and analyse poverty trends remains inadequate.

C. Poverty trends

1. NATURE OF POVERTY ESTIMATES

One of the paradoxical features of the current moment in development thinking and policy is that poverty reduction is at the heart of national and international development policies but internationally comparable data to identify and analyse poverty trends remains inadequate. This is particularly so in the case of the LDCs. The World Bank publishes internationally comparable poverty estimates based on

household surveys of income or consumption for just 16 LDCs during the period 2000–2006. Within this sample, there are only 10 countries which have at least three household surveys enabling a description of trends over a 10-year period.

Because of the lack of available data, *The Least Developed Countries Report* has introduced innovations in the measurement of poverty in the LDCs, allowing it to provide insights into the dynamics of poverty in these countries. *The Least Developed Countries Report 2002: Escaping the Poverty Trap* used national accounts data to make the first internationally comparable estimates of \$1-a-day and \$2-a-day poverty in LDCs. The present Report updates and refines these estimates.

In *The Least Developed Countries Report 2002*, poverty estimates were made on the basis of the close cross-country relationship between the level of private consumption per capita measured in constant PPP dollars and the incidence of \$1-a-day and \$2-a-day poverty. The closeness of this statistical relationship enabled the generation of poverty estimates using national accounts data for countries in which there were estimates of private consumption in purchasing power dollars. The estimates in the current Report follow the same logic but refine the method by establishing the relationship between household survey estimates of private consumption per capita and national accounts estimates of private consumption per capita, seeking to base the poverty estimates on “calibrated survey means” (Karshenas, 2008).² Using this method, poverty estimates were made for 28 LDCs in Africa and Asia from 1980 to 2005.³ The population of these countries accounts for 73 per cent of the population of all LDCs. The poverty estimates in these 28 countries is therefore representative of the trends in poverty for the LDC group as a whole.

It should be noted that because national accounts estimates of private consumption per capita deviate from household survey estimates of private consumption, this method results in international comparable poverty estimates which diverge from those of the World Bank. Table 23, which includes the UNCTAD and World Bank \$1-a-day and \$2-a-day estimates for selected LDCs, shows the magnitude of the divergence. In some cases, the UNCTAD estimates are higher than the World Bank estimates, while in other cases the reverse is true.

The discrepancies between the two sets of estimates arise because of the difference between the household survey means and the calibrated survey means of private consumption per capita. The latter are regarded as being as plausible as the household survey data. Indeed, they can be said to be more representative in the sense that they utilize all available information on private consumption, including both household survey and national accounts data. Significantly, however, as compared to household-survey based poverty estimates, the new method allows for a much wider coverage of internationally comparable poverty estimates, as well as estimates over time. Indeed, as stated in *The Least Developed Countries Report 2002* (UNCTAD, 2002: 45–51), it would be impossible to undertake the international comparative analysis of poverty in LDCs without such a method.

Finally, in reviewing the poverty trends described below, three features of the new estimates should be kept in mind.

First, these are internationally comparable estimates based on the international \$1-a-day and \$2-a-day poverty lines. They do not necessarily conform to poverty estimates based on national poverty lines. Moreover, in no sense is it argued here that these international estimates are more accurate than national

The Least Developed Countries Report has introduced innovations in the measurement of poverty in the LDCs, allowing it to provide insights into the dynamics of poverty in these countries.

Poverty estimates were made for 28 LDCs in Africa and Asia from 1980 to 2005 whose population accounts for 73 per cent of the population of all LDCs.

UNCTAD estimates can be said to be more representative than World Bank ones as they utilize all available information on private consumption, including both household survey and national accounts data.

Table 23. Private consumption per capita and poverty rates in LDCs

Country	Year of latest household survey	Per capita consumption expenditure			Poverty rate			
		Survey	National accounts	Calibrated survey mean	\$1-a-day poverty line		\$2-a-day poverty line	
					New	World Bank	New	World Bank
		(1993 PPP dollars a day)			(Per cent of population)			
Bangladesh	2000	1.54	2.19	1.89	26.4	41.3	74.8	84.2
Benin	2003	1.96	2.76	2.21	24.0	30.8	65.8	73.0
Burkina Faso	2003	2.06	1.75	1.65	42.3	28.7	81.1	71.3
Burundi	1998	1.32	..	..	..	54.6	..	87.6
Cambodia	2004	1.19	..	..	..	66.0	..	89.8
Cape Verde	2001	7.29	7.84	5.16	8.6	1.9	32.3	19.0
Central African Republic	1993	1.35	2.45	2.04	52.7	66.6	73.9	84.0
Ethiopia	2000	1.83	0.86	1.14	60.6	21.6	94.0	76.6
Gambia	1998	3.04	2.98	2.33	38.6	27.9	65.6	55.9
Lao People's Dem. Republic	2002	1.90	..	..	..	27.4	..	74.2
Lesotho	1995	3.96	2.84	2.26	51.1	36.4	70.5	56.0
Madagascar	2001	1.32	2.44	2.03	41.6	61.0	71.4	85.1
Malawi	2004	2.36	2.00	1.79	36.8	20.8	77.6	63.0
Mali	2001	1.87	1.59	1.56	46.0	36.4	80.2	72.7
Mauritania	2000	2.23	1.26	1.37	51.5	25.9	85.1	63.1
Mozambique	2002	2.10	2.06	1.82	44.5	36.2	79.9	74.1
Nepal	2003	2.65	2.45	2.04	40.1	24.7	76.3	64.8
Niger	1994	1.36	1.71	1.62	45.0	54.8	80.4	86.1
Rwanda	2000	1.34	1.63	1.58	51.6	60.3	83.0	87.8
Senegal	2001	2.73	4.00	2.90	14.1	16.8	52.3	55.9
Sierra Leone	1989	1.61	1.27	1.37	60.7	57.0	78.6	74.4
Uganda	2002	1.88	3.04	2.37	42.1	82.3	77.7	95.7
United Republic of Tanzania	2000	1.20	1.04	1.24	54.4	57.0	89.8	90.2
Yemen	1998	2.84	..	..	..	9.4	..	43.5
Zambia	2004	1.35	1.52	1.52	54.6	60.0	81.8	84.9

Source: UNCTAD secretariat compilation based on Karshenas (2008).

estimates of poverty. They are simply different types of estimates. The importance of the estimates on international poverty lines is that they enable international comparative analysis which can help us better understand the interplay between national and international factors in poverty dynamics. But national authorities should have discretion to define poverty lines in their own way.

Estimates on international poverty lines enable international comparative analysis and a better understanding of the interplay between national and international factors in poverty dynamics.

Second, the poverty estimates are based on estimates of private consumption using publicly available PPP exchange rates in constant 1993 dollars. Such rates are used to ensure that the purchasing power of a dollar is comparable between countries. The updated estimates do not take into account the revision of the PPP exchange rates (with base year 2005) published in early 2008 (when our estimates had already been made). These can have significant implications for poverty estimates in LDCs and in other countries. However, determining the consequences of the new set of PPPs will involve another round of calculations in which the poverty estimates are further updated and refined.

Third, the poverty estimates describe the two most usual poverty thresholds, namely \$1 a day and \$2 a day (in 1985 PPP dollars), which we refer to as the \$1-a-day and \$2-a-day poverty lines for brevity.⁴ This does not imply, however, that higher standards should be excluded in the international analysis of poverty. With globalization, the consumption patterns to which people aspire are defined not simply by national norms but also by global norms. Thus, what people consider minimally acceptable is shifting with globalization. But this is not pointing downwards to the standards of living in the poorest countries, where \$1 a day or \$2 a day may be a poverty line, but rather upwards to the standards of living in the rich countries, where \$10 a day or more may be the poverty line. In short,

although we focus on \$1-a-day poverty and \$2-a-day poverty, these are actually minimal international standards to which we should be aspiring when we discuss poverty reduction.

2. LEVEL AND DYNAMICS OF POVERTY IN LDCs SINCE 1990

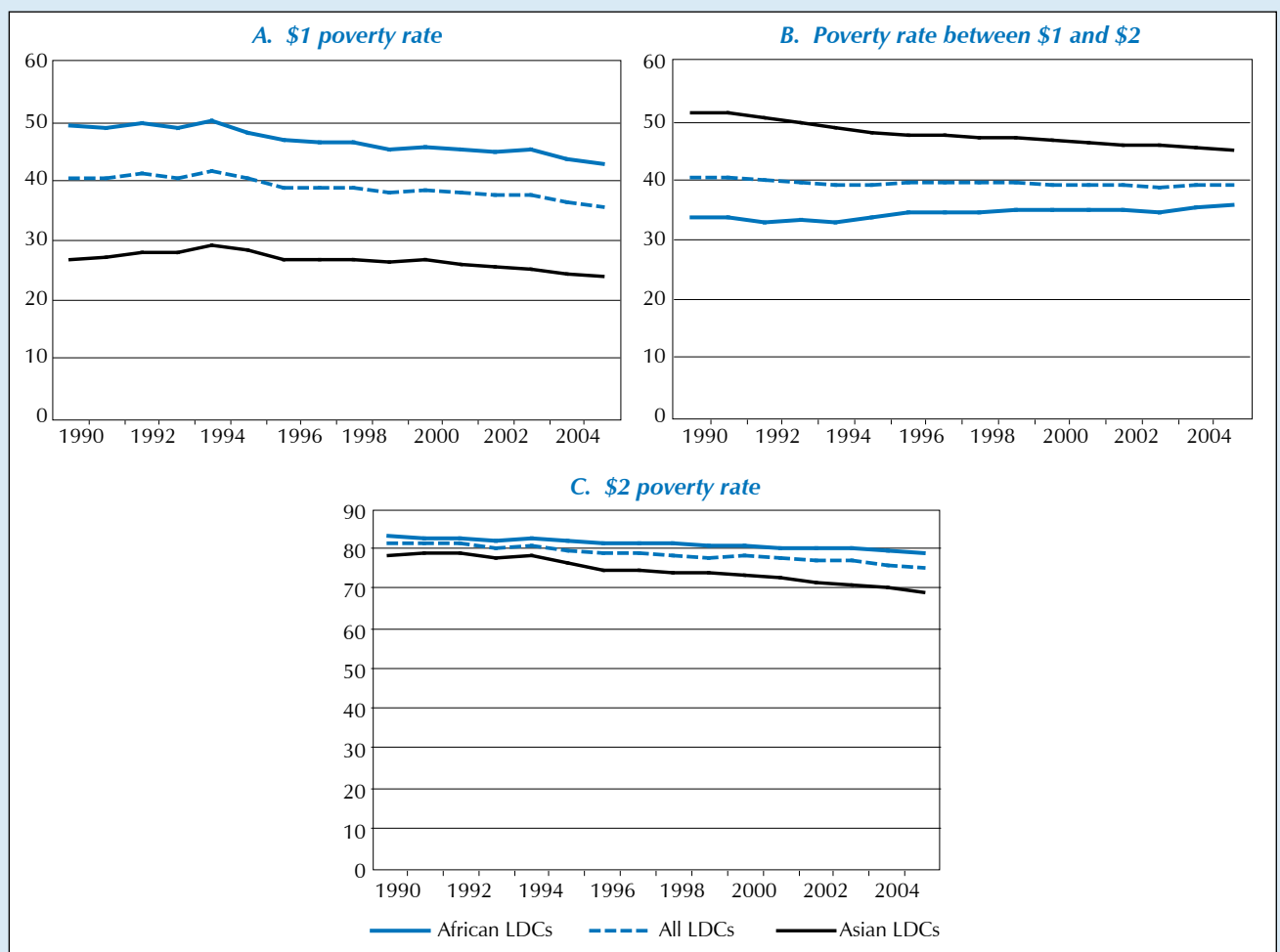
(a) Overall trends

The three basic features of the incidence of poverty in the LDCs since 1990 can be summarized as follows:

- The incidence of extreme poverty (measured by the proportion of the population living on less than \$1 a day as a share of total population) has decreased continuously since 1994, reaching 36 per cent of the population in 2005 (chart 10A);
- Although the incidence of extreme poverty has been declining, the proportion of the population living on more than \$1 a day but less than \$2 a day has remained constant at around 40 per cent of the total population (chart 10B); and

The incidence of extreme poverty has decreased continuously since 1994, reaching 36 per cent of the population in 2005.

Chart 10. Poverty rates in LDCs according to different poverty lines, by region, 1990–2005



Source: UNCTAD secretariat estimations based on data from Karshenas (2008) and United Nations/DESA Statistics Division.

Note: Based on the sample of 28 LDCs mentioned in table 24.

Table 24. Poverty in LDCs, 1990–2005
(Percentage and million)

	Population living on:											
	less than \$1 a day				between \$1 and \$2 a day				less than \$2 a day			
	Percentage of total population ^a											
	1990	1995	2000	2005	1990	1995	2000	2005	1990	1995	2000	2005
LDCs	40.4	40.8	38.9	36.1	41.2	39.6	39.8	39.6	81.6	80.4	78.8	75.7
African LDCs ^b	49.7	49.3	46.9	43.9	34.2	33.7	35.3	36.0	83.9	83.1	82.2	79.9
Asian LDCs	26.9	28.3	26.9	24.0	51.4	48.1	46.7	45.2	78.3	76.4	73.6	69.2
	Million ^c											
LDCs	212.4	245.2	264.6	277.0	216.4	237.8	270.5	303.8	428.8	483.0	535.1	580.8
African LDCs ^b	154.9	176.1	192.0	205.6	106.5	120.5	144.4	169.0	261.4	296.5	336.4	374.6
Asian LDCs	56.9	68.4	71.9	70.6	108.7	116.1	124.8	133.3	165.6	184.5	196.7	203.9
Island LDCs ^d	0.6	0.7	0.8	0.8	1.2	1.3	1.3	1.5	1.8	2.0	2.1	2.3

Source: UNCTAD secretariat calculations based on data from Karshenas (2008) and United Nations/DESA Statistics Division.

a Percentage data refer to a sample of 28 LDCs: Angola, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Ethiopia, Gambia, Guinea, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Togo, Uganda, United Republic of Tanzania, Yemen and Zambia.

b Includes Cape Verde.

c The total number of poor people in the LDCs has been estimated by assuming that the African LDCs for which data are not available have the same incidence of poverty as those for which data are available, and that the Asian and island LDCs for which data are not available have the same incidence of poverty as Asian LDCs for which data are available.

d Excludes Cape Verde.

- The proportion of the population living on less than \$2 a day is declining slowly, but in 2005 over three quarters (76 per cent) of the total population was still living on less than \$2 a day (chart 10C and table 24).

As indicated in past *Least Developed Countries Reports*, these figures mean that absolute poverty is not a marginal phenomenon. Rather, there is a situation of generalized poverty in the LDCs. A large share 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 to the needs of the population on a sustainable basis. In this situation, the economic freedom of the majority of the population is seriously constrained by the inadequate purchasing power to meet basic needs.

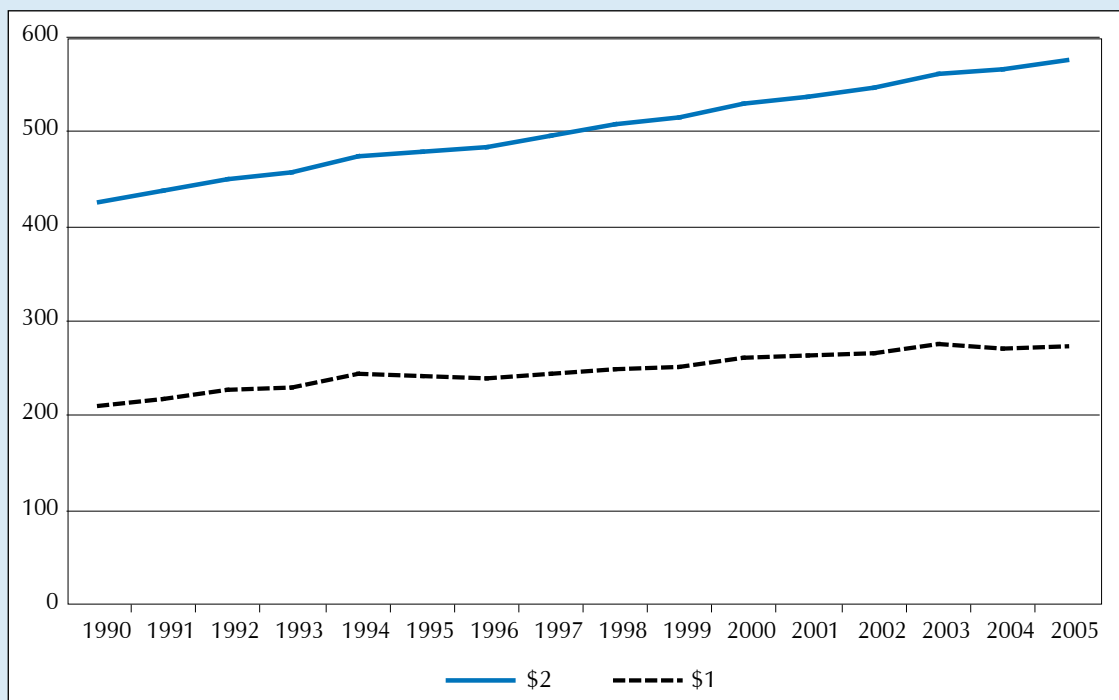
Although the incidence of poverty has been falling, the high rate of population growth means that the number of people living in extreme poverty (i.e. on less than \$1 a day) has increased over the long term. However, the *rate* of growth of the number of extremely poor people has been slowing, falling from 3.1 per cent per annum during the period 1990–1995 to 1.1 per cent per annum during 2000–2005. After 2003, the number of \$1 poor people living in LDCs stopped rising (chart 11). However, the incidence of extreme poverty is much higher than in most other developing countries and the number of extremely poor people remains significant. It is estimated that 277 million people were living in extreme poverty in LDCs in 2005 (table 24).

While the number of people living in extreme poverty has stopped increasing, the rise in the number of people living above \$1 a day but below \$2 a day accelerated sharply during the second half of the 1990s and has decelerated only slightly since 2000. This pattern is similar to the one observed in other developing countries. There, most people who manage to escape extreme poverty situate themselves between the two poverty lines, thus swelling the figures of this second group (Chen and Ravallion, 2007). But leaving this second group is much more difficult than exiting from absolute poverty. In the case of the LDCs, the transfer from the lowest to the second poverty threshold is taking place in *relative* terms. Although the number of people living on less than \$1 a day has not yet fallen (as has occurred in other developing countries) and stopped increasing only recently,

In 2005 over three quarters of the population (581 million people) were still living on less than \$2 a day.

277 million people were living in extreme poverty in LDCs in 2005.

Chart 11. Estimated number of poor in LDCs, 1990–2005
(Million)



Source: UNCTAD secretariat estimations based on data from Karshenas (2008) and United Nations/DESA Statistics Division.

Note: \$1 - Number of people living on less than \$1 a day.

\$2 - Number of people living on less than \$2 a day.

Based on the poverty rates of the sample of 28 LDCs mentioned in table 24.

the rate of growth of the population living on between \$1 and \$2 a day has exceeded the rate of growth of the extremely poor since the mid-1990s. Indeed, from 1995 onwards, the number of people living between the two poverty lines has grown at approximately the same pace as total population (table 25). As a consequence, the number of poor people between the two poverty lines continues to increase and largely exceeds the absolute increase in the number of the \$1 poor. It is estimated that 304 million people in LDCs lived on between \$1 and \$2 a day in 2005 (table 24).

Trends in \$2-a-day poverty are of course the combination of the trends in \$1-a-day poverty and in poverty between the two ranges discussed above. The absolute number of \$2-a-day poor continues to rise in LDCs, though the rate of growth slowed in 2000–2005 compared with 1990–1995. In 2005, it was estimated that 581 million people lived on less than \$2 a day in the LDCs as a whole (table 24).

(b) Regional trends

The overall picture of the incidence and dynamics of poverty in the LDCs masks a sharp contrast between African and Asian countries.⁵ First, the incidence of extreme poverty is much higher in African LDCs than in Asian ones. In 2005, the average incidence of extreme poverty in African LDCs was almost 20 percentage points higher than in Asian LDCs (chart 10A). Second, the ranking is the opposite in the case of the population living on between \$1 and \$2 a day, whose share of the total population is higher in Asia than in Africa. The gap has however been narrowing since the early 1990s (chart 10B). Third, progress in reducing the incidence of poverty (in both brackets) has been much faster in Asian LDCs than in African LDCs.

The incidence of extreme poverty is much higher in African LDCs than in Asian ones. Progress in reducing the incidence of poverty has been much faster in Asian LDCs than in African LDCs.

The rate of growth of the contingent of people living on more than \$1 a day but less than \$2 a day accelerated in both African and Asian LDCs during the second half of the 1990s, but by much more in the former than in the latter.

In African LDCs, total poverty incidence was 80 per cent in 2005, while in Asia it was 69 per cent. This means that the vast majority of the population of LDCs in both regions continue to live in poverty.

In African LDCs, the overall incidence of extreme poverty is estimated to have fallen from 50 per cent in the early 1990s to 44 per cent in 2005 (chart 10A). However, the number of extremely poor people continues to increase, though at a slowing rate of 1.5 per cent per annum in the period 2000–2005 compared with 2.8 per cent per annum in the period 1990–1995 (table 25). In 2005, an estimated 206 million people lived in extreme poverty in African LDCs. In Asian LDCs, by contrast, the pace of growth of the extremely poor population has declined sharply since the early 1990s, to the point that the absolute number of \$1-a-day poor has stabilized since 2000. The incidence of extreme poverty fell continuously from 29 per cent in 1994 to 24 per cent in 2005 (chart 10A), when the number of extremely poor people is estimated to have been 71 million people.

The rate of growth of the contingent of people living on more than \$1 a day but less than \$2 a day accelerated in both African and Asian LDCs during the second half of the 1990s, but by much more in the former than in the latter. Since 2000, the population between the two poverty lines has been expanding by 3.2 per cent per annum in African LDCs, well above the pace of 1.4 per cent in Asian LDCs (table 25). The proportion of the total population living between the poverty lines continued to rise in African LDCs, reaching 36 per cent in 2005. In Asian LDCs, by contrast, the corresponding incidence fell by six percentage points between 1990 and 2005, when it reached 45 per cent (chart 10B and table 24).

The combination of divergent developments in the two brackets of poverty in African and Asian LDCs has resulted in different trends in total (i.e. \$2-a-day) poverty. The incidence of \$2-a-day poverty is declining faster in Asian LDCs than in African LDCs. In the former, an estimated 204 million lived under these conditions in 2005, whereas in Africa the corresponding figure was 375 million (table 24). As a result of contrasting developments in the level and trends of the two brackets of poverty, the gap between the total poverty rates is smaller than that within these brackets. In African LDCs, total poverty incidence was 80 per cent in 2005, while in Asia it was 69 per cent (chart 10C). Despite some reduction in incidence since the 1990s, this means that the vast majority of the population of LDCs in both regions continue to live in poverty.

(c) Poverty trends and export specialization

Apart from regional contrasts in patterns of poverty in the LDCs, there are also strong differences in the level and dynamics of poverty among these countries,

Table 25. Poverty and population dynamics in LDCs and country groups, 1990–2005

(Average annual growth rates of the number of people, per cent)

		1990–1995	1995–2000	2000–2005	1995–2005
A. \$1-a-day poverty	LDCs	3.1	1.7	1.1	1.6
	African LDCs ^a	2.8	1.9	1.5	1.9
	Asian LDCs	3.9	1.4	-0.2	0.8
B. Poverty above \$1 a day and below \$2 a day	LDCs	1.7	2.7	2.4	2.5
	African LDCs ^a	2.4	3.8	3.2	3.3
	Asian LDCs	1.1	1.6	1.4	1.5
C. \$2-a-day poverty (A+B)	LDCs	2.4	2.2	1.7	2.0
	African LDCs ^a	2.7	2.7	2.3	2.5
	Asian LDCs	2.1	1.5	0.8	1.2
D. Total population	LDCs	2.7	2.6	2.5	2.6
	African LDCs ^a	2.8	2.9	2.8	2.8
	Asian LDCs	2.6	2.2	2.0	2.1

Source: UNCTAD secretariat calculations based on data from Karshenas (2008) and United Nations/DESA Statistics Division.

Note: Sample composition as in table 24. a Includes Cape Verde.

Table 26. Poverty and population dynamics in LDCs and country groups by export specialization, 1990–2005
(Average annual growth rates of the number of people, per cent)

	Export specialization	1990–1995	1995–2000	2000–2005	1995–2005
A. \$1-a-day poverty	Oil	15.2	2.1	1.9	3.1
	Agricultural	0.7	1.1	2.5	2.1
	Mineral	4.1	1.8	1.7	1.9
	Manufactures	3.1	1.5	-0.2	0.6
	Services	2.1	2.0	0.8	1.5
	Mixed	0.9	1.4	2.4	3.5
B. Poverty above \$1 a day and below \$2 a day	Oil	3.1	2.8	3.2	3.1
	Agricultural	5.0	3.1	3.4	3.1
	Mineral	1.4	2.8	2.6	2.7
	Manufactures	0.7	1.5	1.2	1.3
	Services	0.6	5.5	4.0	4.7
	Mixed	6.7	2.5	1.3	1.1
C. \$2-a-day poverty (A+B)	Oil	7.6	2.5	2.6	3.1
	Agricultural	2.5	2.0	2.9	2.6
	Mineral	3.0	2.3	2.1	2.2
	Manufactures	1.6	1.5	0.7	1.0
	Services	1.6	3.2	2.0	2.7
	Mixed	3.8	2.0	1.8	2.2
D. Total population	Oil	3.9	3.0	3.1	3.1
	Agricultural	2.9	3.0	3.1	3.1
	Mineral	2.9	2.6	2.7	2.6
	Manufactures	2.3	2.1	1.9	2.0
	Services	2.6	3.1	2.6	2.8
	Mixed	2.9	3.0	2.8	2.9

Source: UNCTAD secretariat calculations based on data from Karshenas (2008) and United Nations/DESA Statistics Division.

Note: As in table 24.

depending on export specialization. The categories of export specialization into which we have classified LDCs (table A) reflect different forms of insertion of these countries in the international economy, in particular the trade and investment links between their domestic economy and the international environment.⁶ These international trade and investment linkages, in turn, are closely related to the productive structure of the domestic economy and the amount and quality of employment that it can generate. The productive structure and the patterns of employment generation determine the level and the distribution of income among domestic agents. Therefore, changes in production and employment through time have a direct impact on income distribution. By the same token, the dynamics of foreign trade and investment, together with those of domestic output and employment, determine the level of poverty in each country and its developments through time.

Specialization of production and trade in capital-intensive commodity-producing sectors typically tends to generate rising GDP and exports, particularly during periods of rising commodity prices — as has been the case for most of the present decade. However, this type of economic development tends also to increase income inequality within the country and can therefore have a limited poverty-reducing impact.⁷ This is typically the case of specialization of trade and output in natural resource extraction.

The opposite case is that in which the international trade and investment links of a developing country are related to an output structure that leads to a virtuous circle of employment creation and income generation for a wider share of the population. This is typically the case of trade and output specialization in labour-intensive manufacturing. Given its employment-creating impact, this specialization pattern typically has a poverty-reducing impact, particularly at the

The dynamics of foreign trade and investment, together with those of domestic output and employment, determine the level of poverty in each country and its developments through time.

initial phases of development. Similarly, countries with a diversified trade and production structure tend to create jobs in a wider range of sectors, which mostly has a poverty-reducing impact.

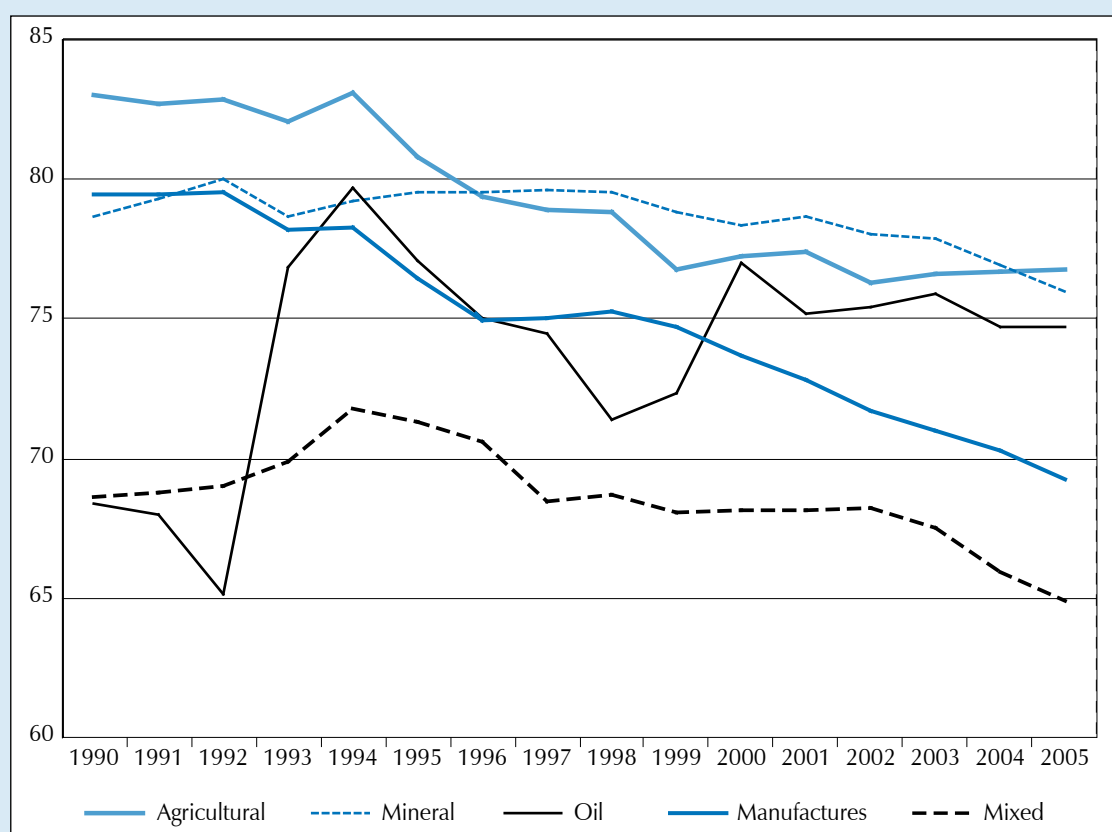
Commodity-dependent countries typically have much higher rates of poverty than either manufactures or mixed exporters.

In manufactures and mixed exporters, the incidence of \$2-a-day poverty was ten percentage points lower than in commodity-exporting LDCs in 2005.

The different categories of LDCs according to export specialization have divergent levels and growth rates of poverty (table 26). Commodity-dependent countries typically have much higher rates of poverty than either those that are specialized in manufacturing or services or those that have a more diversified export structure. As chart 12 shows, in agricultural-, mineral- or oil-exporting LDCs, three-fourths or more of the population lives on less than \$2 a day. This situation of generalized poverty in oil- and mineral-exporting countries is explained by their type of insertion in the international economy and by the domestic output and employment patterns, as mentioned in the preceding paragraphs. Poverty is also generalized in agriculture-exporting countries due to low and almost stagnant agricultural productivity and the incapacity of the agricultural sector to absorb gainfully the still rapidly increasing rural population (see sub-section D.3 of this chapter). In commodity-exporting countries, the poverty rate has been declining slowly since 1994, although the trend for oil-exporting countries has been somewhat erratic.

In manufactures and mixed exporters, by contrast, the incidence of \$2-a-day poverty was ten percentage points lower than in commodity-exporting LDCs in 2005 (chart 12). Moreover, it has been declining at a stronger pace than in the latter countries. Manufactures and mixed exporting LDCs have successfully diversified economic production, employment and exports out of the primary

Chart 12. \$2-a-day poverty rate by export specialization, 1990–2005
(Per cent of total population)



Source: UNCTAD secretariat estimations based on data from Karshenas (2008) and United Nations/DESA Statistics Division.

Note: Based on the sample of LDCs mentioned in table 24.

sector into industry and/ or services, allowing them to expand and widen the employment base. This has brought about a much steeper decline in poverty incidence than in commodity-producing LDCs. Moreover, these are the only two groups where the absolute number of extremely poor stopped growing, in 2000 (manufactures exporters) and 2003 (mixed exporters), respectively. The strongest decline in the incidence of poverty is in manufactures exporters. There, the activity of foreign investors in the garment and textile industry has led to a strong expansion of industrial employment and manufactured exports.⁸ This is the only group of export specialization where the absolute number of the extremely poor has declined on average since 2000 and the one with the lowest rate of expansion of the \$2-a-day poor population (table 26).

Divergent patterns of poverty levels and pace of change were already reflected in *The Least Developed Countries Report 2002* (UNCTAD 2002: 101-135). However, a major difference between the poverty estimates contained in that Report and those contained in the present Report is that the former reflected falling international commodity prices during the most recent years for which estimates had been made (i.e. the late 1990s). By contrast, the new set of estimates presented in this Report reflects rising international commodity prices in the most recent years for which estimates were made (i.e. up to 2005). It was expected that higher export prices would lead to stronger economic growth rates, and this has indeed been the case (see chapter 1 of this Report). It could additionally have been expected that stronger economic growth would have implied significant poverty reduction. The previous paragraphs have shown that this has not been the case. Section D of this chapter analyses the reasons for this.

It could have been expected that stronger economic growth would have implied significant poverty reduction, but this has not been the case.

D. The growth–poverty relationship in the LDCs

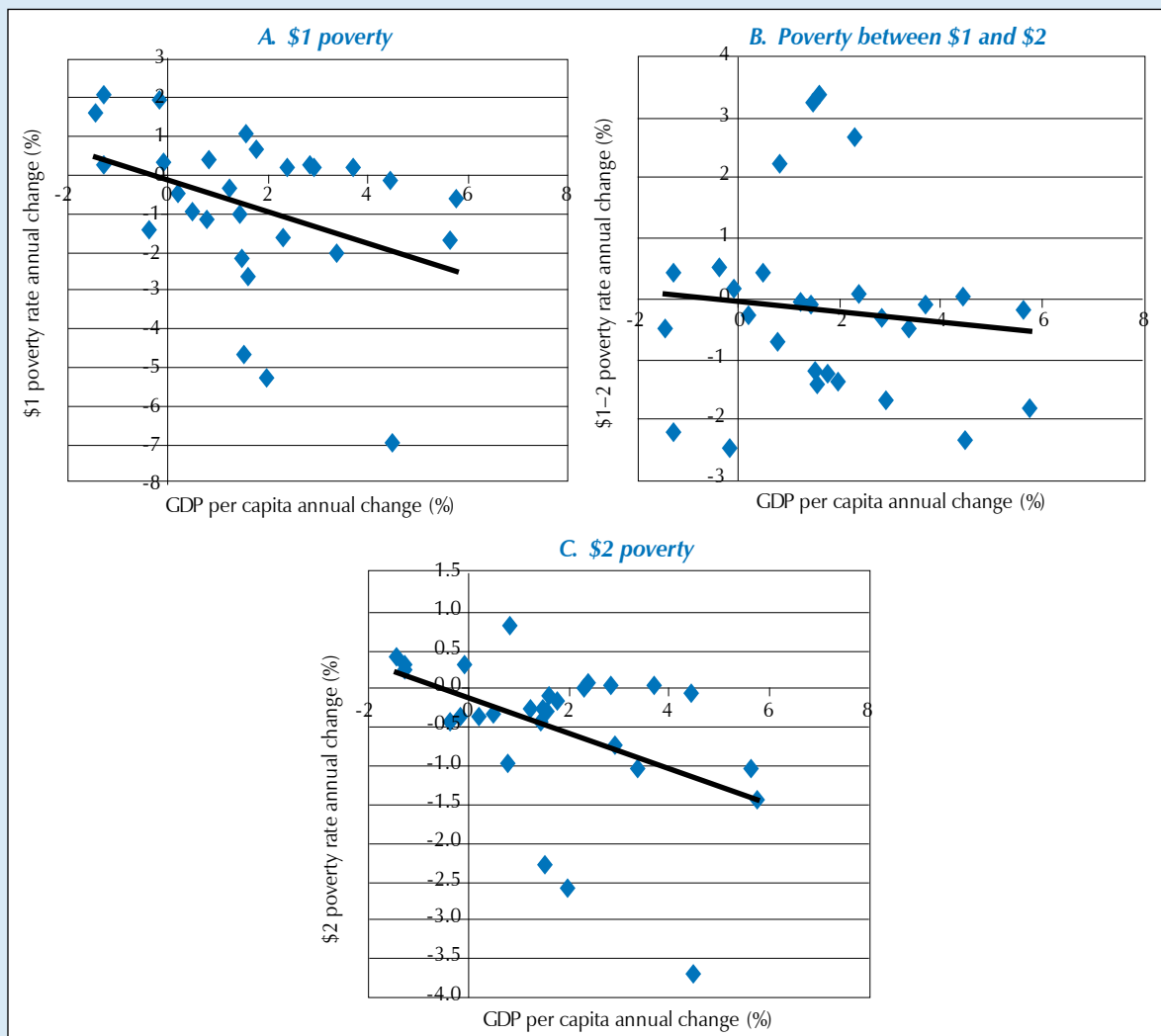
The rate of economic growth is an important determinant of poverty reduction in the LDCs, as in other developing countries. Indeed, the improved performance of LDCs in terms of poverty reduction since 1994 is related to the acceleration of economic growth. However, the continuing slow progress in poverty reduction despite very high growth rates implies that the type of growth which is occurring in most LDCs does not have a strong impact on poverty reduction.

The overall relationship between the annual percentage change in GDP per capita and in the incidence of \$1-a-day and \$2-a-day poverty during the period 1995–2005 is shown in chart 13. This covers the period in which the LDCs were most successful in reducing poverty (1995–2005). From the charts, it is apparent that:

- The incidence of poverty has generally risen when GDP per capita has declined. This is typically the case for \$1-a-day poverty;
- In one-fourth of the countries in which GDP per capita increased during that period, the incidence of \$1-a-day poverty also increased. The incidence of \$2-a-day poverty generally fell when GDP per capita increased, but it rose in one-fifth of the GDP growth countries;
- Within the LDCs in which GDP per capita increased and the incidence of poverty fell, most were unable to raise the rate of poverty reduction above 2 per cent per year. Out of the sample of 28 countries, in only six of them did \$1-a-day poverty fall at that pace or faster, and in only three countries did \$2-a-day poverty fall at that rate or faster. If poverty continuously shrinks at 2 per cent per annum, it will take 34 years to halve the poverty rate.

Within the LDCs where GDP per capita increased and poverty fell, most were unable to raise the rate of poverty reduction above 2 per cent per year. At this rate, it will take 34 years to halve the poverty rate.

Chart 13. Economic growth and poverty in LDCs, 1995–2005



Source: UNCTAD secretariat estimations based on data from Karshenas (2008) and United Nations/DESA Statistics Division.

Note: Poverty rate is the number of people living in each threshold as a share of the total population.
 \$1 poverty refers to people living on less than \$1 a day.
 \$1-2 poverty refers to people living on more than \$1 a day, but less than \$2 a day.
 \$2 poverty refers to people living on less than \$2 a day.

The correlation between GDP growth and poverty reduction in our sample of LDCs has been weakening since the early 1990s.

The correlation between GDP growth and poverty reduction in our sample of LDCs has been weakening since the early 1990s. Moreover, economic growth has translated into falling poverty rates only for people living on less than \$1 a day. It has not had an impact on the poverty incidence of those living on between \$1 a day and \$2 a day. In the 1990–1995 period the correlation between GDP per capita growth and the rhythm of reduction in \$1-a-day poverty was -0.38 (and statistically significant), indicating that GDP growth led to a reduction in the extreme poverty rate. In the 2000–2005 period, by contrast, the correlation had fallen to -0.20 (and become statistically insignificant), pointing to a weakening of the economic growth–poverty reduction connection. In the case of poverty between the two poverty lines in our sample of LDCs, there has been no connection since 1990. The correlation is weak (less than 0.1), changes signs in different sub-periods and is never statistically significant. This is due to the already mentioned fact that in relative terms people transfer from the lower (below \$1-a-day) to the higher bracket of poverty (between \$1- and \$2-a-day).

The weak correlation between growth in GDP per capita and poverty reduction in the LDCs can be attributed to a number of factors, notably: (1) the relationship between GDP growth and private consumption growth; (2) population growth and employment; (3) the patterns of economic growth; and (4) income distribution. Hereafter, we examine each one in turn.

1. GROWTH OF GDP AND PRIVATE CONSUMPTION

The immediate link between growth in GDP per capita and poverty reduction is that the former leads to higher household consumption per capita, which in turn is closely associated with poverty reduction (UNCTAD, 2002: 39–49). It is for this reason that the previous *Least Developed Countries Reports* have been arguing that what matters is not GDP growth *per se*, but a type of GDP growth which expands average household living standards. However, the acceleration of economic growth in the LDCs since the early 2000s has not been accompanied by a proportional strengthening of private consumption in most LDCs (see section B of this chapter).

In countries where the pace of private consumption increase lags behind the growth rate of GDP, the share of private consumption in GDP is shrinking. This is the case in more than half of the LDCs (table 27). However, this share fell particularly sharply between 2000 and 2006 in a number of countries, notably Chad, Equatorial Guinea, Lao People's Democratic Republic, Mozambique and Sierra Leone, where it declined by at least 20 percentage points. In three of these countries — Chad, Lao People's Democratic Republic and Sierra Leone — this shrinking share resulted from a combination of contracting private consumption with expanding GDP (group 4 in table 22), leading to a stagnation in the incidence of extreme poverty despite high economic growth.

Over the long run, the fall in the share of private consumption in GDP must be seen as a positive development if it results in the mobilization of domestic resources for financing development. In the short run, however, there is a trade-off between poverty reduction and increased domestic savings. It is this trade-off which makes the availability of external financial resources in the form of official development assistance (ODA) so important for starting a sustainable process of poverty reduction in very poor countries. There is certainly a stratum of rich people in very poor countries (see subsection 4 below) and they can play an important role in initiating a domestic accumulation process. However, in situations of generalized poverty where the majority of the population are very poor, the impact of the trade-off between using resources to meet immediate basic needs and mobilizing resources to invest in creating a better future can be considerably lessened through access to external resources. This is one reason why aid is so important for poverty reduction in the LDCs.

2. POPULATION GROWTH AND LABOUR FORCE GROWTH

Demographic growth is faster in the LDCs than in other developing countries. Between 1990 and 2005, total population of LDCs increased at an annual rate of 2.5 per cent, higher than that of other developing countries in Africa (the continent with strongest demographic growth), but also in the other regions. Population in all other developing countries grew by 1.5 per cent per annum during the same period. The higher rate of population growth means that in order to reduce poverty, LDC economies must not only grow at a sustained higher pace but also generate new jobs and remunerative income-earning opportunities at an accelerated rhythm. Increasing employment is therefore a precondition for

The acceleration of economic growth since the early 2000s has not been accompanied by a proportional strengthening of private consumption in most LDCs.

In the short run there is a trade-off between poverty reduction and increased domestic savings, which makes ODA so important for starting poverty reduction in very poor countries.

In order to reduce poverty, LDC economies must not only grow and increase labour productivity at a sustained higher pace, but also generate new jobs at an accelerated rhythm.

Table 27. Private consumption as a share of GDP in LDCs and country groups, 1995–2006
(Per cent)

	1995	2000	2004	2005	2006
Afghanistan	102	119	122	115	121
Angola	24	17	50	49	44
Bangladesh	74	67	64	63	62
Benin	79	81	80	79	78
Bhutan	41	49	47	45	54
Burkina Faso	67	51	53	54	55
Burundi	92	91	85	88	84
Cambodia	99	87	84	83	81
Cape Verde	93	98	98	93	92
Central African Republic	85	85	89	84	88
Chad	50	60	35	33	34
Comoros	83	80	88	88	88
Democratic Republic of the Congo	66	62	64	64	65
Djibouti	49	68	62	62	62
Equatorial Guinea	61	52	30	36	33
Eritrea	80	58	111	90	82
Ethiopia	89	81	82	84	82
Gambia	74	79	82	83	84
Guinea	85	88	98	95	94
Guinea-Bissau	71	59	59	57	58
Haiti	125	124	124	124	123
Kiribati	77	61	62	62	62
Lao People's Democratic Republic	93	85	69	65	59
Lesotho	128	87	91	83	82
Liberia	70	87	96	92	96
Madagascar	90	92	92	88	96
Malawi	87	102	117	126	124
Maldives	38	31	27	28	24
Mali	75	76	73	66	63
Mauritania	72	74	74	92	59
Mozambique	94	77	66	64	56
Myanmar	80	65	64	63	61
Nepal	76	76	77	77	79
Niger	73	72	74	68	72
Rwanda	71	62	58	59	59
Samoa	81	85	91	92	92
Sao Tome and Principe	95	102	88	108	102
Senegal	76	73	73	72	73
Sierra Leone	87	110	99	88	84
Solomon Islands	52	51	51	51	51
Somalia	72	73	73	73	73
Sudan	82	72	70	69	69
Timor-Leste	81	65	62	63	62
Togo	80	88	89	91	88
Tuvalu	91	91	91	91	91
Uganda	85	86	83	83	84
United Republic of Tanzania	84	79	72	69	69
Vanuatu	56	62	65	66	66
Yemen	64	58	61	60	57
Zambia	63	63	58	60	59
Total LDCs	76	70	70	69	68
<i>African LDCs</i>	76	71	72	71	69
<i>Asian LDCs</i>	77	69	67	66	66
<i>Island LDCs</i>	71	70	69	70	67
LDCs by export specialization:					
<i>Oil</i>	64	57	61	60	58
<i>Agricultural</i>	82	82	85	85	87
<i>Mineral</i>	76	75	74	72	68
<i>Manufactures</i>	78	71	68	67	67
<i>Services</i>	84	77	77	77	76
<i>Mixed</i>	81	74	71	70	69

Source: UNCTAD secretariat calculations based on data from United Nations/DESA Statistics Division.
Note: Calculations are based on data in constant 2000 dollars.

generating raising household incomes and consumption and hence a requisite of poverty reduction.

The working-age population of the LDCs has been increasing at an annual pace of 2.6 per cent since the 1980s, a rhythm that is projected to continue unabated until 2020. In order to bring about a significant dent in poverty, it is necessary to strongly increase employment opportunities and labour productivity. Yet in almost all LDCs there is an imbalance between the rate of growth of the labour force, which is very rapid, and the rate of capital accumulation and technological progress, which is generally slow. As a result, most workers have to earn their living using their raw labour, with rudimentary tools and equipment, little education and training, and poor infrastructure. Labour productivity is low and underemployment is widespread (UNCTAD, 2006: 167–192).

The impact of economic growth on poverty in LDCs has been seriously reduced because of the failure to generate sufficient employment opportunities (particularly in the formal sector) and to raise labour productivity, especially that of people working in informal sector activities both inside and outside agriculture.

3. PATTERN OF ECONOMIC GROWTH

(a) Export-led growth

Most LDCs since the 1990s have been following an export-led growth strategy of which an open trade regime is an important component. This strategy may be conducive to export expansion and overall economic expansion, which has actually taken place in LDCs in recent years (see chapter 1 of this Report). In *The Least Developed Countries Report 2004*, however, we showed that the pursuit of export-led growth in very poor countries is not generally inclusive (UNCTAD 2004: 123–160; 179–217).

One reason for this is that export sectors may have few linkages with the rest of the economy and therefore have limited multiplier and job-creating effects. In extreme cases, these sectors may develop as enclaves and therefore have little positive impact on other segments of the population and territory. This development pattern is typical where exports are based on natural resource extraction. But it may also be present in the development based on secondary sectors, for example in export processing zones, and tertiary sectors, for example tourism enclaves.

The failure of export-led economic growth to translate into significant poverty reduction is particularly evident in those LDCs where growth has been propelled by investment in the capital-intensive mining and oil industries. It is striking that, in the oil-exporting LDCs of our sample, growth of private consumption per capita accelerated sharply between 1995–2000 and 2000–2005 from 0.4 per annum to 9.6 per cent per annum. By contrast, this was accompanied by an only marginally lower rhythm of expansion of the number of people living in extreme poverty, which changed from an annual rate of 2.1 per cent to 1.9 per cent during the same periods. Oil exporters experienced the fastest pace of expansion of total poverty between 1995 and 2005 (3.1 per cent per annum — table 26). Similar developments took place in the mineral-exporting countries of our sample: their private consumption per capita growth accelerated from an annual pace of 0.9 per cent to 1.6 per cent between those periods but the rhythm of expansion of absolute poverty remained almost unchanged, passing from 1.8 per cent per annum to 1.7 per cent per annum (table 26).

In most LDCs there is an imbalance between the rapid growth of the labour force, and the slow rate of capital accumulation and technological progress.

The failure of export-led economic growth to translate into significant poverty reduction is particularly evident in LDCs where growth has been propelled by the capital-intensive mining and oil industries.

Oil exporters experienced the fastest pace of expansion of total poverty between 1995 and 2005.

Manufactures exporters have been the most successful group in curbing the expansion of poverty.

The group with the second highest growth rates in per capita consumption is that of manufactures exporters. Given their specialization in low-skill but labour-intensive activities, economic growth has been accompanied by significant employment creation in industry. This largely explains why this group of countries has been the one most successful in curbing the expansion of poverty (both \$1-a-day and \$2-a-day) since the 1990s and the only one where the number of extremely poor stopped rising in 2000.

As argued in both *The Least Developed Countries Report 2004* and *The Least Developed Countries Report 2006*, it is possible to see a more inclusive pattern of economic growth in countries where the demand-side sources of economic growth are more balanced between domestic demand and export expansion. This does not mean that exports do not matter. But what is required is adequate export growth along with expansion of domestic demand.

(b) Weak agricultural development

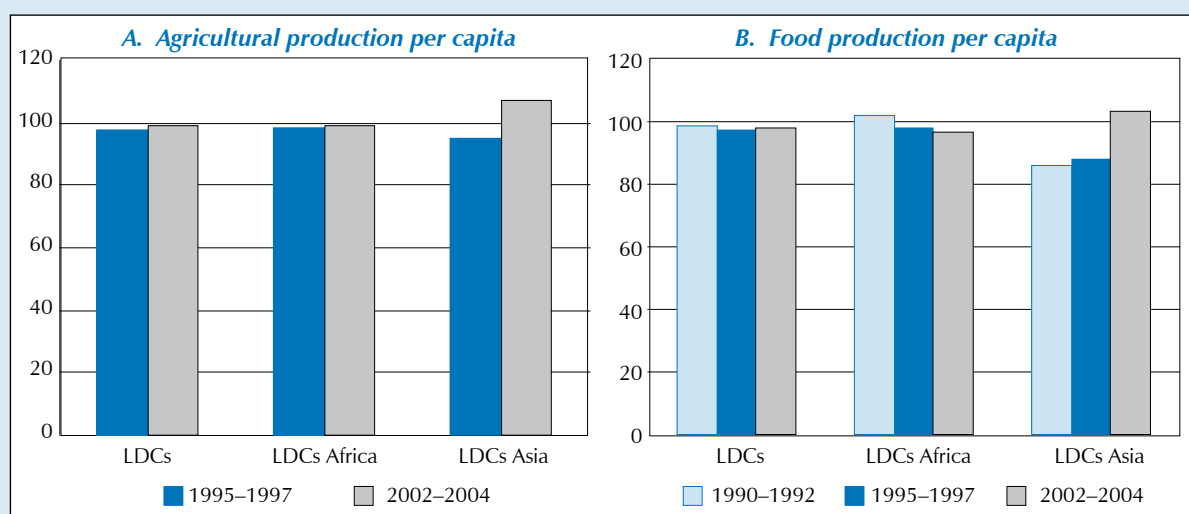
A more inclusive pattern of economic growth occurs where the demand-side sources of economic growth are more balanced between domestic demand and export expansion.

An important feature of the growth pattern in many LDCs is that agricultural growth has been very weak. This is important for poverty reduction trends, as agriculture is still the major source of employment in LDCs. As we shall see below, this situation is changing, quite rapidly in some countries. In 2004, however, 69 per cent of the economically active population was employed in the agricultural sector in the LDCs as a group.

Weak agricultural development is clearly reflected by a number of key trends. First, both food production and agricultural production have barely kept pace with population growth since the early 1990s (chart 14). The growth of food production per capita and agricultural production per capita has been much stronger in Asian LDCs than in African LDCs, where food production has actually declined since the early 1990s.

Second, agricultural productivity growth has been very slow. Estimates in fact suggest that the LDCs as a group experienced a decline of total factor productivity in agriculture of 0.1 per cent per annum between 1963 and 2001 (Nin Pratt quoted in Fan, 2008). Agricultural labour productivity, which is a major

Chart 14. Agricultural and food production per capita in LDCs, 1990–2004
(Index, 1999–2001 = 100)



Source: UNCTAD secretariat calculations based on data from FAO.

determinant of farm incomes, was just \$380 per worker in 2003 (in constant 2000 prices). This was almost one-fifth of the average in other developing countries (\$1,630 per worker). Moreover, it was only 20 per cent higher than the level in LDCs in 1981 (\$319 per worker) (Fan, 2008). Generalized poverty in the LDCs is not surprising given that the majority of people work in agriculture and average agricultural labour productivity in LDCs was a little over \$1 per day in 2003. The failure to achieve higher rates of poverty reduction in these countries is directly related to the failure to increase agricultural productivity more rapidly.

Third, frequently LDC farmers have been negatively affected by trade liberalization. As indicated in chapter 1 of this Report, the agricultural trade balance of the LDCs and also the food trade balance has been continually worsening since the mid-1970s. This, of course, is not bad in itself if LDCs can more effectively use their domestic resources to produce other products which they can trade internationally. In practice, however, most LDCs face increasing balance-of-payment problems, which are caused by the combination of worsening agricultural trade balances coupled with a failure to generate other internationally competitive activities except extractive industries and manufacturing in a few cases. The agricultural trade balance has worsened particularly strongly since the mid-1990s, as a high number of LDC producers have found it difficult to compete in their own markets for many key foodstuffs following trade liberalization.

These trends reflect policy decisions. In particular, public expenditure on agriculture has been neglected. Fan (2008) estimates that public spending on agriculture as a share of agricultural GDP was just 4.2 per cent in LDCs in 2004, less than half the level in other developing countries (10.7 per cent). Public expenditure on agricultural research and development (R&D) was also very low in most LDCs (UNCTAD, 2007: 174–177). Falling ODA for agriculture has been a critical element of the low levels of public expenditure on agriculture in LDCs in recent years. This trend runs counter to the findings of case studies, which show that better welfare indicators are prevalent in areas where farmers have higher adoption rates for improved technology (Minten and Barret, 2008).

(c) Urbanization and deagrarianization

The final and important aspect of the pattern of growth is that not only has agricultural development been weak, but more and more people are seeking work outside agriculture. This is evident in the accelerating trend towards urbanization. Although the share of the economically active population in agriculture is still high, it is declining sharply in a number of LDCs. As argued in *The Least Developed Countries Report 2006*, this reflects a situation in which it is increasingly difficult to make a living in agriculture, as average farm sizes are getting smaller and poor people cannot get access to the inputs which they need to increase productivity. Many children finish primary school, then seek work outside agriculture (UNCTAD, 2006: 167–189).

Some observers have described what is happening as “deagrarianization” (Bryceson, 1996). In this process, people living in rural areas increasingly survive through multiple activities, not simply farming, and more and more people also seek work outside agriculture. Like urbanization, this is occurring at an accelerating rate. Thus, even though agriculture is still the major employer in most LDCs, the annual increase in the number of people seeking work outside agriculture is starting to exceed the annual increase in the number of people seeking work within agriculture, marking a major change from the 1980s and 1990s. *The Least Developed Countries Report 2006* estimates that this employment transition will affect more than half the LDCs in the present decade and the rest during the next decade (UNCTAD, 2006: 167–189).

Generalized poverty in the LDCs is not surprising given that the majority of people work in agriculture, where labour productivity in LDCs was a little over \$1 per day in 2003 (one-fifth of the average in other developing countries).

Since the mid-1990s, as a high number of LDC producers have found it difficult to compete in their own markets for many key foodstuffs following trade liberalization.

Public expenditure on agriculture has been neglected.

In “deagrarianization”, people living in rural areas increasingly survive through multiple activities, not simply farming, and more and more people also seek work outside agriculture.

Poverty in LDCs has now two faces: unemployed youth in the cities and poverty associated with long-standing agricultural neglect.

The relationship between economic growth and poverty reduction is mediated by the level of income distribution and the way in which it changes during the growth process.

Such a transformation in the structure of employment could be seen as positive if people are pushed out of agriculture by rising productivity and pulled into other sectors by new employment opportunities being created outside agriculture. Yet only some Asian LDCs, which have managed to combine progress in the Green Revolution in agriculture with expansion of manufacturing exports, show signs of this kind of structural transformation. For most LDCs, however, deagrarianization is a negative process in which people are pushed out because they cannot make a living in agriculture or find remunerative work elsewhere. This is leading to the other face of poverty in LDCs — unemployed youth in the cities — which now coexists alongside the poverty associated with long-standing agricultural neglect.

4. INCOME DISTRIBUTION

Finally, the relationship between economic growth and poverty reduction is mediated by the level of income distribution and the way in which it changes during the growth process. In turn, the level of inequality is related to the economic structures and patterns of specialization prevailing in each country (see subsection C.2(c) of this chapter).

Data on income inequality in LDCs is patchy. However, available estimates from household surveys indicate a mixed pattern: some LDCs have very high income inequality, while others have low inequality. Interestingly, the lower-income LDCs are at both ends of the spectrum. As table 28 shows, there are a few LDCs, including Sierra Leone, Central African Republic, Lesotho, Haiti, Zambia, Cape Verde and Gambia, where the Gini index (an indicator of inequality) is higher than 50. In these countries, the level of inequality is such that the growth impact on poverty is likely to be strongly attenuated.

There are very few estimates of changes in inequality. However, in order to test whether the recent growth spurt has been accompanied by rising inequality with an adverse impact on poverty reduction, we have made two additional poverty estimates for our sample of countries, besides the main estimate. The first additional estimate is obtained by calculating what the poverty incidence would have been if each country had had a Gini index constant at the lowest level actually reached during the 1980–2005 period. This provides the lower bound of estimates (the “Minimum Gini” curve in chart 15). The second hypothetical

Table 28. Income inequality in LDCs, 2005
(Gini index)

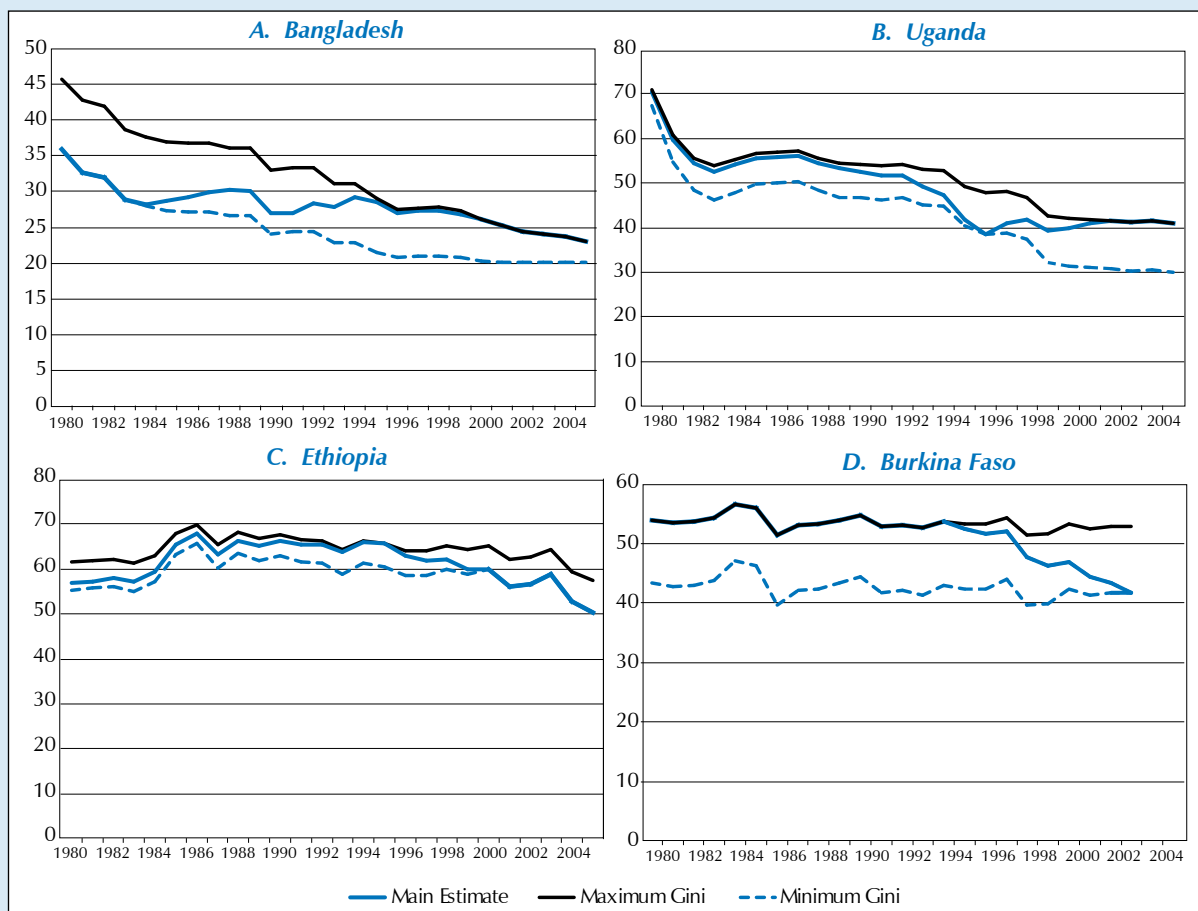
Low inequality (Gini index < 30)		Medium inequality (40 < Gini index < 50)		High inequality (Gini index > 50)	
Burkina Faso	39.5	Madagascar	47.5	Sierra Leone	62.9
Mauritania	39.0	Mozambique	47.3	Central African Rep.	61.3
Malawi	39.0	Nepal	47.2	Lesotho	60.0
Benin ^a	36.5	Rwanda	46.8	Haiti	59.2
Chad	35.0	Uganda	45.7	Zambia	50.8
Lao People's Dem. Rep. ^b	34.6	Burundi	42.4	Cape Verde	50.5
United Rep. of Tanzania	34.6	Cambodia	41.7	Gambia	50.2
Togo	33.8	Niger	41.5		
Bangladesh	33.4	Senegal	41.3		
Yemen	33.4	Guinea	40.4		
Ethiopia	30.0	Angola	40.2		
		Mali	40.1		

Source: UNCTAD secretariat compilation based on data from World Bank, *World Development Indicators*, online, May 2008.

^a Data for 2003.

^b Data for 2002.

Chart 15. Absolute poverty rates under different income distribution assumptions in selected LDCs, 1980–2005
(Share of population living on less than \$1 a day, per cent)



Source: Karshenas (2008).

Note: The main estimate was obtained according to the methodology explained in the Annex.

Maximum Gini is the poverty rate that would have prevailed if the Gini index had remained constant at its actual maximum level during the period. Minimum Gini is the poverty rate that would have prevailed if the Gini index had remained constant at its actual minimum level during the period.

poverty rate is obtained by keeping the Gini index constant at the highest level actually reached during that period. This yields the upper bound of poverty estimates (the “Maximum Gini” curve in chart 15). The main estimate fluctuates between these two bounds. If it converges towards the lower bound, this means that falling income inequality is contributing to poverty reduction. On the other hand, if it approaches the upper bound, this means that a worsening income distribution is slowing poverty reduction. These interpretations hold irrespective of whether poverty is increasing or falling.

This analysis has yielded two types of findings. First, while distributional factors seem to have a relatively important effect on \$1-a-day poverty, the effect in the case of \$2-a-day poverty is not noticeable. This is explained by the fact that when total poverty reaches the 70 per cent to 90 per cent ranges (as is the case in most LDCs), it is clear that changes in the shape of the distribution curve cannot have much impact on poverty in either direction (Karshenas, 2003).

Second, in most countries of our sample, the main \$1-a-day poverty estimates have moved from the lower bound towards the higher bound. The typical pattern is that income distribution has worsened along with growth, slowing down poverty reduction. This is exemplified by Bangladesh and Uganda, two of the countries

Distributional factors have a relatively important effect on \$1-a-day poverty, but not on \$2-a-day poverty.

Income distribution has worsened along with growth, slowing down poverty reduction.

with the steadiest and most sustained good growth performance during the period considered (charts 15A and 15B and table 21). There are a few exceptions — cases where distributional changes have contributed to reduce poverty (or at least partly offset other factors that would otherwise have worsened it). Ethiopia and Burkina Faso are the main examples (charts 15C and 15D).

E. Progress towards the MDGs

Income poverty is only one dimension of poverty, and the Millennium Development Goals target a broader range of human development indicators.

Income poverty is only one dimension of poverty, and this section extends the analysis by introducing a broader range of human development indicators. It assesses the extent to which LDCs are achieving selected Millennium Development Goals.

As with the analysis of poverty trends, there is a serious lack of data to monitor progress towards internationally agreed goals in LDCs. Chart 16 shows the availability of data on the status of LDCs with regard to 48 indicators which are used to monitor the MDGs. The indicators refer to 2004–2005, the latest years for which international data are available, and are taken from the Millennium Development Goals Indicators site of the United Nations Department of Economic and Social Affairs, Statistics Division,⁹ the prime source for monitoring progress towards MDG achievement. From the chart, it is apparent that coverage of countries is woefully inadequate. There are only 13 targets for which more than 45 LDCs have recent data. For 32 out of the 48 indicators, less than ten LDCs have recent data. Moreover, for the 13 indicators for which there is recent data, there are only five which enable trend analysis back to 1990.

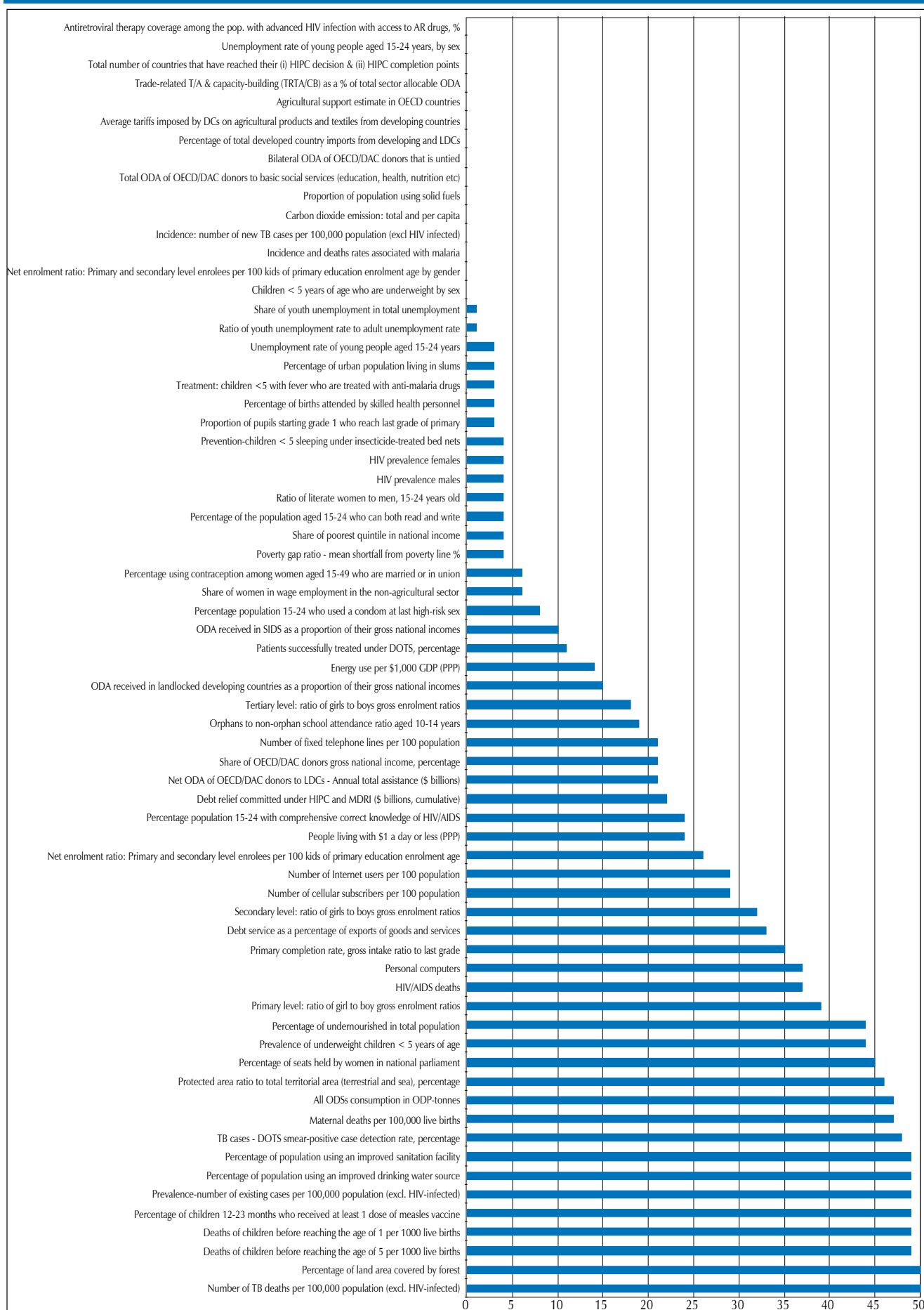
Given the dearth in data on both level and progress towards most MDGs, this section focuses on a few selected MDG targets, namely:

1. Halving, between 1990 and 2015, the proportion of people whose income is less than \$1 a day (MDG 1);
2. Halving, between 1990 and 2015, the proportion of people suffering from hunger (MDG 1);
3. Ensuring that, by 2015, children everywhere, boys and girls alike, are able to complete a full course of primary schooling (MDG 2);
4. Eliminating gender disparity in primary and secondary education, preferably by 2005, and at all levels of education no later than 2015 (MDG 3);
5. Reducing, by two thirds, between 1990 and 2015, the under-5 mortality rate (MDG 4);
6. Halving, by 2015, the proportion of people without access to safe drinking water (MDG 7); and
7. Halving the proportion of people without access to sanitation (MDG 7).

Data coverage of MDG indicators in LDCs is woefully inadequate.

The assessment of progress towards the \$1-a-day poverty target uses the new poverty estimates presented in section C of this chapter. The other indicators are based on a mix of sources. They mostly draw from the official MDG Indicators data set available on the United Nations Department of Economic and Social Affairs, Statistics Division website. This is the product of the Inter-agency and Expert Group (IAEG) on MDG Indicators, and it reports a mix of national level surveys, Government data and IAEG estimates. We have supplemented this with country-level “MDG Profile” narratives. These data are supplied by national Governments and UNDP country offices but cover only 40 out of 50 LDCs.

Chart 16. Number of LDCs with data on the MDG indicator, 2004–2005



Source: UNCTAD secretariat calculations based on data from United Nations/DESA Statistics Division, Millennium Development Goals Indicators (unstats.un.org/unsd/mdg/default.aspx), downloaded in May 2008.

1. OVERALL PATTERN

LDCs are generally off track to achieve the few poverty and human development MDGs for which it is possible to monitor progress.

LDCs are generally off track to achieve the few poverty and human development MDGs for which it is possible to monitor progress. This is exemplified by the progress they have achieved in poverty reduction and in combating child mortality. Chart 17 shows that there is a widening gap between the progress actually achieved by the LDCs and the path that they would have to follow in order to reach the respective MDGs by 2015.

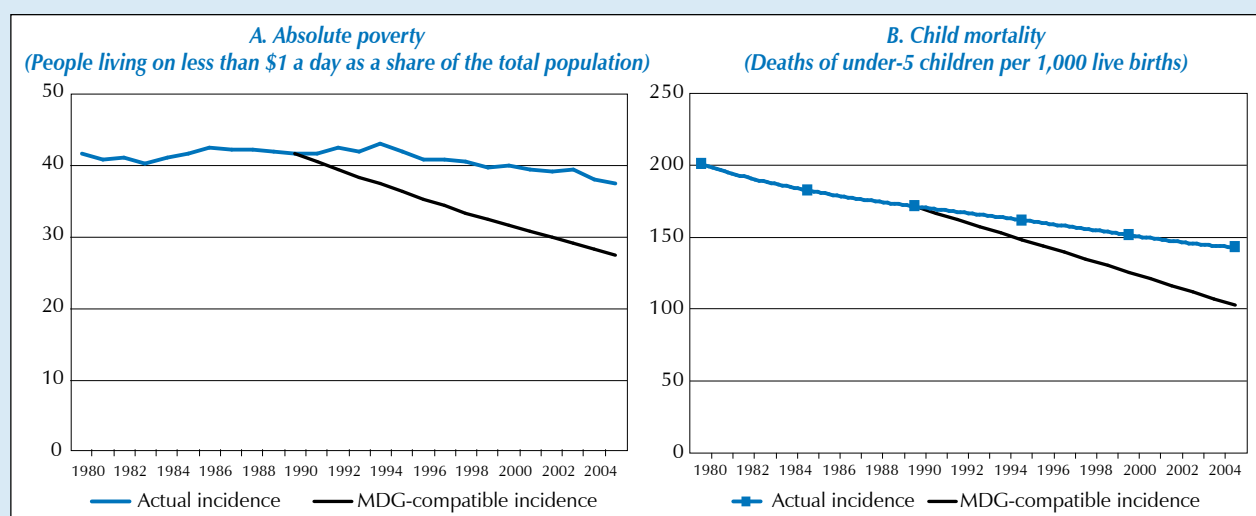
With regard to \$1-a-day poverty, it is apparent that the LDCs as a group are seriously off track to meet this goal. The critical date in the poverty trend is 1994, the year in which the incidence of extreme poverty started to slowly decline in LDCs. However, there has been only a marginal improvement in the rate of poverty reduction since the adoption of the Millennium Declaration. Moreover, even with the very high rates of economic growth achieved in recent years, the rate of poverty reduction is still much slower than that required to achieve the relevant MDG.

There is a widening gap between the progress actually achieved by the LDCs and the path that they would have to follow in order to reach the respective MDGs by 2015.

For the MDG target to be achieved, the incidence of extreme poverty in the LDCs must fall from 40.4 per cent in 1990 to 20.2 per cent in 2015. Yet if the incidence of extreme poverty declines from 2006 to 2015 at the same rate as during the period 1990–2005, it will only reach 33.4 per cent in 2015. Moreover, even if it declines at the higher rate achieved over the period 2000–2005, the incidence of extreme poverty is projected to reach only 31.7 per cent. This means that the extreme poverty rate will have decreased by 25 per cent rather than 50 per cent in 2015. Moreover, there will be 116 million more people living in extreme poverty in 2015 than there would have been had the MDG target been met.

Similarly, chart 17B indicates for child mortality that, for the LDCs as a group, there has been no change in the slow downward trend in child mortality rates. The overall child mortality rate fell from 167 per 1,000 live births in 1990 to 138 per 1,000 in 2005. If anything, however, the rate of progress towards this goal has slowed slightly since 2000.

Chart 17. Poverty and child mortality in LDCs: Actual and MDG-compatible incidence, 1980–2005



Source: UNCTAD secretariat estimations and projections based on data from Karshenas (2008) and United Nations/DESA Statistics Division. Poverty data are based on the sample of LDCs mentioned in table 4. Child mortality data are the unweighted average for all the LDCs.

Note: The MDG-compatible incidence is the hypothetical path that poverty and child mortality incidence would need to follow if the LDCs were to achieve the respective MDG targets by 2015.

Still, there are a few countries which are making significant progress on specific indicators. However, the pattern is very mixed and only a handful of countries are making progress across a broad front.

In general, it is possible to see an emerging pattern in which significant progress is being made to achieve targets which depend primarily on public services and can be achieved with some increase in public expenditure. However, there is a distinct hierarchy in the rate of achievement which reflects the priorities of Governments and also donors who are funding the scale-up in provision. In this regard, achievements in increasing primary education enrolments outstrip progress in improving access to water, which in turn exceeds accomplishments in improving sanitation. Thus:

- More than half of the LDCs for which data are available are on track to achieve the primary education enrolment goal;
- Between one-third and half of the LDCs for which data are available are on track to achieve the goal of access to safe water; and
- Just one-third of the LDCs for which data are available are on track to achieve the sanitation goal.

Where progress also depends on cultural factors, such as the gender equality in education target, relative progress has also been slower. Between one-third and half of LDCs for which data are available are on track to achieve this goal.

Leaving aside quality-related issues, progress towards the primary education enrolment goal shows what is possible where government and donor policy commitment is combined with appropriate levels of financial and technical assistance in the cases of goals that depend primarily on public services and expenditure. However, progress towards targets that depend more on household incomes has been slower. In this regard, there is very slow progress in reducing the incidence of extreme poverty. Less than 15 per cent of the countries for which data are available are on track. In relation to the hunger target of MDG1, one-quarter of the LDCs are not simply off track but are experiencing reversal or stagnation. Moreover, this situation will certainly be exacerbated by recent food price increases. It is proving very difficult for LDCs to keep on track in reducing child mortality, which is affected by trends for both private incomes and public services. Only 20 per cent of the LDCs for which data are available are on track with regard to this indicator.

The following sections provide some details on these trends and identify some LDCs which have performed well with regard to progress towards MDG achievement.

2. PROGRESS IN REDUCING \$1-A-DAY POVERTY

Country-level trends suggest that just four countries out of a total of 28 in our sample are likely to achieve the target on the basis of poverty reduction trends of 1990–2005, namely Cape Verde, Guinea, Malawi and Senegal. On the basis of poverty reduction trends of a more recent and generally more favourable period (2000–2005), Cambodia, Cape Verde, Guinea and Senegal are likely to achieve the goal.

The distance between projected achievements and the target is quite different between African and Asian LDCs, as are developments in their poverty trends. The goal for the African LDCs in the sample of countries for which we have made poverty estimates (table 24) is to reach a poverty rate of 24.7 per cent in 2015.

There are a few countries making significant progress on specific indicators. However, the pattern is very mixed and only a handful of countries are making progress across a broad front.

Significant progress is being made to achieve targets which depend primarily on public services and can be achieved with some increase in public expenditure.

Progress towards targets that depend more on household incomes has been slower.

Just four countries out of a total of 28 in our sample are likely to achieve the target on the basis of poverty reduction trends.

Asian LDCs will also miss the poverty target, but by a narrower margin than the African LDCs.

Our projections indicate that they will reach a poverty rate of 38.5 per cent even if poverty reduction occurs at the same rate as during the period 2000–2005. The projected poverty rate is just slightly higher if poverty reduction occurs at the same rate as in 1990–2005. The target of the Asian LDCs of our sample is to reduce extreme poverty to 13.5 per cent in 2015. Our projections indicate that they will also miss the target, but by a narrower margin than the African LDCs. The two alternative scenarios for Asian LDCs yield a greater variation than those for the African countries. Asian LDCs are projected to achieve rates of between 19.6 per cent in 2015 if they reduce poverty incidence at the same rate as in 2000–2005, and 23.2 per cent in 2015 if they reduce it at the same pace as in 1990–2005.

These outcomes are regarded as being representative for the LDCs as a group. However, the actual outcome in terms of poverty reduction is likely to be worse than those mechanically projected on the basis of past trends because of the impact of sharply rising food prices since 2007. This issue is discussed in section F of this chapter.

3. PROGRESS TOWARDS OTHER HUMAN DEVELOPMENT TARGETS

Most LDCs are also off track as a group to meet the Millennium human development targets for which it is possible to gather data for a wide group of countries (table 29). Nevertheless, some countries have made progress towards specific targets.

In one third of the LDCs, average food consumption is below the minimum adequate for proper bodily functioning.

(a) Hunger

Given the high incidence of extreme poverty in LDCs, the incidence of hunger is also high. In one third of the LDCs for which data are available (14 out of 42 countries), average food consumption is below 2,100 calories per day, which is considered the minimum adequate for proper bodily functioning. For the LDCs as a group, the share of the population which is estimated to be undernourished in 2002 was 31 per cent, compared with 17 per cent in other developing countries. In half of the LDCs for which data are available, over one-third of the population is estimated to be undernourished. The incidence of hunger is particularly high in conflict-affected countries (such as Democratic Republic of the Congo and Somalia), but it is also high in some countries which have sustained high growth rates since the mid-1990s. For example, it is estimated that over 40 per cent of the population was undernourished in 2002 in Angola, Mozambique and Tanzania. In Bangladesh, 30 per cent of the population is estimated to be undernourished despite steady growth since the early 1990s. In general, the incidence of hunger is highest in mineral-exporting LDCs.

The proportion of the population which is undernourished in the LDCs is declining very slowly from an average of 33 per cent in 1991 to 31 per cent in 2002.

The proportion of the population which is undernourished in the LDCs as a group is declining very slowly. It has decreased from an average of 33 per cent in 1991 to 31 per cent in 2002 (unweighted averages). Within the overall trends, however, the picture is mixed. Out of a sample of 42 LDCs, 19 countries are on track to achieve the hunger reduction target and three are projected to have achieved the target by 2007. The top best performers are indicated in chart 18A. Yet there is only slow progress in eight countries and reversal or stagnation in a further 12 countries. Of those on track to achieve the target in terms of the incidence of hunger, the average level of food consumption remains very low. It is close to the 2,100 calories threshold in seven out of the 19 on-track countries.

(b) Primary education

With regard to the target of ensuring that by 2015 children everywhere are able to complete a full course of primary schooling, the overall picture is more

encouraging. According to “MDG Profile” data, 19 out of 35 LDCs are on track to achieve the target and Maldives has already achieved it (table 29). According to the MDG Indicators data of the United Nations Department of Economic and Social Affairs, Statistics Division, average net enrolment in primary education in LDCs jumped from 47 per cent in 1991 to 76 per cent in 2005. Net enrolment rates exceed 75 per cent in 18 out of 30 countries for which data are available. Particularly big leaps in net primary enrolment rates have been achieved in a few countries. Net enrolment rates increased by over 7 per cent per annum in Tanzania, Ethiopia and Benin, between 2000 and 2005. At the same time, however, Cape Verde, Malawi and Mauritania reported a decline in the annual rate of net enrolment in primary education over the same period. The top 10 best performers are shown in chart 18B.

Net enrolment in primary education in LDCs jumped from 47 per cent in 1991 to 76 per cent in 2005.

Primary school completion rates are also increasing, and were up from 34 per cent in 1991 to 57 per cent in 2005. Mozambique, Cambodia, Benin and Niger all achieved high rates of progress on raising primary school completion rates. The weakest performers were in Africa. The intractable groups to reach with primary education remain girls, particularly those from ethnic, religious or caste minorities.

The ratio of girls’ to boys’ enrolment in primary school increased from 0.79 in 1991 to 0.89 in 2005.

Beyond these quantitative measurements, qualitative aspects should also be taken into account.¹⁰

(c) Gender equality in education

It is estimated that for LDCs as a group, the ratio of girls’ to boys’ enrolment in primary school increased from 0.79 in 1991 to 0.89 in 2005. As increasing numbers of students finish primary education, demand for secondary education is growing in LDCs. LDC gender disparities in access to education at this level are also diminishing. For the LDCs as a group, the ratio of girls’ to boys’ enrolment in secondary school increased from 0.77 in 1999 to 0.81 in 2005 (UNESCO, 2007).

The higher one goes up the education system, the greater the gender disparities.

As with the primary education enrolment as a whole, it is clear that quick progress can be made on aspects of this indicator (chart 18C). For example, the ratio between girls’ and boys’ primary enrolment increased from 0.08 in 1999 to 0.59 in 2005 in Afghanistan and during the same period from 0.62 to 0.86 in Ethiopia (UNESCO, 2007). However, important disparities affecting girls still prevail in some countries.

The higher one goes up the education system, the greater the disparities. A third of the countries with data available in 2005 had achieved gender parity in primary education, compared with a fifth in secondary education and only a tenth in tertiary education.

In 2006, 14 out of every 100 children born alive in the LDCs died before their fifth birthday as against 8 out of every 100 in all developing countries.

(d) Child mortality

As with hunger, child mortality rates are much higher in LDCs than in other developing countries. In 2006, 14 out of every 100 children born alive in the LDCs died before their fifth birthday as against 8 out of every 100 in all developing countries. According to the MDG Indicators database of the United Nations Department of Economic and Social Affairs, Statistic Division, 26 LDCs are off track to achieve the child mortality target and child mortality is either going up or stagnant in a further 13 LDCs. During the period 1990 to 2005, impressive reductions in annual under-5 mortality rates were recorded in Timor-Leste, Maldives, Bhutan, Nepal, Lao People’s Democratic Republic and Bangladesh (chart 18D). Yet child mortality increased in Lesotho and Cambodia despite

Table 29. Progress towards selected human development targets in LDCs

Target	LDC data availability	Achieved by 2007	Achievable by 2015	Low progress	Reversal/stagnation
Hunger (undernourished)	42	3	19	8	12
		Djibouti Myanmar Samoa	Angola Benin Cambodia Chad Guinea Haiti Kiribati Lao PDR Lesotho Malawi Maldives Mauritania Mozambique Niger Sao Tome and Principe Solomon Islands Timor Leste Togo Uganda	Bangladesh Burkina Faso Central African Republic Mali Nepal Rwanda Sudan Zambia	Burundi Comoros Dem. Rep. of the Congo Gambia Guinea-Bissau Liberia Madagascar Senegal Sierra Leone United Rep. of Tanzania Vanuatu Yemen
Primary education	35	1	19	15	
		Maldives	Angola Bangladesh Bhutan Cambodia Chad Djibouti Equatorial Guinea Guinea-Bissau Lao PDR Lesotho Madagascar Mauritania Myanmar Senegal Sierra Leone Timor Leste Uganda Yemen Zambia	Benin Burkina Faso Central African Republic Comoros Gambia Guinea Haiti Liberia Malawi Mali Samoa Somalia Sudan United Rep. of Tanzania Togo	
Gender equality in education^a	24	4	6	10	4
		Lesotho Malawi Mauritania Myanmar	Ethiopia Lao People's Dem. Rep. Nepal Senegal Solomon Islands Sudan	Afghanistan Benin Burkina Faso Burundi Chad Djibouti Guinea Mozambique Niger Togo	Eritrea Madagascar Mali United Rep. of Tanzania

Table 29 (contd.)

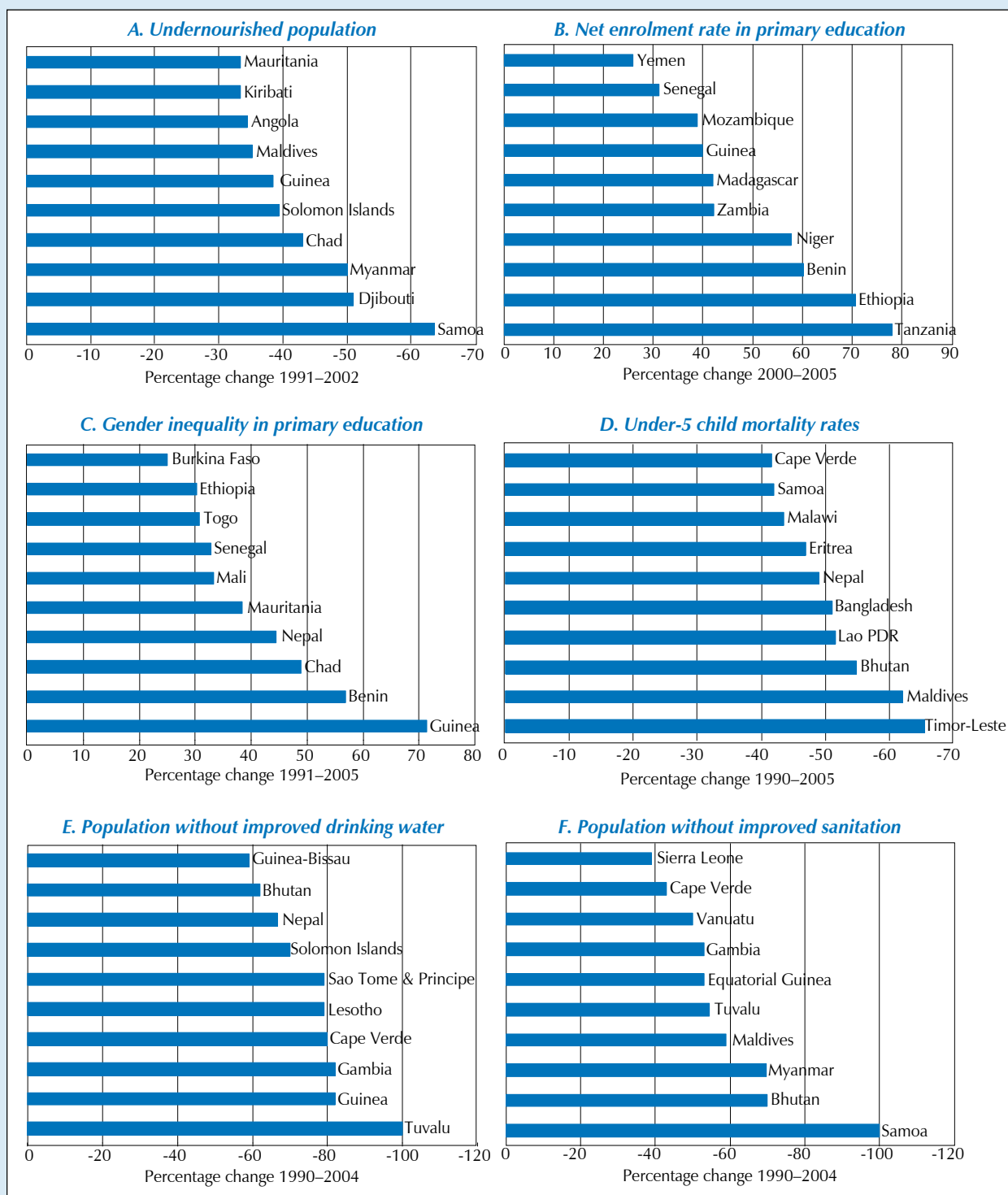
Target	LDC data availability	Achieved by 2007	Achievable by 2015	Low progress	Reversal/stagnation
Child mortality	50	1 Samoa	10 Bangladesh Bhutan Cape Verde Comoros Eritrea Lao People's Dem. Rep. Malawi Maldives Nepal Timor Leste	26 Afghanistan Benin Burkina Faso Djibouti Ethiopia Gambia Guinea Guinea-Bissau Haiti Kiribati Madagascar Mali Mauritania Mozambique Myanmar Niger Senegal Sierra Leone Solomon Islands Sudan Tanzania Togo Tuvalu Uganda Vanuatu Yemen	13 Angola Burundi Cambodia Central African Republic Chad Dem. Rep. of the Congo Equatorial Guinea Lesotho Liberia Rwanda Sao Tome and Principe Somalia Zambia
Access to safe water	37	4 Guinea Malawi Nepal Tuvalu	12 Afghanistan Burkina Faso Burundi Central African Republic Chad Eritrea Kiribati Myanmar Rwanda Senegal Uganda United Rep. of Tanzania	15 Angola Bangladesh Benin Dem. Rep. of the Congo Djibouti Haiti Liberia Madagascar Mali Mauritania Mozambique Niger Sudan Togo Zambia	6 Comoros Ethiopia Maldives Samoa Vanuatu Yemen
Access to improved sanitation	36	3 Myanmar Samoa Tuvalu	9 Afghanistan Bangladesh Benin Kiribati Madagascar Malawi Nepal Senegal Zambia	19 Angola Burkina Faso Central African Republic Chad Comoros Dem. Rep. of the Congo Djibouti Eritrea Ethiopia Guinea Haiti Mali Mauritania Mozambique Niger Rwanda Sudan Uganda Yemen	5 Burundi Lesotho Liberia Tanzania Togo

Source: UNCTAD secretariat calculations based on data from United Nations/DESA Statistics Division, *Millennium Development Goals Indicators* (unstats.un.org/unsd/mdg/default.aspx) and UNDP, *UNMDG Monitor* (www.mdgmonitor.org), both downloaded in May 2008.

Note: An LDC has achieved the target when the actual value of the indicator has already met the MDG target. An LDC is considered to have stagnated (reversed) when the actual value is equal to (worse than) the value at the beginning of the period. An MDG target is considered achievable for an LDC when the average actual rate of progress experienced to date is equal to (or better than) the required rate to achieve the target. An LDC is considered to have made low progress towards a MDG target when the average actual rate of progress experienced to date is less than the required rate to achieve the target.

a Gender equality is measured using the Gender Parity Index (GPI) of the Gross Enrolment Ratio (GER) for primary level education in LDCs.

Chart 18. Top 10 LDC performers in terms of progress towards selected MDGs



Source: UNCTAD secretariat calculations based on data from United Nations/DESA Statistics Division, *Millennium Development Goals Indicators*. (unstats.un.org/unsd/mdg/default.aspx), downloaded in May 2008.

high economic growth rates. The slow pace of progress reflects a combination of factors, including hunger and ill-health. Widespread malaria, the lack of basic health services and the prevalence of HIV/AIDS may in part explain the slow progress on average for LDCs.

(e) Drinking water and sanitation

During the period 1990 to 2004, there was steady progress towards halving the proportion of people without access to safe drinking water in LDCs. The proportion of people without such access fell from 47 per cent in 1991 to 37 per cent in 2004. Four LDCs have already met the drinking water target — Guinea, Malawi, Nepal and Tuvalu — and a further 12 countries are on track to achieve the goal in 2015. Tuvalu and Guinea have made the fastest progress of the 37 countries for which data are available (chart 18E). The LDCs that have performed poorly in trying to achieve this target include Ethiopia, which has significant water supply and climate-change-related problems.

Progress on sanitation, by contrast, has lagged. The proportion of the population without access to improved sanitation fell from 70 per cent in 1990 to 60 per cent in 2004. This is some 23 percentage points lower than the average rate of access to clean water, and is probably related to the fact that ODA for water supply and sanitation declined significantly from the mid-1990s to 2002 (World Bank, 2007). The top 10 performers in improving access to sanitation include Samoa, Bhutan, Myanmar and Maldives (chart 18F).

The share of people without access to safe drinking water fell from 47 per cent in 1991 to 37 per cent in 2004.

The proportion of the population without access to improved sanitation fell from 70 per cent in 1990 to 60 per cent in 2004.

F. Impact and policy implications of soaring international food prices

1. IMPACT OF RECENT FOOD PRICE INCREASES

As indicated in chapter 1 of this Report, the main surge in international commodity prices in the early part of this decade was for oil and minerals rather than agricultural commodities. International food prices rose sharply in 2006 and 2007, however, with a further price spike in the first half of 2008. The Food and Agriculture Organization of the United Nations (FAO) food price index was on average 8 per cent higher in 2006 than in 2005. Yet it was 24 per cent higher in 2007 than in 2006, and a further 53 per cent higher in the first three months of 2008 than the first three months of 2007 (FAO, 2008a). Particularly strong price surges have occurred in oils and fats and cereals. Price indices for these commodity groups in March 2008 were almost three times the level during the period 1998–2000. By March 2008, international prices of wheat and rice were twice their levels of a year earlier, while prices of maize were more than one third higher (FAO, 2008a).

International food prices rose sharply in 2006 and 2007, with a further price spike in the first half of 2008.

The global sharp increase in international food prices and the food riots that it provoked have given rise to an array of explanations for the current situation. The factors usually singled out to explain the price rises include growing food demand in emerging markets, the flow of speculative capital into commodity markets, increasing biofuel production, weather incidents and global warming. However, in order to understand the impact of the global food crisis on the LDCs and on their social developments, it is perhaps more important to examine the structural causes of the current crisis, the global interdependence that they highlight, and the type of insertion of these countries in the international economy. Using this perspective, the following factors become equally — if not more — important:

In order to understand the impact of the global food crisis on the LDCs and on their social developments, it is more important to examine the structural causes of the current crisis.

- The neglect of agriculture by public policies in many developing countries since the 1980s, resulting in underinvestment in infrastructure, withdrawal of domestic support measures to farmers, etc.;

In the 1980s, LDCs as a group were net food exporters but became net food importers in the 1990s. The shift to food deficits was particularly marked in the African countries.

Rising food prices will have negative effects on poverty trends in LDCs and also slow progress towards MDGs.

The bigger food import bills will widen further the already high trade deficits of the LDCs. The balance-of-payment impact will be accentuated as countries also have to deal with rising energy prices.

- The adverse impact of trade liberalization on domestic farmers unable to cope with foreign competition, particularly smallholders producing staple food for local consumption;
- The negative impact of agricultural exports subsidies and domestic support policies in developed countries, which magnify the preceding factors; and
- The stark shrinkage of ODA financing for agricultural R&D.

The combination of these developments has resulted in low agricultural productivity level and growth in several developing countries, particularly in Africa (UNCTAD, 2008).

The above features apply to the majority of LDCs and are consistent with the policy model of outward orientation, trade openness and withdrawal of public support to production that LDCs have been following since the 1980s. In the 1980s, LDCs as a group were net food exporters but became net food importers in the 1990s, after the implementation of this policy package. The shift to food deficits was particularly marked in the African countries. LDCs as a group are still net food importers at present, as are almost three fourths of these countries (table 30). Current high international food prices are bringing about yet another episode of food import surges, which have become more frequent in the LDCs in the post-trade liberalization era (UNCTAD, 2004: 271-272).

Rising food prices will have negative effects on poverty trends in LDCs and also slow progress towards MDGs. The negative effects will arise partly because the food price hikes threaten economic growth and partly because of the direct impact of rising domestic food prices on the ability of households to meet essential subsistence needs. These effects are likely to be more severe in the LDCs than in other developing countries. First, most LDCs are net food importers and already have large trade deficits. Second, levels of poverty and food insecurity are already high, and many people spend 50–80 per cent of their household income on food. Third, quite apart from generalized poverty, many LDCs are already dealing with food crises which require external assistance owing to such factors as natural disasters, concentrations of internally displaced persons and localized crop failures. These factors are analysed separately hereafter.

(a) Impact on food import bills

The immediate impact of the rising international food prices will be a worsening of the balance-of-payment problems of most LDCs. In 2004–2006, 36 out of 50 LDCs were net food importers (table 30). Moreover, using a narrow definition of food which excludes cash crops, processed food and seafood, only seven LDCs — Burkina Faso, Madagascar, Myanmar, Somalia, Tuvalu, Vanuatu and Zambia — were net food exporters in 2004–2005 (Ng and Aksoy, 2008).

Not only are most LDCs net food importers, but food imports constituted a significant share of total merchandise imports and total exports in many of them even before the recent international price spike. In 2006 food imports constituted over 20 per cent of total merchandise imports in 20 LDCs and more than 20 per cent of merchandise exports in 33 LDCs (table 30). Over half of total merchandise export earnings were used to purchase imported food in 17 LDCs in 2006, in 10 of them the totality of export earnings were not enough to meet the food import bill.

The aggregate food import bill of the LDCs as a group is estimated to have risen by 26 per cent between 2006 and 2007, much in line with the increase in the overall food price index. The increase in the food import bill was equivalent to 1 per cent of the GDP of the LDCs in 2006.¹¹

Table 30. Indicators of food security in LDCs

	Undernourished population	Food consumption	Change in per capita	Agricultural Production	Food aid	Food imports as % of:		
	%	Calories per capita/day	food consumption %	Instability Index ^a	% of total food imports	Total merchandise imports	Total merchandise exports	Food consumption
	2004	2002–2004	1995–1997 to 2002–2004	2004	2006	2006	2006	1996–2001
Net food importers and net importers of agricultural raw materials								
Angola	40	2 120	1.01	4.68	0.8	18.9	3.9	11.4
Bangladesh	30	2 200	0.97	3.47	2.2	14.3	18.3	7.8
Cape Verde	2.5	..	..	15.96	5.3	29.2	> 100	32.7
Comoros	62	1 770	-0.35	2.87	0.0	33.0	> 100	12.7
Djibouti	27	2 270	1.18	8.81	2.0	21.6	> 100	43.9
Eritrea	73	1 500	..	18.76	3.3	24.0	> 100	11.8
Gambia	27	2 240	0.23	18.42	7.2	31.2	> 100	38.1
Haiti	47	2 110	1.12	2.73	10.3	26.2	82.1	19.6
Kiribati	6	2 800	0.03	12.55	0.0	33.7	> 100	26.5
Maldives	11	2 600	0.64	4.00	1.1	16.0	> 100	31.0
Nepal	17	2 430	0.88	3.95	3.7	14.9	41.1	2.7
Niger	34	2 150	0.73	12.98	8.4	32.7	63.2	5.8
Samoa	4	2 930	1.31	7.52	0.0	18.6	60.1	18.5
Sao Tome and Principe	13	2 490	1.08	7.03	0.0	30.6	> 100	14.9
Senegal	24	2 360	0.46	16.53	0.9	23.4	57.6	21.1
Sierra Leone	50	1 910	-0.61	5.46	11.8	20.6	37.1	10.0
Somalia	61	..	..	9.12	1.5	50.3	> 100	8.6
Tuvalu	3	..	..	21.10	0.0	8.0	88.5	24.7
Yemen	36	2 010	-0.08	5.21	2.1	21.2	16.7	31.2
Net food importers and net exporters of agricultural raw materials								
Afghanistan	56	..	..	15.36	5.5	23.4	> 100	6.1
Benin	15	2 590	0.59	6.48	1.9	27.8	99.4	5.3
Burkina Faso	19	2 500	0.39	7.76	14.7	12.8	37.7	10.4
Cambodia	33	2 070	1.13	8.01	0.2	7.9	6.0	3.4
Central African Republic	43	1 960	0.59	3.89	7.6	20.0	27.6	2.3
Chad	71	1 590	-1.08	3.72	0.0	26.0	31.7	2.2
Dem. Rep. of the Congo	9	0	0.00	6.78	2.0	15.4	4.4	5.6
Equatorial Guinea	26	..	..	3.48	0.0	16.9	14.0	8.7
Guinea	22	2 370	0.99	8.16	5.3	12.4	10.7	1.8
Lao People's Dem. Rep.	12	2 580	0.18	7.56	1.4	23.6	54.0	19.0
Lesotho	46	1 930	-0.66	11.28	0.0	2.7	11.6	12.9
Liberia	47	2 080	1.13	7.30	2.3	13.9	16.7	7.2
Mali	27	2 270	-0.25	8.42	4.6	11.9	19.2	4.7
Mozambique	34	2 130	1.06	7.81	9.2	16.1	3.2	2.0
Sudan	27	2 270	-0.25	8.42	3.9	11.9	19.2	4.7
Timor-Leste	7	2 750	0.22	4.88	9.8	18.4	16.9	..
Togo	29	2 200	0.20	6.13	0.1	13.9	18.7	3.7
Net food exporters and net exporters of agricultural raw materials								
Ethiopia	46	1 850	..	14.28	149.2	8.5	42.6	2.0
Guinea-Bissau	6	2 940	0.55	4.97	23.0	14.0	6.2	1.9
Madagascar	35	2 030	-0.66	4.26	15.4	26.9	29.4	11.4
Malawi	37	2 050	0.18	2.25	10.6	14.5	25.3	3.3
Myanmar	33	2 120	0.39	10.12	0.2	15.1	27.4	3.6
Solomon Islands	19	2 370	0.67	3.27	1.5	13.6	36.2	2.9
Tanzania	20	2 230	0.11	9.68	0.7	11.3	20.3	14.1
Uganda	44	1 960	0.44	3.97	6.5	12.2	32.1	4.6
Vanuatu	12	2 600	0.23	8.81	0.0	13.4	47.7	13.7
Zambia	49	1 950	0.14	9.86	1.4	7.6	6.2	4.5
Net food exporters and net importers of agricultural raw materials								
Bhutan	23	..	..	6.32	0.0	8.4	7.5	3.4
Burundi	68	1 660	-0.23	5.64	28.0	7.5	25.8	0.8
Mauritania	10	2 740	0.17	3.40	1.9	25.0	21.3	32.9
Rwanda	37	2 110	1.42	13.58	4.5	12.4	45.5	5.9
LDCs	36	2 033	0.39	8.14^b	3.7	15.4	15.6	23.6

Source: UNCTAD secretariat calculations based on data from FAO, OECD/DAC and United Nations/DESA Statistics Division.

Note: The classification of LDCs according to their net exports of food and agricultural raw materials is based on a three-year (2004–2006) average of data from UNCTAD, *Handbook of Statistics 2007* and on UNCTAD estimates.

The definition of food and agricultural raw materials is the same as in table 8.

a Calculated according to the methodology of the Committee for Development Policy's Economic Vulnerability Index. b Unweighted average.

Table 31. Food insecurity in LDCs, by type of insecurity and region, 2008

Country	Type of insecurity
Africa	
Lesotho	Multiple-year droughts until last season
Somalia	Conflict, adverse weather
Eritrea	IDPs, economic constraints
Liberia	Post-conflict recovery period
Mauritania	Several years of drought
Sierra Leone	Post-conflict recovery period
Burundi	Civil strife, IDPs and returnees
Central African Republic	Refugees, insecurity in parts
Chad	Refugees, conflict
Democratic Republic of Congo	Civil strife, returnees
Ethiopia	Insecurity in parts, localized crop failure
Guinea	Refugees
Guinea-Bissau	Localized insecurity
Sudan	Civil strife
Uganda	Civil strife in the north, localized crop failure
Asia	
Afghanistan	Conflict and insecurity
Bangladesh	Past floods and cyclone, avian influenza
Nepal	Poor market access, conflict and past floods
Timor-Leste	IDPs, past drought and floods
Latin America	
Haiti	Past floods

Source: Food and Agriculture Organization of the United Nations (<http://www.fao.org/docrep/010/ai465e/ai465e02.htm>). Data downloaded in May 2008.

The impact of rising international food prices on poverty depends on whether international price rises pass through to national markets and the extent to which households depend on purchased food.

One factor in favour of some LDCs is that imported food is not a significant proportion of total food consumption, but dependence of imported food products is increasing in many LDCs.

For cereals, rising international food prices are already being felt strongly in domestic markets in the LDCs.

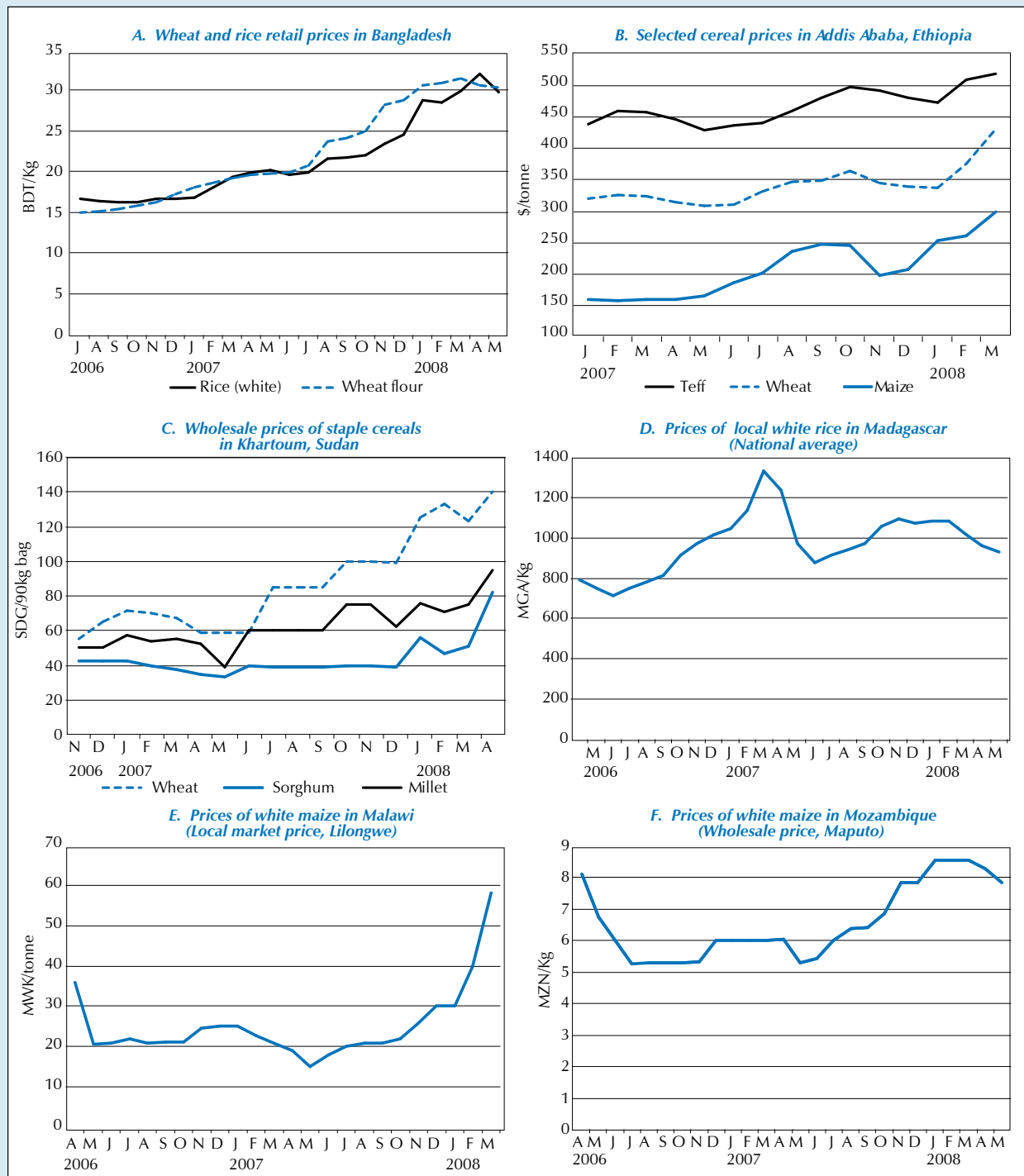
The bigger food import bills will widen further the already high trade deficits of the LDCs. This will affect all food-importing LDCs, and the balance-of-payment impact will be accentuated as countries also have to deal with rising energy prices. The countries which are particularly vulnerable are those in which food imports already constitute over 20 per cent of total merchandise imports and food imports also account for a high share of total food consumption, namely Cape Verde, Djibouti, Gambia, Haiti, Lesotho, Kiribati, Mauritania, Samoa, Senegal, Sao Tome and Principe and Yemen.

(b) Poverty and household food security

The impact of rising international food prices on poverty and household food security depends on whether price rises in international markets pass through to national markets and the extent to which households, particularly poor households, depend on purchased food.

In this regard, one factor which works in favour of some LDCs is that imported food is not a significant proportion of total food consumption. There are no up-to-date data on this. During the period 1996–2001, however, food imports represented less than 10 per cent of total food consumption in two-thirds of the LDCs. Part of total food consumption in rural areas is met from the household's own production. Moreover, in many African LDCs, a large share of staple food consumption is based on low-value, high bulk crops which are semi-tradable internationally, such as cassava, plantains, yams, millet, sorghum and white maize (UNCTAD, 1998: 141). At the same time, however, it is clear that dependence on imported food products is increasing in many LDCs. Moreover, even where imports are not a large proportion of total food consumption, local food prices are rising because of higher fuel and transport costs.

Chart 19. Domestic food prices in selected LDCs



Source: FAO (2008a) *Crop Prospects and Food Situation*. <ftp://ftp.fao.org/docrep/fao/010/ai465e/ai465e00.pdf>

Note: Mozambique: SIMA, Monthly average wholesale prices in Maputo.

Malawi: Lilongwe local market price MoAFS & FEWSNet,

Madagascar: Observatoire du riz.

BDT=Bangladesh Taka; MGA=Malagasy Ariary; MWK=Malawi Kwacha; MZN=Mozambican Metical; SDG=Sudanese Pound; \$=US dollar.

The available evidence indicates that for cereals, rising international food prices are already being felt strongly in domestic markets in the LDCs. The International Fund for Agricultural Development (IFAD) (2008) reports that in Senegal, wheat prices by February 2008 were twice the level of a year ago and sorghum was up 56 per cent. In Somalia, the price of wheat flour in the northern areas has almost tripled over twelve months, and in Sudan (Khartoum) it increased by 90 percent. The price of maize in Uganda (Kampala) was 65 percent higher in March 2008

Not only are nutritional standards already low, but a number of LDCs already face complex food emergencies.

than in September 2007. In March 2008, maize prices in Mozambique (Maputo) were 43 percent higher than a year ago. FAO (2008a) also reports that wheat and maize prices increased by more than 33 per cent in Addis Ababa in Ethiopia between March 2007 and March 2008, and that maize prices more than doubled over the same period in Dar es Salaam in Tanzania. In Malawi, the prices of white maize and rice almost tripled between mid-2007 and March 2008. Wheat and rice prices both increased by more than 50 per cent over this same period in Bangladesh (chart 19).

Large shares of the population in LDCs spend 70–80 per cent of their income on food.

These rising food prices complicate an already precarious food security situation in the LDCs. Not only are nutritional standards already low, but a number of LDCs already face complex food emergencies associated with such factors as droughts and floods, or specific challenges of market access, such as the inability to circulate in a country owing to conflict, or severe localized food insecurity due to an influx of refugees or internally displaced people. Of the 37 countries which the FAO identifies as facing such complex food emergencies and thus requiring external assistance, 20 are LDCs (table 31). Significantly, in relation to the analysis of chapter 1 of this Report, nine of these countries are in the group of LDCs which achieved real GDP growth over 6 per cent in 2006. These are: Bangladesh, Liberia, Mauritania, Sierra Leone, Burundi, Ethiopia, Sudan, Uganda and Afghanistan.

A high proportion of rural inhabitants are net food buyers in many LDCs.

The countries with complex food emergencies may well be affected by the declining ability of the food aid system to meet needs. However, the food security of households in all LDCs will be affected in some way by the large price rises which are now occurring. The magnitude of this effect will be large because such a large share of the population is very poor and already faces food insecurity and hunger. In this regard, it is important to note that almost half of total individual consumption expenditure in the LDCs is intended for the acquisition of food, according to the World Bank's 2005 household survey for the International Comparison Programme (World Bank, 2008b). This share is double the share in other developing countries and more than five times as much as that of high-income OECD countries. In general, the poorer the household income, the higher the share that is devoted to food acquisition. FAO (2008b) argues that large shares of the population in LDCs spend 70–80 per cent of their income on food.

The supply response of LDC farmers is constrained by the weakness of agricultural development in the LDCs and by the consequences of long-standing neglect of agriculture by policy-makers.

A critical issue which affects the impact of the food price spike is whether or not households are net food buyers. In this regard, the negative impact on people living in urban areas will be greater than the impact on those living in rural areas. However, available evidence indicates that a large proportion of rural inhabitants are net food buyers in many LDCs. Estimates suggest that the share of rural households which are net staple food sellers is limited to 19 per cent in Bangladesh, 12 per cent in Malawi, 27 per cent in Ethiopia, 30 per cent in Zambia and 44 per cent in Cambodia (FAO, 2008a).

The minority of households that are net sellers of staple food should benefit from higher domestic consumer prices provided these are passed through to farmgate prices. If this is the case, farmers should reap higher earnings from their produce. This should provide an incentive for rising output and/or productivity over the medium term. However, their supply response is constrained by the weakness of agricultural development in the LDCs and by the consequences of long-standing neglect of agriculture by policy-makers in these countries (see subsection D.3 of this chapter).

A number of simulations have been undertaken to estimate the impact of price increases on different income groups. These indicate that the poorest households are most vulnerable in all situations unless they are sellers of foodstuffs whose

prices have risen. FAO simulations using household data from Malawi indicate that a 10 per cent increase in food prices leads to a 1.2 percent income loss for the poorest quintile in rural areas and a 2.6 percent income loss for the poorest urban quintile. According to this analysis, only the richest rural quintile gains from an increase in food prices. This will obviously have a negative impact on poverty. If the actual 200-per-cent increase in the white maize price in Malawi were representative of all food prices, this would imply an income loss of some 20 per cent. Ivanic and Martin (2008), using a sample of household data for nine low income countries analysing the impact of higher food prices of key staple foods on poverty, show that in Cambodia, Malawi, Zambia and Madagascar, the rise in food prices between 2005 and 2007 is estimated to have increased poverty by 3 percentage points. In the case of Yemen, World Bank estimates show that the doubling of wheat prices over the last year could reverse all gains in poverty reduction achieved between 1998 and 2005. Moreover, similar estimates of the impact of the rising food prices on poverty have been made by the United Nations Department of Economic and Social Affairs.

(c) Second-round effects on economic growth

The immediate impact of rising food prices on poverty and food security is also likely to be compounded by second-round effects of these changes on economic growth. In this regard, the social unrest and riots associated with rising food prices have occurred in eight LDCs — Bangladesh, Burkina Faso, Guinea, Haiti, Mauritania, Mozambique, Senegal and Yemen — and this has already had a destabilizing effect. Yet rising food prices will also squeeze profits in formal businesses, as wage increases occur to maintain minimum subsistence living standards. In addition, a large proportion of the working population is self-employed, and its accumulation activity, to the extent that it occurs, is directly related to its food consumption costs (Wuyts, 2001). As the price of food rises, any dynamic momentum of economic growth can therefore stall.

It is possible that rising food prices offer an opportunity for renewed agricultural growth. It is debatable, however, if this can occur after such a long period of agricultural neglect. Widespread poverty in the agricultural sector is itself a major constraint on vigorous supply response, as poor farmers cannot command sufficient land, labour resources or modern inputs to increase production and productivity. The configuration of price changes, whereby not only food prices but also fuel prices and fertilizer prices are rising, may mean that even those farmers in a position to respond are also facing a production cost squeeze.

2. POLICY IMPLICATIONS

LDC Governments are responding to the rising food prices in different ways. Measures taken include the following:

- A two-month ban on rice exports (from 26 March 2008) and the release of rice stocks to curb rising domestic prices (Cambodia);
- The sale of rice at subsidized prices in urban areas (Bangladesh);
- Subsidies on wheat flour, tariff waivers and price controls (Senegal);
- Reinstatement of the export ban put in place last year, as well as large input subsidy schemes to foster cereal production (Zambia);
- Continuation of fertilizer and quality seed subsidies (Malawi);
- Wheat and fuel subsidies (Ethiopia); and

In the case of Yemen, the doubling of wheat prices could reverse all gains in poverty reduction achieved between 1998 and 2005.

Rising food prices will squeeze profits in formal businesses, and dynamic momentums of economic growth can stall.

Soaring food prices and their impact raise serious questions as to the advisability of the current development model being pursued in most LDCs and point to the need for a development policy paradigm shift.

Policy should focus on production, productivity and productive capacities rather than international trade per se and ...

... it should also focus on employment rather than only social services as the royal road to poverty reduction.

There is a need for a better balance between States and markets in promoting development and reducing poverty.

- Banning of exports of agricultural commodities and duty-free import of 300,000 tons of maize (Tanzania) (FAO, 2008a).

These are all stop-gap measures to deal with a short-term crisis in a situation to which there has been no strong international response as yet. From a long-term perspective, however, soaring food prices and their impact raise serious questions as to the advisability of the current development model being pursued in most LDCs and point to the need for a development policy paradigm shift. Earlier *Least Development Countries Reports* have argued that there is a need for such a shift. The unfolding events associated with soaring food prices bear out this view.

For some observers, the paradigm shift which is now required is a return to agricultural development. The earlier analysis in the chapter of the weaknesses of LDC agriculture reinforces this view. However, while this is part of the policy change required, a dynamic development perspective indicates that sustained and inclusive growth cannot be achieved without some form of structural transformation. It will be difficult to avoid balance-of-payment problems and achieve higher rates of economic growth unless there is a process of diversification in which new sectors and products which can accelerate capital accumulation and technological learning are introduced into economies. This can build on existing strengths in commodity production and major efforts should be made to increase agricultural productivity. With accelerating urbanization, however, there is also a need to generate productive employment opportunities outside agriculture as well as to improve agricultural performance.

Rather than a shift in sectoral focus, a deeper change in approach is required. In brief, there is a need for policy change in three dimensions (table 32).

First, policy should focus on production, productivity and productive capacities rather than international trade *per se*. International trade is essential for productive development, and productive development is essential for international trade. But policy should start at the development end, rather than the trade end, of the relationship between trade and development.

Second, policy should focus on employment rather than only social services as the royal road to poverty reduction. This does not mean that social sector spending and human development goals are unimportant. Improved health and education standards are essential in the LDCs. However, there is a need for a better balance between the role in private incomes (based on employment) and public services (through which health and education are still primarily provided) in poverty reduction.

Third, there is a need for a better balance between States and markets in promoting development and reducing poverty. The persistence of generalized poverty and the food price bubble indicate massive market failure. While Governments are not omnipotent, there is a need for creative solutions based on public action which mobilizes key stakeholders, including in particular the private sector, to resolve common development problems and create development opportunities.

Table 32. Key dimensions of a paradigm shift in development policy

From	To
International trade	Production and international trade
Social services	Employment and social services
Markets	State and markets

Source: UNCTAD secretariat.

As chapter 3 of this Report shows, it is clear that LDC Governments are seeking to place poverty reduction and the achievement of MDGs within a broad economic development framework. However, there is a lack of development strategy, which is being reinforced by donor preferences and their tendency to favour the separate pursuit of individual MDG sectors.

To the extent that there is a coherent development strategy in place in the LDCs, it can be described as “export-led growth with a human face” (UNCTAD, 2004: 271–314). In this strategy, the export-led component is founded on trade liberalization and deepening behind-the-border measures, such as trade facilitation, to tackle internal rather than border constraints to international trade, and also to increase the export supply response to trade liberalization, which focuses on privatization and financial liberalization. Great emphasis is also placed on attracting FDI in order to break into international markets. At the same time, the basic needs part of the strategy concentrates on providing basic social services to the population and meeting the MDGs, and also ensuring that there is a minimal safety net to offset the heavier adjustment costs of liberalization borne by poor groups. This part of the strategy is financed by the LDC development partners, who are increasingly allocating development assistance to meet social needs.

This strategy is proving to be neither sustainable (as argued in chapter 1 of this Report) nor a guarantee of high rates of social progress (as argued in the present chapter). The current food crisis is revealing more clearly the weaknesses of the current approach. The basic policy implication is that it is high time for a change.

G. Conclusions

The main finding of this chapter is that although economic growth has accelerated in LDCs in recent years, the rate of progress in terms of poverty reduction and human development remains very low. The incidence of poverty and deprivation remains very high, and most LDCs are off track to meet the MDGs on indicators for which data are available. There is no evidence of a significant break in key trends since 2000 after the adoption of the Millennium Declaration and more socially oriented policy reforms. Moreover, soaring international food prices will have a particularly serious negative impact in the LDCs and are already jeopardizing recent progress in poverty reduction and human development in some LDCs.

The incidence of extreme poverty (measured as the proportion of the people living on less than \$1 a day) has decreased from a peak of 44 per cent in 1994 to 36 per cent in 2005. Yet the number of extremely poor people continued to rise in the LDCs until 2003, when the upward trend levelled off. Poverty reduction has been much faster in Asian LDCs than African LDCs, and in the latter group of countries, the number of extremely poor people continues to rise. In 2005, it is estimated that there were 277 million people living on less than \$1 a day in all LDCs, including 206 million in African LDCs, 71 million in Asian LDCs and 1 million in island LDCs.

Although the incidence of extreme poverty is declining, the proportion of the population living on more than \$1 a day but less than \$2 a day has remained the same. Moreover, the proportion of the population living on less than \$2 a day has only been declining very slowly. In 2005, three-quarters of the population in the LDCs were living on less than \$2 a day.

The development strategy in place in the LDCs is neither sustainable nor a guarantee of high rates of social progress.

Although economic growth has accelerated in LDCs in recent years, the rate of progress in terms of poverty reduction and human development remains very low.

There is no evidence of a significant break in key trends since 2000 after the adoption of the Millennium Declaration and more socially oriented policy reforms.

Few LDCs have been able to generate sufficient productive employment opportunities for the growing numbers of young job-seekers.

Very low material living standards are associated with very low levels of well-being in terms of a broad range of social indicators.

There is a distinct hierarchy of MDG achievement which reflects the priorities of Governments and also of those donors who are funding the scale-up.

Broad-based success in achieving progress towards the MDGs is as yet elusive in the LDCs.

The relatively weak relationship between growth in GDP per capita and poverty reduction in LDCs can be attributed to a number of factors. The limited evidence suggests that economic growth has been associated with rising income inequality in the LDCs for which trends can be identified. However, the Report singles out the type of economic growth as the central reason why poverty reduction has been so slow. Agriculture is the major source of employment in LDCs, but agricultural productivity is very low and rising only slowly. On top of this, there are accelerating trends of urbanization and deagrarianization in which more and more people are seeking work outside agriculture. However, few LDCs have been able to generate sufficient productive employment opportunities for the growing numbers of young job-seekers. Because population growth is high, the expansion in the number of people seeking work either in agriculture or outside agriculture has been very rapid. Yet export-led growth has not generally been inclusive, owing to weak linkages between export sectors and the rest of the economy.

Deagrarianization, a process in which more and more people seek work outside agriculture, could be positive if people are pushed out of agriculture by rising productivity and pulled into other sectors by the new employment opportunities being created outside agriculture. There are signs of such a structural transformation in a few Asian LDCs, which have combined rising food productivity based on a Green Revolution with steady industrialization founded on expansion of manufacturing exports. For most LDCs, however, deagrarianization is a negative process in which people are pushed out because they cannot make a living in agriculture and they also cannot find remunerative work elsewhere. As a result, there are now two faces of poverty in LDCs — poverty associated with long-standing agricultural neglect and urban poverty, most dramatically evident in growing numbers of unemployed youth.

Very low material living standards are associated with very low levels of well-being in terms of a broad range of social indicators. As with the analysis of poverty trends, data availability seriously hampers analysis of progress towards human development MDGs. However, for the few indicators for which it is possible to get information for a wide range of countries, a clear pattern is emerging.

This pattern has four basic features. First, some LDCs are making significant progress towards achieving some specific MDGs, but very few LDCs are making progress on a broad front encompassing more than three targets. Second, more progress is being made on targets which depend primarily on the level of public service provision, and Governments and donors are committed to increasing public expenditure. In this regard, progress towards universal primary school enrolment shows what can be done. But, third, there is a distinct hierarchy of achievement. This hierarchy reflects the priorities of Governments and also of those donors who are funding the scale-up. It also reflects the magnitude of the necessary investments in physical infrastructure and human capital, and the time scale for such investments. In this regard, achievements in increasing primary education enrolments outstrip achievements in improving access to water, which in turn outstrip progress in improving sanitation. Finally, progress towards targets that depend more on household incomes rather than mainly on public service provision has been slowest. In this regard, there is slow progress in reducing the incidence of extreme poverty and also of hunger. It has also proved difficult to keep on track in reducing child mortality, which reflects trends in both private incomes and public services.

The overall implication of these trends is that broad-based success in achieving progress towards the MDGs is as yet elusive in the LDCs. It is also likely to remain so unless the achievement of MDGs is placed in an economic development

framework and efforts are focused on generating jobs and livelihoods as well as increasing the provision of public services directly linked to the MDGs.

Rising international food prices in 2007 and early 2008 will have negative effects on poverty trends in LDCs and slow progress towards the MDGs. These negative effects will arise partly because the large increases in food prices threaten economic growth through rising import bills, partly because of the direct impact of rising food prices on the ability of households to meet essential subsistence needs and partly because of the second-round effects of rising food prices on economic growth. The overall impact is likely to be particularly severe in the LDCs because most of them are net food importers and already have large trade deficits and because levels of poverty and food insecurity are already high, with many spending 50–80 per cent of their household income on food. Moreover, for 20 LDCs, the prices rises will exacerbate pre-existing food emergencies which require external assistance owing to such factors as natural disasters, concentrations of internally displaced persons and localized crop failures. Food price riots had already occurred in eight LDCs by June 2008.

Some LDC Governments are taking short-term measures to mitigate the impact of the food price shock. From a long-term perspective, however, soaring international food prices and their impact raise serious questions as to the advisability of the current development model being pursued in most LDCs and the need for a development policy paradigm shift. The food price shock reveals the weakness of the current development approach. The basic policy implication is that it is high time for a change.

For some observers, the paradigm shift which is required now is a return to agricultural development. However, whereas improving agricultural productivity is vital, it is also important to strengthen activities outside agriculture generating productive employment. What is required is not a shift in sectoral focus but rather a deeper change in approach, with a renewed focus on developing productive capacities and generating employment through a better balance between States and markets.

Making such a change towards a more sustainable and inclusive development model depends on the decisions and political will of LDC Governments. But they are also engaged in a development partnership for poverty reduction with donors. The terms of this development partnership affects both the nature of the current strategic approach and policies, and the potential to change it. This issue is taken up in chapter 3 of this Report.

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Annex:

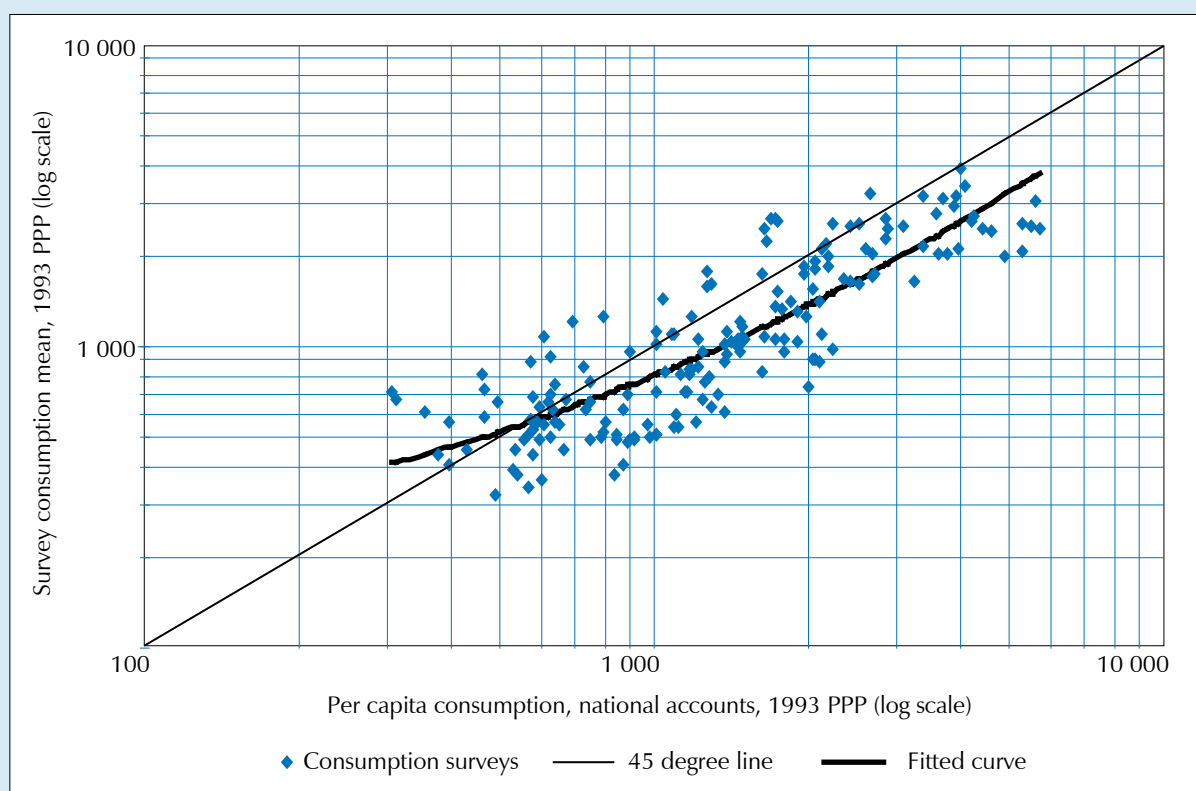
Poverty estimates: Methodological updates and further considerations

The poverty estimates for 28 LDCs (24 African LDCs and 4 Asian LDCs) used in this chapter update the previous estimates described in the *Least Developed Countries Report 2002* (UNCTAD, 2002). The new estimates were calculated using a methodology different from the one discussed in *The Least Developed Countries Report 2002*. The estimates are also based on 1993 purchasing power parity (PPP) exchange rate estimates (not in the public domain when the previous estimates were made) rather than 1985 PPP estimates. In addition, they draw on more country-based household surveys. The new dataset is based on 408 observations, which make it four times larger than the one used in 2002. New 2005 PPP estimates became available in early 2008, but have not been incorporated into the analysis.

Unlike the 2002 estimation, where the distribution information contained in household surveys was combined with the scale variables from national accounts, the new poverty estimates were calculated by calibrating survey means using national accounts statistics. Survey means are calibrated to reduce the large measurements errors derived from different survey definitions and coverage across country and over time. In practice, this implies that a smooth curve is fitted to national accounts per capita household consumption data and that the calibrated survey means (for income and consumption surveys individually) are read off the fitted curve (annex chart 1).

This new estimation method was used since the previous national accounts-based method led to poverty reduction rates that overestimated the actual rates. The new poverty estimates for those countries where changes in poverty could be observed during a long period show more modest declines in poverty rates compared to the previous method. The empirical estimation technique has also improved its accuracy since the one used for *The Least Developed Countries Report 2002* (more details given below).

Annex chart 1. Surveys versus national accounts consumption means with fitted regression lines

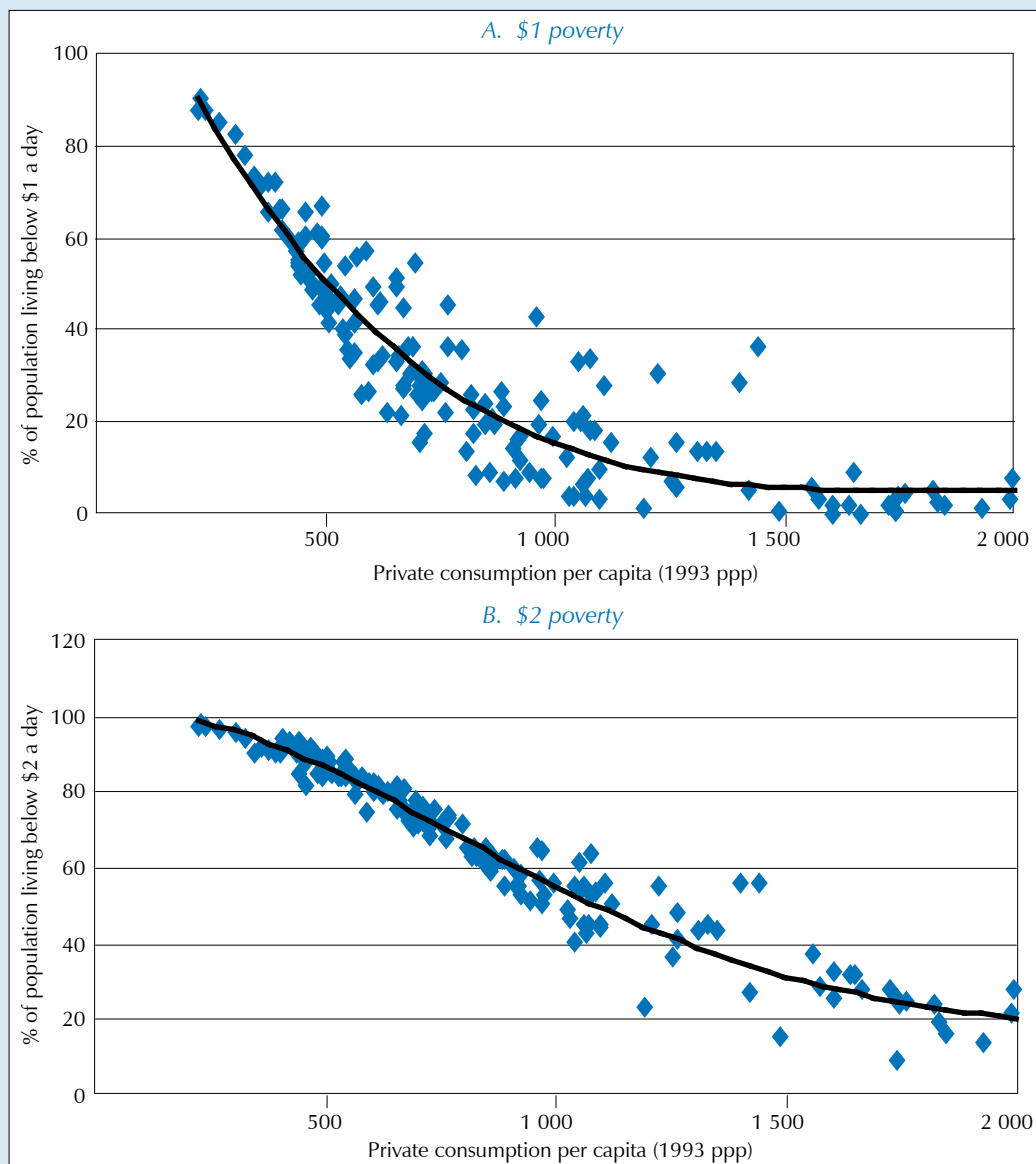


Source: Karshenas (2008).

Some argue that poverty estimates should only be based on household survey data. However, as argued in *The Least Developed Countries Report 2002* (UNCTAD, 2002: 51), the use of national accounts information provides as plausible estimates as purely household survey-based estimates. The new poverty estimates deviate from those of the World Bank but are not systematically below them. Out of 56 comparable observations of \$1-a-day headcount figures, the new estimates are lower in 32 cases and higher in 24 cases than those of the World Bank.

As in *The Least Developed Countries Report 2002*, poverty trends for those LDCs and those years where household surveys are not available have been estimated empirically using poverty curves. Such curves represent the relationship between poverty and mean income, which has been proxied by consumption expenditure (m), at different income levels (annex chart 2). Headcount poverty is estimated as the function, $f(m/z)$, which represents the share of the population living below the poverty line, z . The shape of the poverty curve depends on how income distribution and per capita income change with respect to a country's development path. Poverty curves represent how poverty reduction occurs as a country moves along its development path as household consumption increases. They have been calculated on the basis of data available for 45 countries (low- and middle-income countries and LDCs).

Annex chart 2. Poverty curves
(Private per capita consumption and poverty incidence in developing countries)



Source: Karshenas (2008).

Poverty estimates have been derived relying on a more sophisticated fixed-effect econometric model than the one used in *The Least Developed Countries Report 2002*. While the latter model only included household consumption data as well as a regional and a time dummy as independent variables, the new model includes Gini indices (g) and cross products of the income means and the Gini index. In the new formulation, consumption data has been normalized by the poverty line (m/z). The econometric model has a high explanatory power, which achieves almost perfect fit. Using the coefficients from the model, together with their Gini indices and their mean calibrated consumption, it is possible to calculate poverty trends for 28 LDCs from 1990 to 2005, and for 26 LDCs from 1980.

Source: Karshenas, 2008.

Notes

- 1 Angola, Bangladesh, Bhutan, Burkina Faso, Cambodia, Democratic Republic of the Congo, Equatorial Guinea, Ethiopia, Myanmar, Sudan, Tuvalu, United Republic of Tanzania and Zambia.
- 2 The annex to this chapter provides a more detailed explanation of the methodology used to estimate poverty.
- 3 We made poverty estimates for the 1990–2005 period for the following LDCs: Angola, Bangladesh, Benin, Burkina Faso, Cambodia, Burundi, Cape Verde, Central African Republic, Chad, Ethiopia, Gambia, Guinea, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Togo, Uganda, United Republic of Tanzania, Yemen and Zambia. Our estimates go back to 1980 for the sample, except for Cambodia and Yemen.
- 4 The actual threshold used is \$1.08 and \$2.17 in 1993 PPPs, as is standard practice to ensure comparability with the original \$1-a-day and \$2-a-day poverty lines, which were estimated in 1985 PPP dollars.
- 5 Poverty estimates for island LDCs have not been made due to lack of the necessary data, except for Cape Verde. For the current chapter, this country has been included in the African LDCs aggregate. This is different from what has been done elsewhere in this Report, where Cape Verde is part of the island LDCs group.
- 6 In the case of Africa, Geda (2006) claims that trade is the most significant channel through which global interdependence impacts the welfare of ordinary African citizens.
- 7 Specialization in capital-intensive commodity-producing sectors does not necessarily lead to income concentration if strong and effective policies of economic re-specialization towards other sectors and/or income redistribution are implemented. However, this has generally not been the experience of developing countries specialized in capital-intensive commodity production and trade.
- 8 The operations of TNCs in the garment and textile sector of LDCs have led to a strong expansion of employment and exports, but have generally not been accompanied by another expected benefit of FDI, namely technological learning and spillovers in the domestic economy (UNCTAD, 2007: 30-42).
- 9 <http://unstats.un.org/unsd/mdg/default.aspx>.
- 10 LDCs have achieved significant progress towards the quantitative MDG target on primary education, as mentioned in the text. However, concerns are being raised about the qualitative aspects of the education being provided to children. These arise from failings in several dimensions that contribute to the quality of education, particularly: pupil/teacher ratio, training of teachers, teacher's pay, learning materials (e.g. textbooks), school facilities and infrastructure, annual hours of teaching and functioning of school systems (UNESCO, 2004).
- 11 While rising food import bills have an adverse impact on countries' balance of payment, they do not necessarily mean that more food is being imported (which is especially true for grains) (FAO, 2008b). This is particularly the case if the food import bill has been increasing at the same pace as international food prices, as has been the case in the LDCs.

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