Draft

Least Developed Countries:
What are they and what to do with them?

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Least Developed Countries: What are they and what to do with them?[1]

I. Introduction

A group of fifty countries that carry the moniker "Least Developed Countries" (LDCs) are so designated by the Committee on Economic Development of the Economic and Social Council of the United Nations[2]. The original list designated in 1971 comprised twenty four countries. Since then the number has doubled to fifty countries[3]. While many developing countries have made remarkable progress in the last thirty four years, the countries in the LDCs list have regressed, with some having per capita incomes below those of 1971. The present list of countries includes those in Sub-Saharan Africa (SSA), Asia and Oceania with the exception of Haiti which is in the Caribbean. They remain mostly outside international public purview, except when a famine, a civil war or a natural disaster brings them into the headlines, if only temporarily. Led by the G-8 countries there is new interest in the LDCs given the recent focus on SSA that has 33 of the fifty LDCs[4]. Little is known about these countries outside of the United Nations,

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[1] The author wishes to thank Marcin Wojtczak for providing excellent research assistance when he was an intern at the American Enterprise Institute and to the author's colleagues at the institute who made valuable comments at a Friday Forum in May 2005 at the institute when a preliminary version of this essay was presented. All the errors and blemishes that remain are the author's alone.

[2] The moniker is interesting as a grammatical proposition. It carries a past participle, "least developed" compared to the usual description of poor countries as "developing countries", a present participle that connotes potential for development with no finality as the former description implies. Incidentally, it was Indian Prime Minister, Jawaharlal Nehru who suggested that the qualifier "under-developed" that was used at the time, be replaced with the qualifier "developing" for poor countries at the United Nations General Assembly in 1957. He turned out to be prophetic given the enormous progress made by many developing countries since then that would have been in the LDC group had such a list existed at that time.

[3] In more than thirty years since LDC category was created, only on country has graduated from the list, namely, Botswana in 1994.

[4] The Report of the Africa Commission (2005).

multilateral financial institutions (MFIs) and among some in the bilateral donor community.

This essay attempts to contribute to an understanding of what these countries are what has brought them and kept them in this status and what the international community could do to help them. Given the wide nature of this inquiry it is necessary to be selective as to the coverage of the issues in the review of the specific programs of assistance that have been established to help them and to make some proposals as to what to do with them.

This essay is different from limited earlier work on these countries in three different respects. First it goes a little beyond the economics dimension to bring in some political aspects of being a LDC. Second, the essay depends less on United Nations documents and more on other sources, in order to provide a wider and independent evaluation of these countries and to place them in a larger development context. Third, it eschews the standard approach of the United Nations, multilateral financial institutions (MFIs) and on occasion by bilateral donors that has been to treat them as countries needing special treatment and assistance. Consequently they play more of an advocacy role rather than an analytical one in the evaluation of their performance.

The essay argues for a reassessment of the definition and the process of designation of LDCs, a re-articulation of policies towards them by reducing their number in order to focus on countries that critically need assistance, replacing the United Nation's agencies dominance in these countries by a more bilateral approach and subjecting the assessment of these countries' development strategies and performance to the same rigor as for other developing countries, with respect to their own efforts at policy reform and institutional change. It argues for increased private sector role in

LDCs and providing national status to foreign direct investment (FDI). In essence, the essay argues that while many LDCs need the support of the international community that support must be made more focused, effective and results based.

The plan of the essay is as follows: Following this introduction, section II describes what these countries are; Section III examines the criteria used by the United Nations to include countries in this group with comments on the criteria and their applicability for special treatment and assistance. Section IV examines the development outcome of these countries noting the both exogenous (history and geography related) and endogenous (policy regimes) factors at play, Section V evaluates the present programs of assistance for LDCs and Section VI makes proposals as to what the international community can do to help. Section VII gives the main conclusions.

II. What are the LDCs?

(a) Diversity of LDCs: The fifty countries constitute close to a quarter of members of the United Nations. LDCs are a diverse group. Thirty three are in SSA; sixteen in Asia and one in the Americas (see Table 1). They differ in size, from the largest in land area- Sudan in SSA with 2505 thousand sq. km to Tuvalu with a land area so miniscule with only 26 sq. km, a size of a medium sized metropolitan area in the developing world. The population total for the LDCs was 718 million or 11.3% of the world population in 2003. Their diversity is also pronounced with respect to population size. Bangladesh is the largest with 141 million and Tuvalu has only 11,000 persons. The population densities are wide ranging from 1130 persons per square km (Bangladesh) to only 3 per square km (Mauritania, which is mostly desert). Other characteristics also indicate diverse resource

endowments. Sixteen are landlocked countries, 12 are remote islands and 22 are littoral areas. All of them are in the tropics.

To sum, LDCs have both a different and diverse geography in terms of their size, location and endowments. They are tropical countries with a colonial history. Their being grouped into one category is an artifact of the United Nations.

(b) Weak Human Resources: Human resources weakness is one of the principal characteristics of the LDCs. This is to be expected because poverty is closely associated with poor human capital. The indicators of low human resource endowments are low life expectancy, literacy, nutrition and health and high infant mortality. But as with other indicators used to define the status of LDC, there are many exceptions. The lowest levels of human capital resources are found in Africa, with limited progress shown over the last forty years. More recently, the HIV/AIDs pandemic has come to the fore as a principal factor that makes human resource base even weaker than before in SSA.

(c) Ethnic Fractionalization: In relation to social conditions one factor that has associated with limited development in LDCs has been the high degree of ethnic fractionalization in these countries. This had led to the inability to create a political consensus regarding development policy, distribution of resources and allocation of infrastructure. A related result is that only seven of the fifty countries have been spared of civil wars, civil unrest or border conflicts in the last thirty years (Table 2)[5]. The dearth of civil and political freedoms compounds the problem of ethnic fractionalization as there is not an adequate institutional process to resolve competition among different

[5] The exceptions are: Bhutan, Cape Verde, Kiribati, Samoa, Sao Tome and Principe, and Tuvalu. Bhutan one small landlocked country that is just beginning to modernize and the rest small islands.

ethnic groups. Consequently, many resources have been used on civil wars. High military expenditures have limited both the funds overall and funds allocated for development. In addition, ethnic fractionalization has led to rent seeking by different ethnic groups and public policy has been captured and corrupted the process, when one group comes into dominance over the others[6].

(d) Limited Political Freedoms: Politics in the LDCs are mainly characterized by non-democratic regimes. Civil liberties are limited in LDCs compared to other developing countries (a score of 3.5 for LDCs compared to 3.0 for all other developing countries) (Table 3: Freedom Status Index). This situation has been improving in the present decade given the world-wide trend towards democracy. LDCs that had a colonial past and had became democracies at independence lost that status soon after to authoritarian and one party states. This situation has begun to change somewhat during the 2000s. Civil liberties, a reliable indicator of democratic processes at work are limited in LDCs)[7]. In the Freedom House index of civil liberties (with 1.0 as the most free to 7.0 as least free) shows that majority of the LDCs had scores of 5.0 as the median score in the 1995-2004 period. There are only two significant exceptions; Cape Verde with a score of 1.0 and Mali with a more recent score of 2.0 are have equivalent scores to advanced democracies. Many countries have reached a 3.0 score in the 2000s. These include Senegal, Sierra Leone, Tanzania, and Cambodia. The worst cases of poor civil liberties are Burma, Haiti and Equatorial Guinea in the range of 6.0 and 7.0. It should be no surprise that these countries also

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[6] Easterly and Levine (2002)

[7] The classification is available for only 32 of the 50 countries and limited to the period 1995-2004. Hence

have the poorest human resources and economic performances since the Governments are not responsive to the people.

(e) Limited Economic Freedoms: LDCs do better in terms of economic freedoms compared to civil liberties. Of the 32 LDC classified by the Index of Economic Freedom by the Heritage Foundation, half are in the bottom quarter for all countries (Table 4)[8]. Only six countries are ranked in the upper 50% of the ranking on economic freedoms in the list of all 155 countries that are ranked. LDC's economic freedoms are found most wanting in trade, property rights and regulation.

(f) Poor Infrastructure: LDCs have poor infrastructure compared to other developing countries. This also reflects a reason for poor economic performance and the inability to create conditions to foster economic development . However, much also depends on the nature of the use of infrastructure and the regulatory environments in which they are situated. Two indicators of infrastructure development, highway and telephone intensity are lower than for other developing countries[9] (Table 1).

It is apparent that per capita income is closely associated with some characteristics discussed above- weak human resource development and limited infrastructure are not the only criteria for the designation of a country as a LDC. The designation by the UN Committee on Economic Development is based on a number of criteria of which per capita income is only one. Thus for example the per capita incomes of the LDCs ranged from

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[8] The 2005 Freedom House Index includes 166 countries of which 155 are ranked. The index is based on a list of 50 variables divided into 10 categories of economic freedom. Low scores indicate greater economic freedom.

[9] Highway intensity measures square kilometer of land per km of paved highway. Telephone intensity measures the number of persons per phone-land line. These indicators are subject to two qualifications. The land intensity ratio depends on the size and topography of the land. The telephone intensity ignores the rapid growth of mobile phones. However, these can still give fairly reasonable indication of the state of infrastructure in the country.

an average of US $ 85 for the Democratic Republic of Congo to US $ 3311 for Equatorial Guinea for the 2001-2003 period measured using the World Bank Atlas method (Table 5)[10]. For the same period, 28 of the 50 countries had per capita incomes less than one dollar a day, the accepted standard of absolute poverty[11]. Twelve of them had incomes higher than one dollar a day but less than $ 2 a day, while 7 of them had income ranging from slightly more than $ 2.00 a day to more than $ 9.00 a day. Low per capita income is also related to the other characteristics of LDCs such as limited economic and political freedoms and weak infrastructure.

III. United Nations criteria to designate LDCs

The United Nations uses three criteria to designate LDCs. The designation is done every three years. The criteria are low income, human resources weakness and economic vulnerability[12]. To be included in the LDC list, a country must satisfy all three criteria. Countries that pass two of the three thresholds in terms of income higher than $ 900, and lower

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[10] In year 2000 constant dollars. The per capita levels are estimated according to the World Bank Atlas method. The Atlas method takes a three year average of the local currency exchange rate and converts it into dollars taking into account the GDP deflators of G-5 countries (France, Germany, Japan, UK and US). This involves using a three-year average of exchange rates to smooth the effects of transitory exchange rate fluctuations. Because exchange rates do not always reflect international differences in relative prices, domestic currency exchange rates are converted into international dollars using purchasing power parities (PPPs). PPPs provide a standard measure of real price levels between countries, just as conventional price indexes calculate real values over time. The PPP conversion factors used are derived from the price surveys—covering 118 countries—conducted by the International Comparison Program (ICP).

[11] The World Bank uses purchasing power parity exchange rates (three years averages) to estimate per capita consumption from GDP estimates. Such figures as $ 1.00 day is based on consumption surveys. It is note worthy that this differs from the criterion used by the UN designate LDCs. This is in contrast to the Atlas method of the World Bank that the UN uses for its designation of LDC. In point of fact if the PPP method were used to designate LDCs there would be fewer of them.

[12] Countries with populations above 75 million are to be excluded but Bangladesh with some 141 million remains in the list of LDC. Presumably this exclusion criteria was made after the initial definition of LDCs in 1971.

indexes for human resource weakness and economic vulnerability in two consecutive triennial reviews qualify for graduation.[13]

(a) Low per capita income: This criterion used in the latest triennial (2003) was $ 750 for inclusion and over $ 900 for graduation of countries that have been in this category. However, since income is not the only criterion there are many countries in the list that should either be graduated or not included in the list in the first place given that their per capita incomes was above the $ 750 cut off limit. There were seven countries in this group for 2001-2003. These were Angola, Djibouti, Vanuatu, Cape Verde, Samoa, Maldives and Equatorial Guinea, with per capita incomes ranging from $ 778 to $ 3311.

It has also to be noted that there are many countries that have per capita incomes less than $ 750 that are not in the LDC list. India with a per capita income of $ 487 in 2003 is not in the list even though it has 25% of the worlds poor. Also there are many regions in individual countries that have lower per capita incomes than in the LDCs. Thus for example while Nepal is in the LDC list with a per capita income of $ 242, Bihar which has a per capita income of only $ 151 is not in the list, since it is a state of India and not a country. By the same token, had Nepal been a part of India, it would not make the LDC list. Moreover, the present practice of using the Atlas method to designate countries creates other anomalies. Ethiopia which has a per capita income of $106 in 2003 by the Atlas method has a per capita income of $ 697 in purchasing power parity terms for the same year. The point here is not that Ethiopia should be excluded, but a more realistic

[13] As we see below countries that have been identified for graduation may resist it due to reasons that will be discussed in this essay.

measure of per capita income should be used to have some consistency in the designation of countries in the LDC list. [14]

The World Bank Atlas method has a number of limitations. It ignores presence of non-tradable goods in national income, differences in domestic and foreign inflations rates with specific trading partners and changes in the international value of the dollar. The purchasing power parity method is the more reliable measure of per capita income. In addition, the usual measure used for per capita income is per capita GDP rather than per capita income. This excludes the income streams from remittances, external assistance and net factor income earned on assets held abroad.

Once countries are designated as LDCs, they would like to remain in that category given their eligibility for trade preferences. At least informally the moniker also carries some emphasis in aid allocations and debt forgiveness concessions.[15] In the last triennial review, Maldives and Cape Verde were identified as countries that should be graduated in 2006[16]. They have resisted this action. In the case of Maldives, an argument is made that this should be stayed given the damage caused to the economy by the December 2004 tsunami. Finally, different agencies use different cut offs for designating countries as very poor and eligible for concessions such as the World Bank's IDA cut off , WTO and the IMF related concessions for the poorest countries, including those in the LDC category. None of the agencies

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[14] Countries with larger non-tradable sectors like Ethiopia tend have their per capita income underestimated under the World Bank Atlas method and those with larger tradable sectors tend to be have their per capita income closer to the PPP estimate.

[15] Not all LDCs are eligible for either debt forgiveness or special concessionary assistance while may developing countries are also eligible for these concession.

[16] Maldives have formally protested to the UN's Committee on Economic Development against the proposed graduation in 2006. It has cited the damage done by the December 2004 tsunami as one reason that they should remain in the LDC list as well as their continued vulnerability to natural disasters as a small atoll spread over thousand miles.

mentioned here other than the United Nations has a category called LDCs. In other words there is no consistency among multilateral agencies in their treatment of LDCs.

To summarize, in the use of per capita income as a criterion, to designate countries as LDCs, the following points emerge. First, as a measure of welfare of a population, the focus on the nation misses out very poor segments in countries that are not designated as LDCs (such as 25% of the poor in India). Second, among other deficiencies, the use of the Atlas method based GDP rather than the PPP method, biases the level of per capita income to the extent of the dominance of tradable goods in an economy. For example same levels of income measured in PPP terms give a lower value to a country measured through the Atlas method where it has a higher proportion of non-tradable goods compared to one that has lower share of non-tradable goods.[17]. Third, the use of GDP per capita rather than Gross National Income understates income as it exclude remittances, foreign assistance and net factor incomes in general.[18] Fourth, once designated as LDCs, countries would like to remain in that category given apparent concessions on trade, aid allocation and debt forgiveness. Finally, the per capita income cut off for defining poor countries varies across different institutions such as the MFIs and WTO.

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[17] Roughly speaking, small economies have higher ratios of tradable goods to non-tradable goods compared to economies with large land masses, particularly those that are land-locked. Use of the Atlas method overstates the GNP of small island economies compared to large land mass economies. Consequently, GNP per capita of small economies is over-stated. The PPP method of estimating the exchange rate minimizes this bias such that GNP per capita of both types of countries become comparable.

[18] Many of these problems have been recognized by the United Nations and some progress is being made to get at more realistic income measure. But the progress on these issues remain slow and affected by diverging interests between the countries and those in charge of designating and recommending countries for graduation. The ambiguities and problems in measurement provide a rationale to go slow with respect to speeding up graduation.

(b) Human Resource Weakness: This criterion is indicated by the Augmented Physical Quality of Life Index (APQLI). The index computed by aggregating four indicators (i) nutrition: measured by daily calorie consumption per capita as percentage of the average daily calorie requirement per capita (ii) health: measured by the under-five child mortality rate and (iii) education: measured by the combined gross primary and the secondary enrollment and the (iv) adult literacy ratio.[19]

There are number of issues that relate to the index and its use. First, giving equal weights to each of the indicators makes it an artificial, if convenient, statistical artifact that falls short of the intent to get a proper indicator of human resources. Second, all the indicators are closely correlated with the level of income. The reason to use this particular measure implies that income alone is not sufficient to measure welfare and that human resources have an intrinsic value that is independent of income. Third, for many countries, and most of all for the poorest countries, data on these indicators are weak and missing altogether. Finally, many of the individual indicators have deficiencies. For example, life expectancy does not reflect short term but significant changes in human resources caused by the HIV/AID pandemic that has devastated many African LDCs.

To sum, there is much to be desired in developing a more reliable indicator of human resources. The present method of giving equal weights to individual indicators is arbitrary, there is a dearth of data and the index is incapable of reflecting short term changes such as those due to famines, HIV/AIDs and man-made disasters that adversely affect human resources.

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[19] The UN has recognized that the APQLI does not measure the level of human capital. It is not intended to measure well-being. It proposes re-name the index as a Human Assets Index. But this does not get over the problems of using this index.

(c) Economic Vulnerability: It is measured by the Economic Vulnerability Index (EVI) developed by the UN. The index is computed by aggregating five sub-indexes. These are: (i) export concentration (ii) instability of export earnings (iii) instability of agriculture production (iv) share of manufacturing and modern services and (v) population size. This index is more problematic than the APLQI.

First, there is always a degree of uncertainty and vulnerability in all economic activities whether it is production, export and related to the extent of product concentration. These cannot be eliminated or reduced appreciably in all circumstances, since it is an aspect of the state of nature. Whether it adversely affects welfare of the population depends on a host of factors including the policy environment, which the index ignores. Second, vulnerability of today, reflects past policies such as lack of irrigation investments that increases the instability of agricultural output. Similarly, concentration in commodities also could reflect past policies interacting with a country's resource endowment. Third, all the sub-indexes measures except population are highly correlated with one another such that the index is over determined. It overstates the degree of vulnerability except in cases where items in the commodity structure have negative covariance. Namely even with few crops, activities or exports, it is possible that a decrease in one price or quantity may be offset by increases in other prices and quantities. Fourth, since the designation of LDC is done every three years, the indexes seem to track three year time slices. This seems an inordinately short a time to classify countries from one state to another[20]. Providing for a world trade cycle of 5-8 years is more appropriate than a review every three years. Finally, a proper measure of vulnerability has to take into account all the

[20] But graduation is effected after two triennial reviews or after six years.

developing countries to identify particular outliers. It would be necessary to know whether the country has managed its economy in a such a way that minimizes its vulnerability rather than rely extensively on external assistance to deal with such vulnerabilities[21].

An issue arises whether the designation of LDCs using these criteria and the process of designation and graduation are indeed needed to identify a group of countries that may need special attention from the international community. It would be necessary to use a common yardstick for long term assistance that addresses issues of development and separate out countries that need assistance to deal with exogenous shocks such as floods, tsunamis , earthquakes or similar events. For countries that are more often subject to these events the issue is what arrangements a country itself has made to deal with such events and not become a ward of the United Nations.

Many countries, particularly the small countries (with populations less than a million persons) have been lobbying for special status based on their small size both in terms of population or land area. Their lobbying efforts are championed by the United Nations, the Commonwealth Secretariat and some times by developed countries like Canada (who head the voting group of the Caribbean countries in the World Bank and the IMF). They base their case for special status (over and above those accorded to other developing countries) on their lack of economies of scale given the small size (this must apply only to non-tradable goods as the world is the market for tradables) high administrative costs and their vulnerability to natural disasters such as hurricanes, volcanic eruptions floods and land slides. But empirical work done on these groups of countries show that their performance is no inferior to other developing countries and,

more often than not, better than a majority of developing countries[22]. This suggests that these countries have been able to overcome many if not all of the alleged disadvantages of being small in population and land size. In fact many of the most successful countries, Hong Kong, Singapore, Maldives, Cape Verde, and St. Kitts among other small countries have enjoyed high per capita income and strong growth without any special resource advantages.

IV. LDC Development Outcomes and reasons associated with them.

One of the striking features of LDCs is that once designated they have remained in that position. The original 24 countries that were designated in 1971 have remained in that status. Only Botswana has moved out of the LDC category. In fact the number of LDCs has increased to 50 in 2005. Some 28 of the 50 countries have remained very poor, earning $ 1.00 or less a day in the last 25 years (See Table 6). Among this group only Nepal out of the 28 countries is an Asian country. All others are from SSA.

Many countries that were earning $ 1.00 a day at present have experienced declines in per capita GDP in the last 25 years. These include the Democratic Republic of Congo, Burundi, Guinea-Bissau, Niger, Madagascar, Mali, Rwanda, the Gambia, Liberia, Zambia and Comoros. Twelve countries have been able to raise their per capita income to over $ 1.00 a day but less than $ 2.00 a day including Sudan, Guinea, Senegal, Lesotho in SSA, Bangladesh and Bhutan in Asia, Yemen in the Middle East and Kiribati in Oceania. Yet this category includes countries that started out with higher incomes in 1980s, compared to the 1990s and 2000s. Haiti and the Solomon Islands have experienced steep declines in incomes. Seven

[22] Easterly and Kraay (2002)

countries had per capita incomes in the range of $ 770 to $ 3311 in 2003. But they have been designated as LDCs based presumably on a combination of weak human resources (Angola, Djibouti, and Equatorial Guinea) and economic vulnerability (Vanuatu, Cape Verde, Samoa and Maldives).

While majority of the high income LDCs ($ 778-$ 3311) have made steady progress (except Djibouti) in raising their per capita GDP, per capita GDP of poorer LDCs have either fallen or grown too slowly to make a significant difference to their income levels.

In contrast to the LDCs which grew at 2.3% per year, low and middle income countries' GDP grew by 4.1 % per year during the two decades to 2003. The GDP growth rates for LDCs imply falling and stagnant per capita income compared to steady growth in the low and middle income countries. Among the LDCs the best performers in terms of GDP growth over the last two decades have been Bangladesh, Nepal, Laos, Lesotho, Gambia, and of late Mozambique. The worse performers have been the Democratic Republic of Congo, Haiti, Niger, Somalia, Togo and Zambia[23]. In terms of regions, no where has growth been low and stagnant as in SSA.[24]. In many SSA countries per capita incomes are lower today compared to the 1960s, when they emerged from colonial rule.[25]

A comparison of SSA with East Asian countries would show the sharpest of contrasts, even though both sets of countries faced the same external economic environment over this period. In the 1960s many SSA countries had higher incomes per capita than their Asian counterparts and better potential for higher growth given their plentiful natural resources. Yet,

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[23] Somalia is a special case, being a failed state.
[24] But others too have stagnated and experienced a decline in per capita income as in the case of Haiti.
[25] World Bank (2000)

many of the LDCs led by SSA have had falling and stagnant GDP growth rates. Thus for example, the growth differential between East Asia and SSA over a thirty year period accounts for the many fold higher per capita income in East Asia compared to SSA. And a similar differential exist between Burma, Bangladesh, Cambodia and Laos and the more successful East Asian economies. [26]. Some have attributed slow growth in these to ethnic diversity[27]. However, Asian LDCs such as Bhutan, Bangladesh Cambodia and Laos have hardly any ethnic diversity. This is also true for Haiti. Consequently, one has to look at other factors that have been mentioned as leading to low growth other than ethnicity. There is no common agreement among analysts as to what particular factor would lead to higher economic performance in LDCs. A multitude of factors have been identified, both exogenous and endogenous as leading to poor development outcomes.

Among the exogenous factors, history and geography have received most attention by analysts in recent years. Related to these factors are the initial conditions (given path dependency) determined both by history (colonial heritage) and geography (location, size, , climate and susceptibility to disease). These factors are seen as determinants or destiny of the countries. LDCs are no exception in this regard.

(a) History as destiny: Of the many factors responsible for the LDCs remaining poor over the long term, history has been assigned a major role by analysts along with geography and policy regimes.[28].

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[26] Easterly and Levine (1997) "Africa's Growth Tragedy: Policies and Ethnic Divisions" Policies and Ethnic Divisions.

[27] ibid

[28] Easterly and Levine (2002), Acemoglu, Johnson and Robinson (2001) being the main proponents among others.

In respect of history, former colonial status have been found to be an important determinant of future development[29]. Generally it is believed that former British colonies have better institutions than French, Belgian and Portuguese colonies. This seem to be the case when one looks at the post-colonial history of the LDCs. The former British colonies among the fifty LDCs are Bangladesh, Burma, Gambia, Kiribati, Lesotho, Malawi, Maldives, Sierra Leone, Solomon islands, Sudan, Tanzania, Uganda and Zambia. While it is true that these former colonies had better established legal systems and enjoyed some periods of democracy, immediately following independence in the 1945-65 period, many of these institutions fell into disuse or were not allowed to function after independence, nor were democratic practices maintained[30]. Thus, Bangladesh that came into existence following the breakaway from Pakistan in 1971, had a military government in the during the 1975-82 period. Burma has remained a highly authoritarian regime since 1962, when General Ne Win seized power after the assassination of Aung San. Lesotho, Malawi, Sierra Leone, Sudan, Tanzania, Uganda and Zambia have had authoritarian regimes until the 1990s.

Of the small islands, Kiribati had remained a democracy while Solomon island and Maldives that have had non-elected regimes as late as year 2000 and later. There was not much in the way of preserving former institutions in these countries. Legal systems, electoral processes, free press and association were all compromised and discontinued in one way or another. While Nepal was never a British colony, it was very much under the

[29] Lal, Deepak , In Praise of Empires (2005) sees colonial status as a positive factor given the assurance of property rights under colonial regimes.
[30] Martin Meredith (2005) The State of Africa, Free Press, London describes the situation in Africa including the African LDCs, but this phenomenon is by no means confined to Africa.

influence of Britain through close ties and indirectly through India which was a British colony until 1947. In 1951 the ruling nobility of hereditary prime ministers - the Ranas were disposed of and Nepal became a monarchy in 1951. It became a constitutional monarchy with a multi-party system in 1990. But in 2002 the new King Gyanendra who replaced the murdered King Birendra (at the hands of his drug-crazed son), suspended democracy by dissolving parliament. To sum, the former British colonies had a better basis than other colonies to become democracies but many became authoritarian states at least for a couple of decades following independence.

The situation was worse in former French colonies-Benin, Burkina-Faso, Cambodia, Central African Republic , Chad, Comoros, Djibouti, Guinea, Haiti, Laos, Madagascar, Mali, Mauritania, Niger, Senegal and Togo. They had became independent during the 1958-65 period[31]. Following independence these countries became authoritarian regimes,. Military leaders seized civilian power, suspended constitutions and the rule of law. These countries become veritable fiefdoms were patronage driven almost from the very start. Only in the last decade have many of these countries returned to democracy that they enjoyed immediately following de-colonization. Some of the same military leaders were elected to office through the ballot. For example, in Benin, Mathieu Kerekou the former dictator was elected to power in 1996 and 2001 elections. Cambodia moved towards democracy following the horrendous dictatorship of the Khymer Rouge under Pol Pot. Cambodia had fully contested elections in 2003. Civilian rule was established in the Central African Republic in 2003 after three decades of military rule.

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[31] Senegal maybe considered an exception. President Senghor who also practiced African Socialism and one-party politics, introduced news laws to create a multiparty system and was the first African leader after independence to give up power voluntarily. (See Meredith 2005).

The main problem of the former French colonies was that French laws were less protective of individual liberties and property rights compared to the British legal systems. In addition, there were many military interventions by French in their former colonies. These helped to maintain many authoritarian regimes. French interventions to prop up these unpopular regimes were said to be in accordance with the terms of the agreements the colonies signed at independence. Of course, French economic interests were also supported through such interventions.

The situation in Belgian and Portuguese colonies was no better than in French colonies. It could even be considered worse. These colonies were not prepared in advance for self-government by the colonial powers. Consequently following independence the political situation deteriorated. The uprisings in late 1950s by revolutionary leaders precipitated departure of the colonial powers. Since there was no preparation in these colonies to grant independence for some time to come, many of the institutions that could have led to more stable political transitions were either absent or not used by the new leaders that emerged from the struggle for independence. Independence was not contemplated until much later but took place in the 1960s. As such. many countries still had no experience in self government under modern democratic arrangements[32].

The former Belgian colonies- Burundi, the Democratic Republic of Congo, (formerly Zaire), Congo, Guinea-Bissau and Rwanda had all become increasingly authoritarian regimes following independence with frequent civil unrest, assassinations of leaders and widespread ethnic

[32] It is often forgotten that in the Atlantic Charter signed between the United States and Great Britain in 1941, President Roosevelt insisted on the allies granting self government to after the Second World War.

violence[33]. Similarly, the former Portuguese colonies of Angola, Guinea Bissau and Mozambique experienced incessant civil wars and unrest. These countries have the worst record for economic development in the last three decades among the LDCs.

A common theme that emerges in examining the political circumstances of these countries is that the even the institutions that were in place at the point of the independence soon fell into disuse or deteriorated under single party dictatorial governments. Thus property rights, the rule of law and individual freedoms came to be highly limited, particularly in SSA countries. On the other hand, many of the island economies, that were protectorates of Australia, New Zealand and the UK such as Kiribati, Vanuatu, Maldives, Samoa and Tuvalu did much better in terms of property rights and political stability.

To sum, three factors related to history influenced the development outcome of the LDCs. First, former British colonies had better property rights, legal systems and more political stability, compared to other colonies[34]. Of course there were exceptions, prominent among them were Burma, Sudan and Uganda, where none of these attributes took hold. Second, the French colonies that dominated the SSA had incessant political upheavals ending up with authoritarian regimes and corrupt governments. Benin, the Central African republic, Comoros, Djibouti, Guinea and Togo are examples. Nor was political instability and authoritarian regimes confined to French colonies. Most of the Belgian and Portuguese colonies

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[33] The case of Rwanda is well known and documented where the Hutu majority killed some 200,000 Tutsi minority ethnic group who had political power bestowed on them by Belgian authorities.

[34] Some have argued that French civil law was developed to unify the legal system places greater emphasis on rights of the state, while the British common law has evolved to protect property owners from the crown. (see Hayek (1960), LaPorta, Lopez de Silanes, Shleifer and Vishny (1998)).

had similar problems as in the cases of Angola, Guinea-Bissau and Mozambique. Third, over four decades of the absence of political stability, lack of property rights , corrupt political institutions and little head room for the private sector- contributed to poor economic outcomes in most of these countries. Consequently, some remained within the defined range of LDCs while others joined this category of countries[35]. Yet, it is equally true that history cannot single-handedly explain poor development outcomes of these countries. Many countries that were former British colonies have not had good economic outcomes. Examples among the LDCs are, Burma, Gambia, Malawi and Tanzania. Similarly some countries that have had poor property rights such as those under the French, have done exceedingly well, recently, such as Vietnam, although not designated as a LDC. Similarly, Mozambique a former Portuguese colony has responded well to policy reforms in recent years to have high GDP growth rates.

The main conclusion is that while history influences development outcomes, it may be necessary but not a sufficient factor. In other words, good history does not always guarantee good development outcomes, while a bad history does not necessarily lead to poor development outcomes. Finally, four decades of self rule may be sufficient time to off-set any of the real and alleged adverse effects of colonialism. Colonialism was not always an adverse experience for many countries compared to their pre-colonial conditions[36]. Secure property rights, openness to world trade, unity under a common administration, a single language among others were associated with good development outcomes. Many LDCs have had better

[35] Ethiopia and Eritrea had relatively short colonial experiences. But that did not prevent them from having one party states as was under the Derg regime of Mengistu and the dominance of Eritrea under the same regime when it was a province within Ethiopia.
[36] See Lal (2005).

development outcome under colonial regimes, although they certainly did not have political freedom or civil liberties enjoyed by the metropolitan powers.

(b) Geography as destiny: Many analysts of late have identified geography as a determinant of development outcomes. Among them Landes (1995) has argued that the tropics have not been friendly to economic development. Sachs and Warner (1995) have suggested that in addition to tropics, land-locked locations and commodity dependence have been a brake on development. In a similar vein, Diamond (1997) has argued that tropics have inhibited development through their interaction with germs and crops, noting that European societies developed resistance to germs such as small pox and measles and the regions inhabited by Europeans had species of crops that lead to high yielding domestic crops. Both these factors led to the better application of man-power and technology that led to the rise of the West. They developed a technological lead. By implication, the tropics that had more germs, less crop varieties and were not well endowed in these respects and have remained behind. In a well argued paper Easterly and Levine (2002) support the geography or endowment thesis in economic development noting that colonies that were settled by Europeans did well compared to those colonies which had unfavorable geographical conditions (more germs and less potential crops varieties did worse). Their main point was that colonies settled by Europeans brought strong institutions with guaranteed property rights, puts limits on the state and endengered political institutions that lead to greater political stability.

It is instructive to examine the LDC development outcomes through the geographical lens. One notes the following attributes of these countries:

First, all the LDCs are in the tropics[37]. The above theses apply to them in terms of germs and crops and what Engerman and Sokoloff (1997) have argued that European settler mortality in the tropical regions has been a negative factor on growth. Second, sixteen of the fifty countries are land-locked that have high transportation costs which affects their ability to compete internationally. In addition many of the land-locked countries in SSA have had adverse neighborhood effects from civil and ethnic strife in neighboring countries that have led to large refugee populations. This is true for the neighbors of Angola, Congo, Central African Republic, Rwanda, Sierra Leone and Sudan. Third, sixteen of the countries are islands, and many of them in remote locations. The most remote of them are Kiribati, Tuvalu. Solomon Islands, Samoa and Maldives. They have both high transportation costs as well as the inability to achieve economies of scale in the production of non-tradable goods. Some of the remote islands have been identified as being within in a " ring of fire" where earthquakes, typhoons volcanic eruptions and such natural disasters have led to economic disruptions and adversely affected their long term growth rates.

Like history, geography alone cannot explain the poor development outcomes of these countries. First, many countries that are in the tropics have had good development outcomes. In fact some of the best performers among developing countries are in the tropics such as Singapore, Taiwan and of late India, Southern and Eastern coastal provinces of mainland China not to mention the fast growing economies of Malaysia , Thailand and Vietnam. There are many tropical regions in developed countries that have done very well. These include the Southern states of the United States, parts of Australia and tropical regions in Latin America in Brazil, Colombia and

[37] One possible exception is Afghanistan but even this country has small region in the tropics.

Chile. Second, being a land-locked country does not automatically condemn to poor development outcomes even though transport costs could be higher compared to countries that have access to the sea. The most obvious example is Switzerland. But there are parts and states of Europe and continental United States that are land-locked without any adverse effects. Also, there are parts of India that are land locked like the states of Punjab and Hariyana that have the highest growth rates. Within SSA itself, two of the best performers in development in SSA are land-locked. These are Botswana and Lesotho and neither of them designated as LDCs, at present.

Third, in relation to small states and islands, it is not clear that being small or remote is a condition that condemns a country to have poor development outcomes[38]. In a sample of some seventy two countries, Easterly and Kraay (1999) find that small states have higher average incomes and productivity levels than large states and grow at the same average rates as large states. While per capita GDP in small states and remote islands is more volatile, they are more open and enjoy the benefits of openness that out weigh the disadvantage of not having economies of scale in non-tradable goods. Hence the finding by Easterly and Kraay (1999) that these economies allocate their resources in line with their comparative advantage that leads to their higher levels of productivity. Remoteness can be an advantage since may tourists look for remote places to spend their holidays. Thus Maldives has been able to enjoy high per capita income by offering good tourist services. Higher volatility of GDP (given greater openness) can be addressed through policy regimes that maintain

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[38] Easterly and Kraay (1999),

macroeconomic stability and better management of foreign assets[39]. This becomes a mean versus variance issue can be addressed with low costs through diversification and taking insurance against natural disasters.

Of the endogenous factors that determine growth, policy regimes are the most important, if not the only factor that Governments can deploy to improve development outcomes with necessary changes, particularly in institutions that make and implement policy.

(c) Policy Regimes as a Determinant of outcome: This is the least inquired issue with respect to the LDCs in the existing literature, particularly in the annual reports of the UNCTAD on these countries. There seems to be a prejudgment that LDCs are too poor to reform that could lead to better development outcomes than what they have experienced in the last four decades. Instead of policy reforms UNCTAD reports emphasize the need for more development assistance ,the need for these countries to receive trade preferences and particularly not to attach conditions to these forms of assistance [40].

More recent academic literature on the other hand, (cited above), puts greater emphasis on history and geography (read endowments) over policy regimes for LDC development outcomes. Easterly and Levine (1999) emphasize institutions over policies and argue that impact of endowments operate via institutions. This is another way of saying that history triumphs over geography. In their work European settler mortality during the colonial

[39] One advantage of being small (and having more open economies) is that macroeconomic problems gets revealed easily and sooner so that the country can address them with dispatch.
[40] UNCTAD (2004)

period determines institutions such as property rights, rule of law and restrictions on the state[41].

The institutions created by European settlers stand in good stead for future development. However, for the analysis of outcomes of LDCs this not a good paradigm since it would condemn all LDCs to poor performance given that they have not been settled by Europeans. And, even if the European settlers were prepared to remain in the colonies for long periods, the de-colonization movements would have got rid of them .[42] But there are enough examples of countries that did not go through the settler mortality paradigm yet had superb economic outcomes. This is true for Japan and East Asian countries as well as others such as Chile, and more recently India and southern and eastern parts of China. These outcomes highlight two key factors for better development outcomes, namely that policies matter and that institutional change can accompany policy reforms. Policies can be grounded in newly created or reformed institutions. In this sense, institutions matter. However, they are not as some have argued recently not the single factor and perhaps not the most important factor in development outcomes. Policy reforms and institutional change are complements rather than substitutes. It is with this observation that this essay evaluates policy regimes in the LDCs.

As a general observation, majority of the LDCs have had reasonably good macroeconomic policies since the late 1990s. Many LDCs adopted stabilization policies through better fiscal and monetary policies at that time. Of course many borrowed externally to finance large expenditures in

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[41] Japan is an obvious exception. It was never colonized, so the issue of settler mortality does not arise in this case. It has developed excellent institutions on its own.

[42] One such settler colony was Zimbabwe, although not a LDC it saw the end to the settler colony in the 1980s. There were disastrous consequence for the country following independence when white settler land was expropriated and property rights and democratic institutions were emasculated.

the 1980s and 1990s and ended up carrying large amounts of external debt. They would be forgiven in the future[43]. The accumulation of debt was associated with large and wasteful public expenditures undertaken by many authoritarian regimes of that time. This group include most of LDCs in SSA and more particularly Angola, Central African Republic, Mozambique, Mali, Uganda and Zambia. In many of these cases, civil wars and political unrest in general were the proximate causes for macroeconomic problems such as high inflations, (e.g., the inflation rate reached over 8800% in 1993 in Zaire under President Mobutu) non-sustainable balance of payment problem and heavy debt. Angola, Central African Republic, Congo, Rwanda, and Guinea Bissau belong this category. Exceptional macroeconomic policies were found in Lesotho and Botswana.

While fiscal and monetary policies have moved to more stable stances in year 2000 and later among the LDCs, there has been less of an adjustment in terms of the real exchange rates. Most of these countries had experienced appreciated real exchange rates while avoiding high inflation. In year 2005 , for example, Economic Freedoms index prepared by Fraser Institute and the Cato institute gives highest rating for sound money, compared to any other component of the index. The appreciated exchange rates are one reason that these countries have lost their share in world trade from 4% in world trade to 2.0 % in the last decade. Of course falling commodity prices was another reason. These prices have begun to recover since 2002 but the competitiveness of these countries remain weak due to their appreciated exchange rates.

[43] The Fall 2005 meeting of the IMF and World Bank led to arrangements to forgive all debt including those owed to MFIs when G-8 countries agreed to replenish funds that would be written off by these institutions. This marks the first time that such an arrangement has taken place.

More serious than macroeconomic policies for poor development outcomes for these countries are microeconomic policies that relate to trade regimes, domestic regulatory environments and property rights. The Economic Freedom index finds that these countries have much lower economic freedoms compared to the other developing countries and the world averages for these indexes. Thus the legal system and property rights for LDCs have an index of 3.8 compared to a perfect score of 10. While the world average is 5.5%. (Table ?) In relation to freedom to trade internationally, LDCs score 5.2 out of 10 while the world average is 6.8. In relation to regulation, the score is 5.4 compared to a perfect score of 10 and a world score of 5.9. Only two countries among the LDCs (Tanzania and Uganda) are in the upper 50% of ranking of Economic Freedoms and they are clearly outliers among the LDCs. The restrictive nature of these policy regimes and inadequate infrastructure are two important reasons why LDCs remain poor, given their inefficient allocation of resources arising out of these policy regime. Thus the domestic policy is an important determinant of the development outcome, given that history and geography cannot be changed. Any solution to this situation must emphasize domestic policy reform.

The Asian LDCs had relatively more stable macroeconomic policies as those of Bangladesh, Nepal and Maldives. In fact, Maldives may have one of the finest macroeconomic records given that it has maintained a open current and capital account with a fixed exchange rate. One reason for this is the implicit discipline of a small island economy, since its macroeconomic mistakes are shown almost immediately.

(i) <u>The role of investment</u>: One variable commonly attributed to low growth and low per capita income in traditional development models is the

level of investment or more precisely the investment ratio. This goes back to the Harrod-Domar model, a workhorse of early economic development models and used by international financial institutions such as the World Bank to estimate " aid gaps " that needed to be filled by external assistance[44]. For given saving rates and incremental capital-output ratios (ICORs), the growth rates of countries were estimated. The ICOR was taken as a measure of productivity (even though it can be shown to be not the case). Investment rates were estimated based on national income identities from savings rates derived as residuals of consumption. The upshot of this approach to associate GDP growth closely with levels of investment and take productivity as represented by incremental capital output ratios.

When these concepts are applied to LDCs, poor GDP growth has been attributed to low investment rates and high ICORs. Some have associated the poor performance of LDCs with low investment rates[45]. However, SSA investment rates in the last decade was around 18% compared to other developing countries that was around 20-22% (including, East Asia, South Asia and Latin America). The 2-4% difference in investment rates cannot account for the differences in GDP growth rates between SSA and other developing countries. Similarly, for LDCs outside SSA, investment rates were not significantly different from those of other developing countries. However, while the SSA total investment rates were slightly less than those

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[44] Harrod-Domar model was the basis of the World Bank's Revised Minimum Standard Model where the GDP growth rate was projected by dividing the saving ratio by the incremental capital-output ratio. Then exports and imports were projected as were the net factor incomes to arrive at a foreign exchange gap. It is noteworthy that foreign exchange gaps emerged in these estimates as a result of high projected GDP growth rates and accompanying high import growth rates, low export growth rates and low domestic savings rates. In terms of the Harrod-Domar model the basis for high projected GDP growth was low incremental capital output ratios and high savings rates. It is also noteworthy, that there were no explicit price variables in these estimates such as the three crucial real prices, real wages, real exchange rates and real interest rates.

[45] Barro and Lee (1993) identify low investment as major but not the only reason for disappointing growth performance.

of other developing countries, the ratios of public investments were similar at 7 % during the 1990s. This leads to two conclusions. First that the differences in GDP growth rates are more due to differences in productivity than differences in levels of investment. Second, the composition of investment is more important than the level. It is noteworthy that private investment levels in SSA were lower than those of other developing countries. But this does not account for the lower growth rates (see below).

(ii) Productivity: The LDCs with few exceptions have low investment productivity. It is about half of that of other developing countries and much lower than that of East Asian countries. One estimate using ICORs for LDCs (we treat it as a surrogate for productivity measurement subject to the caveat indicated above), is that it is half that of Asia in the 1990s.[46] In fact the slow down in GDP growth in the 1990s is associated with declines in productivity[47]. Thus factors for raising GDP growth rates and per capita income lie in raising productivity through a host of measures such as improving the policy environment, institutional reform and provision of key infrastructure.

With respect to the small LDCs (Bhutan, Cape Verde, Equatorial Guinea, Maldives, Samoa, East Timor and Vanuatu) there is by definition high investment ratios given that the fixed costs of infrastructure and administration are high in relation to GDP. Small economies had economic performances no worse than large economies and better than many LDCs.

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[46] World Bank (2000) . One implication is that SSA in particular and LDCs in general would have doubled their growth rates had the ICORs been half of what they were in the 1990s. Africa growth decelerated after 1973 given a decline in investment productivity from 25% to 5% even while the investment rates remained around 20% during that period.

[47] Dollar and Easterly (2000) show that the main reason for variations in output growth is variation in total factor productivity in SSA using the identity that Var Y growth= var (TFP growth)+ var (Factor growth)+ 2 * (covariance TFP growth+ Factor growth). They show that cross country variance in output growth between East Asia and SSA was 60% due to TFP growth rather than factor accumulation. Note that the covariance term is equal to zero in neo-classical growth theory given Euler's theorem.

Low productivity is closely associated with limited economic freedoms. Economic freedoms as measured by the Heritage Foundation's Economic Freedom index for LDC's as group has a 2003-2007 mean value close to 52.1%. This figure compares is close to those of all developing countries of ?? implying that LDCs are only slightly worse off (Table 4). However, while the mean values are close the variance of the index is wider ranging from a value of 2.86 for Cape Verde to 4.45 for Burma. The basic position is that variances in productivity are closely related to variances in economic freedom. This is to be expected on economic theory grounds, economic agents are not able to allocate resources in line with the best use of resources due to policy regimes that have many restrictions in place in these countries. These include excessive regulations, protected trade regimes and large size of the public sector that leaves little head room for the private sector.

Private investment is endogenous and depends on a host of factors including the policy environment and property rights. Contrary to the earlier view held by MFIs and some European Governments, ownership matters. A reallocation of capital from the private to the public sector results in a decline in productivity in general. It was found also with specific reference to SSA where there has been a increase in the growing capital-labor ratio with declining labor productivity in a well documented case of Tanzania[48]. The authors of the study caution that increased investment does not guarantee increased GDP growth, since these investments have reduced

[48] Devarajan, Easterly and Pack (2003).

productivity. However, it is equally true that no single factor can explain the lack of direct connection between investment and growth[49].

To sum, restricted policy regimes with respect to property rights, trade, domestic regulation and appreciated real exchange rates are implicated in the poor development outcomes of the LDCs. While there have been reform efforts in the 1990s and year 2000 and later, their policy regimes remain weak. With respect to investment regimes, it is noteworthy that there is no significant relationship between level of investment and GDP growth rate in these countries. Countries that were able to raise growth have done so with rising productivity rather than rising investment . Raising GDP growth rate would imply need to deal with supply side problems, increasing the trade share, improving the use of domestic resources raising productivity per dollar invested and creating more head room for the private sector to invest in these countries.

(v) Programs of Assistance to LDCs

Programs of assistance to LDCs can be considered with respect to two main dimensions- development assistance and trade preferences. With respect to development assistance, there is little in the way of specific support to LDCs. It is with respect to trade that special treatment is accorded to LDCs.

(a) Development Assistance

The main development agencies, do not have special lending or grant facilities for LDCs. LDCs receive concessional funds on the same basis as other developing countries.

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[49] This calls to question the approach adopted by G-8 , United Nations and others such as Jeffery Sachs that a massive investment program likened to the "big push" of idea of the 1950s will not only lead to waste but could be harmful by creating Dutch disease effects. See Rajan and Subramaniam (2005).

(i) International Development Agency (IDA): The soft-lending window of the World Bank does not distinguish between developing countries in general and LDCs. The eligibility for concessional assistance is based on the creditworthiness (access to capital markets) and the level of income ($ 865 which was the IDA cut off in 2003). Nearly all the LDCs are eligible for IDA credits and all have received them. It is noteworthy that the grant-equivalent of these credits is around 70% with 35-40 year maturity periods, ten year grace periods and a credit fee of only 0.75% in lieu of interest rates.

(ii). Like the World Bank, the IMF does not distinguish between LDCs and other developing countries. Since the IMF provides balance of payments support to overcome short term problems, it does not have special lending for LDC. Even in the IMF's recent incursion into long term lending with the Poverty Reduction and Growth facility treats all developing countries alike.

(iii) African Development Bank (AfDB): AfDB follows the same classification as the World Bank. It's African Development Fund that provides soft loans does not distinguish between LDCs and other African countries.

(iv) Asian Development Bank: Also does not give special status LDCs to its lending.

(v) Inter-American Development Bank: Its only LDC is Haiti. It has the same access as other developing countries in the region for soft loans under the Special Operations concessional loans.

(b) Trade Preferences: Background and Analysis.

It is in the trade area where LDCs have special treatment over and above what other developing countries receive under special and differential treatment. In 1971 GATT contracting parties gave a waiver to Article 1 (non-discrimination) for 10 years to authorize the Generalized System of

Tariff Preferences (GSP) scheme to all developing countries. Later this was made a permanent provision with the Enabling Clause of GATT (1979)[50]. This provision allowed (a) preferential market access to developing countries (b) limited reciprocity in multilateral trade negotiations and (c) permitted developing countries to use trade policies as an instrument of development policy, implicitly suggesting that multilateral free trade would not be fully consistent with economic development.

As early as 1968, the United Nations Conference on Trade and Development (UNCTAD) (that came into existence in 1964) recommended the creation of a " Generalized System of Tariff Preferences" (GSP) under which developing countries would grant preferential access to developing country exports. Since then UNCTAD has been the main advocate and sponsor of special and differential treatment for all developing countries. The European Community was the first to implement a GSP scheme in 1971. Coincidentally, it was the same year in which the special category of LDCs was created with the designation of 24 countries as LDCs. LDCs had lobbied donor governments and agencies to receive special trade concessions over and above concessions granted to developing countries.

With the creation of the UNCTAD, an agency came into existence to play this advocacy role. Over time, advocating departures from MFN rules became the raison d'être of the UNCTAD. What had begun as a "conference" acquired permanent agency status. It was the time of the cold war and developed countries went along with the ideas of the 1950s that considered multilateral free trade as not supportive of development. Some

[50] The contracting parties of the GATT adopted the Enabling Clause provision to give permanent status to the GSP tilted "Differential and More Favorable Treatment , Reciprocity and More Fuller Treatment of Developing Countries" thereby creating a permanent waiver to the most favored nation clause. This allows countries to grant preferential tariff treatment. Many developed countries have extended preference schemes including Australia, Canada, the EU, Great Britain, Japan and the United States of America.

even considered free trade inimical to development.[51] The argument for special treatment was seen to apply with even greater force to LDCs . UNCTAD itself was created as a counterweight to the WTO which was seen as a "rich man's club" and an agency that was committed to representing the interest of the developing countries in the world trading system. LDCs thus became the wards of the UNCTAD more by default than by design. Such an arrangement was felt needed by the likes of Prebisch , Singer and Commonwealth Institute[52].

Much of the rationale for a special agency that may have existed even then has now been eroded as many developing countries have grown rapidly in the last forty years. And, developing countries have become members of WTO in large numbers since 1995 after sitting out of earlier rounds of multilateral trade negotiations when they found that special and differential treatment was not useful as originally conceived. UNCTAD then assumed a new role as a champion for LDCs as its clientele while other developing countries went on to realize better prospects. UNCTAD has assumed the primary role in dealing with LDCs, especially given its role in producing an annual report on LDCs as well as a report on private investment on these countries[53]. It has become the intellectual guardian of special and differential treatment and GSP. In this sense LDCs have become wards of the UNCTAD with the latter assuming a role as an international affirmative action advocate for LDCs.

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[51] It was the time when Prebisch (1958), Singer (1950) et al had made the argument that free trade would be harmful to developing countries due to a tendency for terms of trade to turn against primary commodity exports of developing countries, that trade among "unequal partners" was inimical to developing countries.
[52] Raul Prebisch was the first Secretary General of the UNCTAD at its establishment in 1964.
[53] It is somewhat ironic that UNCTAD is charged with the responsibility of surveying private investment in LDCs when it is a champion of statism.

(i) GSP and Special Preferences for LDCs

Trade preferences under GSP were extended to all developing countries. This did not prove to be of a much value to LDCs since they had to compete with other more advanced developing countries for market access. But later, some developed countries extended special access to LDCs Thus the QUAD countries (Canada, Japan, EU and USA) extended duty free and quota free access to LDCs under different programs. Canada and Japan extended the GSP provisions while EU and the United States extended special market access under the Everything but Arms (EBA) and the Africa Growth Opportunities Act (AGOA). In 1996, at the WTO Ministerial Meeting a special program of technical assistance to LDCs was initiated known as the Integrated Program of Technical Assistance for Trade Development with six UN and specialized agencies (IMF, ITC, UNDP, UNCTAD,WTO and World Bank). EU has introduced a third measure for LDC plus another 27 countries called the Economic Partnership Agreements (EPA)[54].

(ii) Everything But Arms (EBA): under this agreement EU provides duty and quota free access to all LDC imports with the exception of arms (which are hardly a LDC export !). It is subject to LDCs making progress towards environmental and labor standards goals. EBA arrangement came into operation in 2001. EBA is extended for an unlimited period and not subject to review as the original version of the AGOA. EBA access to EU market has three exemptions for fresh bananas, sugar and rice. They are liberalized gradually to have full access by 2006 for bananas and by 2009 for sugar

[54] Since EPAs are not specific to LDCs they will not be discussed in this essay except marginally when they impinge on the specific LDC arrangements. The Cotonou Agreement replaced the Lome Convention in 2000. There is an eight year transition period that ends 2008 when EPAs are to be fully established. .

and rice. While there have been some increases in imports from LDCs under the EBA that they have been less than anticipated for a number of reasons. First, the majority of the products imported under the EBA had already received duty free and quota free access under the original GSP agreement by EU called the Cotonou Agreement that expired in 2004 and there was a substitution from on arrangement to another[55]. Second, since the EBA is extended under the rules of the Cotonou Agreement some of the constraints to LDCs experienced under that agreement continue to exist. These are common to all preference agreements including AGOA. They will be discussed below. Third, the impact of EBA differs according to the nature of the exports of the country concerned and could be subject to such barriers as sanitary and pyto-sanitary requirements of the EU. Thus for example Ethiopian meat exports have considerable difficulty entering EU despite EBA due to strict sanitary and pyto-sanitary regulations there.

(iii) African Growth Opportunities Act (AGOA) [56]. It is one of the regional initiatives of the United States under the GSP to give duty and quota free access to SSA to the US market . The access is provided to SSA countries with a number of qualifying criteria including progress towards reducing intervention in markets, strengthening the rule of law, reducing barriers to US exports and investments, increasing political pluralism and labor rights. The Act provides for review of progress in these areas and a report on those findings to the Congress.

AGOA extended GSP benefits in four ways. First, it extended the time horizon to 2008 by executive decision whereas GSP had to renewed each

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[56] The USA designation of LDCs differs from that of the UN in that some in addition to the 33 LDCs designated by the UN, President Bush approved the designation of AGOA benefits to South Africa, Namibia, and Cote d'Ivoire. Swaziland , Mauritius and Kenya making the total number receiving benefits to 38 countries.

period by a vote in the Congress. Later, the time horizon was extended to be without a limit. (check) Second, unlike under GSP, there were no limits put on exports to specified levels from each country. Third, LDC received more liberal treatment compared to other developing countries. Finally, AGOA extended product eligibility that had been excluded under GSP for such products as textiles and apparel, footwear, handbags, luggage and leather.

The first imports under AGOA took place in 2001. Extending product eligibility, particularly for textile and garments was particularly important since under NAFTA and the Caribbean Basin Initiatives, many of these products came in duty free from Mexico and Caribbean countries. AGOA put them under equal footing. Textiles and garments were especially important since under the GSP as they were earlier subject to (Multi-Fibre Arrangment)MFA quotas and later to Agreement on Cotton and Textiles (ACT) quotas while Mexican exports of these products entered the US duty and quota free. As a result of AGOA, SSA textile and garments exports more than doubled within a short periods. But with the ending of the ACT quota regime in 2004, SSA faces strong competition from other sources of these exports. A part of this changed situation was off set by introducing more liberal rules of origin in which imports used for the production of textiles and garments from other eligible countries are considered as value added in the exporting country, thus lowering affective barriers.

Since both EBA and AGOA are preference schemes related to market access in EU and USA, they share issues in conception, implementation and outcomes as all other preference arrangements. These are discussed below.

(c). Issues Related to Preferences

First, trade preferences operate on the demand side through market access whilst the main problems in LDCs are on the supply side related issues such as weak policy and institutional environments and inadequate infrastructure. Moreover, trade preferences only provide a short term respite over competitors who could have comparative advantage in the particular products but are disadvantaged in US and EU markets due to the high protection they face, in products that face tariff peaks. Trade preferences freeze production lines in those particular lines where LDCs may not have incentives to acquire greater competitiveness in new products. This may be particularly true in some manufactures such footwear, luggage and other light manufactures. While preferences help to ameliorate the disproportionate incidence of tariff peaks on LDCs (e.g. on sugar, cereals and meat and in labor intensive products such as footwear and apparel). compared to developing countries. However, the more permanent and efficient remedy is to eliminate the peaks than extend preferences[57].

Second, preferences help countries that have better supply facilities and supply chains and as a result they may no help LDCs. Thus for example, preference based exports from Nepal can survive only if the preference margin is higher than the transport costs to be incurred by Nepalese exporters that have to export through the Kolkata port in India.

Third, preferences are limited in product categories. In some agreements such as EBA, rice, sugar and bananas will be liberalized in the only in 2006 for bananas and 2009 for rice and sugar. Similar situations exist

[57] Hoekman, Ng and Olarreaga (2002) show that tariff peaks are concentrated food products and labor intensive products such as apparel and footwear. They estimate that eliminating tariff peaks and providing full and duty and quota free access would result in a 11% increase in exports from LDCs to the QUAD markets (Canada, EU, Japan and USA).

for other products in the case of preferences offered by other countries on a bilateral basis.

Fourth, preferences are not bound under WTO rules. They could be easily withdrawn by the preferences granting countries under pressure from domestic interests. Preferences can be withdrawn or subject to safe-guard like actions when there are large increases in exports to specific markets. They are not protected by WTO rules as they are exemptions.

Fifth, preferences under both EBA and AGOA have rules of origin. While some of these rules have been liberalized, others remain. For example, EBA has restrictive rules on shipping, domestic content and cumulation of inputs. AGOA also has rules of origin. But they are less restrictive than those in the EBA. Similar situations hold for other industrial country preferences.

Sixth, preferences are subject to former GSP rules such as those that are applied for sanitary pyto-sanitary reasons. Just having preferences does not help exports such as meat, fish and some agriculture products that are subject to strict health and safety standards in developed countries.

Seventh, preferences are a value declining asset. As other exporters gain easier access with lower protection, as would happen with Doha Development Agenda (DDA) or with bilateral trade agreements with competing exporters, the value of the access would decline. The advantages of preferences would disappear while production patterns would have been frozen due to preferences.

Eighth, the rent created between the protected prices and duty free access for LDC exports are captured in a larger proportion by developed

country importers rather than LDC exporters[58]. Meanwhile, given domestic supply problems, the pass-through of export revenues of LDC exports to farmers and labor is limited due to weaknesses in trade facilitation, institutional arrangements and the nature of the policy regimes where competition within the LDCs is limited.

Finally, empirical research find that preferences delay and discourage domestic policy reforms such as reducing the bias against exports by liberalizing the trade regime[59]. Moreover, valuable political capital is wasted when LDCs have directed their national efforts to preserving preferences and failed to use that capital to request support from developed countries to address their supply side problems such a weak ports, transport systems and laboratories to meet health and sanitary standards for their exports[60].

From the above discussion it must be clear that preferences do not help LDCs as much as expected by preference granting developed countries.[61] Meanwhile within the LDCs preferences helped to hold back trade and related reforms and limits the ability of these countries to exploit their comparative advantage . Other forms of support that address supply side issues, greater participation in world trade on MFN basis and improving policy and institutional arrangements would have higher pay offs than preferences. Preferences are a mere band aid with no benefits in the long

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[58] Olarreaga and Ozden (2003).

[59] Ozden and Reinhard (2003), , show that countries that have been removed from GSP adopt more liberal trade policies than those that remain eligible for preferences, in this case as those of EBA and AGOA," The Perversity of Preferences: The Generalized System of Preferences and Developing Country Trade Policies 1976-2000", Policy Research Working Paper No; 2955, World Bank.

[60] A classic case of wasting political capital applies to the banana quotas enjoyed by Caribbean countries in the EU. A WTO dispute settlement panel found these quotas WTO illegal. Caribbean countries had persisted in their efforts to hold on to these quotas in the last three decades.

[61] This is not to deny that there could be some short term gains. For example, Cambodia's garment industry grew from virtually nothing in 1996 to 200 factories and 150,000 jobs by 2001. This rapid development could not have happened without preferences granted to Cambodia. But with the end of the quota regime, sustaining the industry at this level would be a problem. (see Cambodia Ministry of Commerce: Integration and Competitiveness Study (2001)

run. In fact they can be harmful since production gets frozen and diverted into areas in which a LDC have no comparative advantage. Resources get drawn into exports that have preferences and distort the incentive structure as well as create lobbies to maintain preferences.

(d) Integrated Framework for Trade Related Technical Assistance (IF).

The IF was initiated at the Singapore WTO Ministerial Meeting in 1996 and put into operation in 1997 to help the LDCs to integrate themselves to world trade and to the multilateral trading system. It was also a unique initiative in that six agencies (IMF, ITC, World Bank, WTO , UNCTAD and UNDP) were to work in partnership to strengthen and coordinate trade related technical assistance (TRTA) to the LDCs. At the time all the 49 LDCs that were eligible for participation, but only five countries were able to complete the five staged process that was stipulated by the Interagency Working Group of the IF.

In 2000 a review of the IF was carried out by independent consultants as was required by the IF arrangement. The review found that (a) the perception of the donors and recipients differed widely as to the objectives of the IF. LDCs were disappointed that they did not receive additional funds while the donors felt that the objective of the IF was mainly to coordinate TRTA[62]. (b) the proposals for TRTA submitted by the countries were not integrated with the development strategies and were mere "shopping lists" of the countries. In a parallel manner, technical assistance for LDCs was not coordinated among donor countries' own agencies.(c) the IF was at that stage a highly process driven program rather than one based on national strategy and outcomes (d) there was little or no funding available to provide TRTA under the aegis of the IF. Only one country (Bangladesh) received

[62] Rajapatirana, Sarath, Charles Lusthaus and Marie-Helene Adriene (2000)

some funding under the IF from a donor (Canada) at that time, even that was a transfer of funds from an existing arrangement.

The review of the IF led to the following recommendations: (a) to clarify the objectives of the IF as pertaining mainly to TRTA. (b) to embed TRTA in the overall development strategy of the countries by incorporating it in Country Assistance Strategies (CAS), prepared by countries themselves for World Bank assistance. (c) provide a trust funds finance TRTA (d) put one institution in charge of coordinating and implementing the IF and (e) hire expertise outside of the six institutions to widen pool of talent to identify TRTA. All the recommendations were agreed upon by the six agencies with the exception of the last mentioned. A revamped IF was put into place in 2001.

There has been progress in the IF with good Diagnostic Trade Integration Studies (DTIS) undertaken under the program. The revamped IF was expected to increase the awareness of the objectives of the IF and more funds were to be made available under two Windows (I and II) for the purpose of integrating LDCs into the world trading system[63].

However, an evaluation of the revamped IF done in 2004 (some 14 DTISs were done by at the time) found that many of the earlier problems had remained. There was limited clarity of the objectives of the IF, insufficient funds and lack of ownership of the program by LDCs. In fairness it must be said that the level of analysis of trade issues have been considerably raised by the DTIS done under the revamped IF. The disappointment of LDCs with the limited funds provided through the two Windows (financed by donors) is a perennial issue raised by LDCs, but one that has limited validity. LDCs have not emphasized sufficiently the need to

[63] Manmohan Agrawal and Jozefina Cutura “ World Bank Evaluation Department (2004)

undertake trade reforms in their country strategies. In fact country assistance strategies prepared by these countries to be funded by the donor community led by the World Bank had often left out trade reform. Moreover, there is a tendency for developing countries in general and LDCs in particular to be less interested in TRTA compared to investment funds. The latter are much larger than technical assistance funds. Also, LDCs (as other developing countries) claim that technical assistance funds are spent on foreign consultants and not spent in LDCs.

(VI) Proposals for Helping LDCs

This essay highlights a number of issues that have come up in the processes, present arrangements and focus of the support provided to LDCs under the implicit leadership of the United Nations, particularly the UNCTAD.

(a) The designation and graduation of LDC processes are unnecessary. No other category of countries is subject to such a process and no other group of countries are made to be dependent on UN agencies, particularly the UNCTAD. That agency has less of a tract record for advocating and supporting policy reforms. Policy and institutional reforms are the only levers that the LDCs have in the short to the medium term to improve their performance. It is unnecessary to have a long term development issues subject to three year reviews and two triennial reviews for graduation is unnecessary. The World Bank, the IMF and WTO do not use such processes for country designation and graduation but follow a more flexible and less bureaucratic approach.

It is not necessary for the UN Committee on Economic Development to designate countries as LDCs. LDCs do not have a choice in the matter. The incentive for them to be so designated is mostly the trade preferences they receive from developed countries. But this is not dependent on the designation by the UN. Preferences given exclusively to LDCs , like all preferences, do not amount to much and in any case. They may be detracting these countries from undertaking policy and institutional reforms and participating more fully in the international trading system. It is noteworthy that the number of LDCs have doubled and only country , Botswana graduated itself from LDCs. This essay proposes that the process for designating LDCs be discontinued and LDCs be self selected based on their individual needs . The donor community at large can decide the manner and the extent of support they could provide going beyond trade preferences. Preferences are not very helpful to poor countries and in the long run, and they could be harmful.

(2) Designation criteria flawed. Donor countries could identify the LDCs they want to support by using a PPP based GNP per capita measure .A proper designation based on per capita income and access to capital markets as followed by MFIs and WTO is a better way of setting about it. Besides, there would be greater consistency among the institutions and bilateral donors that support development in LDCs. The reason adduced above for this have been presented in Section II above.

The use of three indexes that are closely correlated gives a false sense of precision in the designation of LDCs. The use of the World Bank Atlas method over PPP estimates of per capital GDP introduces a bias into the estimates. Large countries (with large non-tradable sectors) have their GDP per capita understated. Moreover, this method fails to reflect

purchasing power among countries also biasing GNP estimates when the domestic exchange rates are over valued due to exchange and trade restrictions. The use of the GNP measure as against GNI understates income since it misses out factor payments such as remittances. For, example, worker remittances amounted to 14% of GDP of Nepal and 23% of GDP in Haiti in 2003. Finally, the human resource index is highly correlated with income. It introduces an element of arbitrariness when the indicators related to nutrition, health and education are given equal weights. Implicitly, the weighting system values these three activities equallyirrespective of their preferences and circumstances[64].

The third index usedto designate countries as LDCs is economic vulnerability. This index is based on export instability, export concentration, uncertainty associated with agriculture production , share of manufacturing and modern services are very closely correlated[65]. The index is over-determined with these variables[66]. It is always the case that economic activities have a degree of uncertainty that cannot be eliminated. Besides, stability should be achieved overall, in the sense of national income rather than with respect to few of its components such as export revenues, farm incomes and the like. As pointed out above, many of these "instability" denoting variables assume such values due to past policies[67]. For example, instability of agriculture production could reflect policies that led to low

[64] Such a system of equal weighting makes a social welfare function arbitrary, valuing an additional dollar spend on any of these activities as equal when it is hardly ever the case.
[65] Thus for example, if one were to define Var X (variance of exports) as a dependent variable, then, export concentration, ratio of agriculture in GDP, share of manufacturing and modern services could become independent variables .
[66] This index attempts capture variance whilst the other two deal with mean GDP and human resource weakness. As is well known there is a mean-variance trade off that can only be addressed by a well defined social welfare function to consider trade-offs between these two statistical attributes.
[67] This was the case in Nepal where until the 1990s the state control of agriculture inputs provided little incentives for farmers to undertake irrigation investments whilst the Government was not able to provide irrigation facilities in any satisfactory fashion.

investment in irrigation. Similarly, export concentration is the result of a bias against exports when LDC governments attempted to promote industrialization by taxing traditional exports and ended up by depending on them more. The promoted exports were not competitive in the world market. Moreover, export concentration could reflect the country's resource endowment that is fixed at least in the short to medium term.

One further anomaly lies in including the population variable with a number of sub-indexes that are purported to measure instability. Perhaps it was meant to capture small economies that are subject to greater variations in term of trade and income. But, there should be no presumption that small economies are unstable or poor, for that matter. It should be clear that in the short to the medium term the variance in output, exports cannot be meaningfully added to the variance in population.[68]

The above issues suggest that the use of criteria such as per capita income measure ,credit worthiness and country performance to designate LDCs is a superior to the present manner to designate LDCs [69].

There is no category of LDCs in the WTO. Nor are countries designated outside the UN system. Instead in the WTO system developing country status is self selected by countries themselves by declaring

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[68] Var (x) + var (y) =var (z); implying that var (z)=0 since population variance remains constant over long periods (certainly over the 3-6 year designation and graduation cycles).

[69] Credit worthiness is defined here as " the ability to service new external debt at market interest rates over the long term" and economic performance can be defined in term of country assistance strategies developed jointly by the country authorities and Word Bank staff with respect to (i) GDP growth rate (ii) inflation rate (iii) current account deficit in the balance of payments and (iv) proportion of persons below a defined poverty line. These can be applied to five year time periods with the understanding that if there were exogenous shocks (such as large terms of trade shocks or natural disasters), the country can have access to IDA resources and what is more have increased access to resources if the exogenous shock is large e.g. anything above 2% of GDP) . One would like to include progress towards democracy using either civil liberties index of Fraser institute. Thus the LDC median of 5.0 as a base could be used to evaluate progress towards say 4, and 3 depending on the base with 1 as the most free. LDCs that progress towards democracy can be rewarded by increasing the subsidy by raising the resource transfer on IDA term to those countries. There is a precedent for this in the other direction since no IDA funds have been extended to Burma, Somalia and

themselves as such. Other members of the WTO can challenge this characterization so as to deny the special provisions available to developing countries such as GSP, differential treatment such as slower rates of convergence to WTO provisions in reducing trade barriers agreed at multilateral trade negotiations. The World Bank and IMF, Asian Development Bank , Inter-American Development and African Development Bank use a per capita income level criteria along with access to capital markets to identify developing countries.

Using the World Banks, IDA allocation as a guide a group of LDCs can be identified. This would be far simpler. It would not be necessary for LDCs to have go through an artificial index- driven approach now used by the Committee on Economic Development of the UN. Like other developing countries LDCs can "graduate" to World Bank borrowing from IDA or go the private markets altogether. A similar approach cold be taken with respect to LDCs. A new set of LDCs could be defined by LDCs themselves.

Donor countries could, for example, decide that such a group of countries should would not include those that have per capita incomes higher than $ 2000 in PPP terms (2004). Twenty five countries from the list of present LDCs could remain if this criterion is applied.

These are: Bangladesh, Gambia, Sudan, Lao PDR, Solomon Islands, Togo, Haiti, Nepal, Chad, Rwanda, Burkina Faso, Mozambique, Central African Republic, Zambia, , Ethiopia, Sierra Leone, Congo, Democratic Republic of Congo, Guinea-Bissau, Burundi, Malawi, Tanzania, Eritrea, Malawi and Mali. This list is derived from the present list of fifty countries. Donor could provide more focused assistance to a reduced list of countries and be more closely associated with their development efforts. Donors could "adopt" specific countries for providing this assistance depending on their particular strengths, association with these countries and of course based on their own interests.

This arrangement would not mean to say that those that are excluded from the list should not have access to concessional assistance. This could be decided by bilateral and multilateral agencies. But those countries above a per capita income, capital market access and performance criteria should face a higher threshold to have access to assistance. In other words, they could be graduated from IDA to World Bank loans. They could be given a three year period to be graduated. In the meantime, countries that reach a $ 2000 threshold should be considered as graduated after three years by all those who provide external assistance. In point of fact, let each donor decide on its own the forms of assistance it would like to provide rather than have a strict rule for eligibility.

(3) Recognize the diversity among LDCs for assistance strategies. This essay has demonstrated the diversity of LDCs with respect to their endowments, history, geography and policy and institutional reforms and infrastructure. It does not make sense to treat all of them alike. Let the donor community depending on their own comparative advantage in supporting

specific activities decide what forms and extent of assistance they would be ready to provide.

A good example is the case of small economies that have much incomes than $ 2000 in PPP terms. Their problems are different from more diversified, poor and large economies such as Bangladesh or Ethiopia. It may well be that some countries are so small (e.g. Vanuatu, Cape Verde or Maldives) that they cannot have economies of scale in the production of non-tradable goods. That is their state of nature. They can use international trade and external links to have access to complicated services such as neurosurgery performed abroad[70]. One way to help the small countries that are subject to natural disasters is to encourage these countries to hold insurance against such disasters in the private sector and for the public sector to have the donor community consider paying the premium for such insurance for a start as a part of their assistance package. Of course it must be so designed to avoid moral hazard. The premiums can be defined with respect to the level of severity of the disasters event such as hurricanes, when publicly funded insurance kicks in after only a category 3 or above hurricane. Given that such events are relatively rare, the premiums would tend to be small. Spreading risks through insurance is one way of helping small countries whose problems are more associated with variance in incomes rather than low mean incomes.

For very poor countries in SSA such as Ethiopia, the assistance package can be targeted to key human resources sectors such as help with HIV/AIDs pandemic, malaria, tuberculosis and the recently re-emerged

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[70] Non-tradable goods constitute a spectrum that vary from roads that have infinite transport cost (thus confirming fully to the definition of non-tradables) to many services such as complicated medical services that can be bought abroad.

incidence of polio[71]. The areas that need support can be identified by economic and sector work done by the World Bank, and regional banks were health, education and nutrition expertise could be found. While the identification of the target areas to be supported could be undertaken by MFI and some bilateral sources such as USAID, DFID, KFW,OECF and similar sources, providing that support need not be confined to multilateral agencies. These agencies have high staff costs and their internal incentives are not suited to support small targeted programs. They favor programs that defray large expenditures. In this respect, the Metzler commission's recommendations to provide grants instead of IDA credit based on performance is worthy of support by such groups as the G-8 countries.

(4) Emphasize the need for Policy Reform over financial support.

While financial support is warranted for a re-defined group of LDCs, it should not detract from policy reforms. It must be directed to improve performance in LDCs. The main action here should be on policy reforms that liberalize the economy in trade, regulation and the domestic financial sector. Such reforms would help to improve the incentive environments of these countries. These countries have low indicators of economic freedom as shown by the Freedom House index. Moreover, as discussed above, the main focus on such reforms should be on raising factor productivity rather than the level of investment. With such reforms, existing investments and infrastructure could be better used and head-room created for the private sector to play a more important role in their economies[72]. A transfer of

[71] It is found that the most effective programs are those that have been funded by the private funds such as the Gates foundation where delivery systems do not depend solely on public institutions like the local health services noted for their inefficiency and corruption. Christian charities e.g. have been active in SSA providing much needed services in such horrendous diseases as leprosy.

[72] This would require reform of the regulatory environment. Many of the LDC shaved poor regulatory environments that inhibits the private sector from playing an important role. For example, company

ownership from the public sector to the private sector could go a long way to raise productivity.

Nor should reforms be confined to traditional reform packages such as trade. They need to be extended to other sectors and in the microeconomic sphere such as the rules that govern the delivery of services in health, education and nutrition. In the health area, policy reforms can move away from the present public monopoly to allow both local and foreign private sector participants to work towards well identified goals. Thus for example, private health delivery can be enhanced and supported through the removal of public monopolies under a regime of health standards to be defined by the Government with help from foreign expertise. Similarly, in education, more private sector participation through vouchers, engagement and encouragement of parochial schools would be helpful. With respect to nutrition services, they could be delivered through the schools and to pre-natal clinics supported by foreign assistance.

Some of these services already exist in few countries but they do not have wider coverage due to the lack of enthusiasm among many LDC governments to encourage private sector participation. In this regard it must be noted that UNDP, WHO, UNESCO among other UN agencies are not enthusiastic supporters of either policy reforms or greater private sector participation. They also favor funds over reforms and suggest "a reform fatigue" on the part of developing countries including LDCs which is the donor equivalent of an "aid fatigue"[73]. This should be changed and foreign

registration in Madagascar are long and complicated and need to be submitted to a number of administrative offices. (see Madagascar, Integrated Framework Diagnostic Study , World Bank 2001).

[73] A part of the UN opposition to reform has manifested in their unabashed opposition to " structural adjustment loans" . A position that also came to be accepted by Mr. Jim Wolfensohn the former president of the World Bank and supporter of this particular UN view. Under his leadership the World Bank abandoned conditions for providing support.

assistance conditioned on the ability of the host governments to undertake economy wide and microeconomic reforms targeted to the most needed sectors. Grants can be conditioned on such performance based external support.

(5) Emphasize supply side issues which are the main constraints on improved performance of LDCs. Although constraints to development in LDCs, comprise history and geography that are given, policy, institutions and poor infrastructure can be changed for the better. External assistance could be best targeted to these areas. Along with policy reforms, much can be done to improve the institutions such as the property rights, the legal environment and costs of doing business in these countries and address infrastructure constraints.

The areas for actions have been identified in DTIS on fifteen countries. These differ according to country circumstances. Thus for example, Ethiopia could do well to improve its transport sector with a transport policy regime that allows a greater role for the private sector. It could at the same time improve the road net work for trucking. It could eliminate dual inspections of goods that have to be cleared through customs at Djibouti. Similarly, transport systems for internal trade can be improved through re-building the neglected road infrastructure. Similar supply side actions could be undertaken in Nepal, another land-locked country. There improvement in the East-West road network could provide access to the agriculture hinterland and improve the returns to agriculture, small industry and handicrafts.

For LDCs the most important areas for support would be in human resources-in health, education and nutrition. Funding to support hospitals, training of medical personal-doctors, nurses and medical technicians will

have high returns and contribute to long term growth . As discussed above, giving a greater role for the private sector in delivery systems in addition to infrastructure could go a long way to improve general welfare of the population. Similarly assistance to education systems with help on schools curriculums, building and equipment could be given on a grant basis. In this regard, it is important to emphasize that bilateral aid is better suited compared to multilateral assistance since the former can be delivered with minimum bureaucratic processes and proper incentives.

Another crucial aspect of support for improving supply side issues has lot to do with providing incentives for private sector participation in economic activity in general and providing national status FDI. Countries that have been friendly to FDI have been able to address supply side issues better. They have better market access in developing countries and are important not only for enhancing resources, but also providing access to technology.

With respect to institutional reforms, a legal environment that respects property rights will go a long way to raise domestic investment as well as FDI. The index of Economic Freedoms has low rankings for property rights and the regulatory environment in many of the LDCs.

(6) Emphasize financial assistance over providing preferences. The main problems of the LDCs are behind the border of their own country rather than at the border of the importing country. Given this situation, one proposal for LDCs and developed countries is to let preferences be subject to its natural attrition as world trade is liberalized. Instead developed countries could provide well-targeted development assistance to address supply side problems for improving ports, road networks and laboratory facilities. For example, many LDCs such as Mauritania and Cambodia are that export

fish, meat and diary products do not have the capacity to undertake modern testing, certification and laboratory facilities[74].

(7) LDCs should move away from UNCTAD, UNDP, UNIDO and other UN agency ward-ships to have a more diversified group of supporters specially among bilateral donors. The stewardship of the UN for LDCs has not been successful by most measures. In terms of the funds they provide or the policies they support or the advocacy role that UN has played, this steward has not been successful. In terms of funds, hardly an average of $ 10 million has been provided to each of these countries from the UN. LDCs could do much better as individual countries rather than wards of the UN. The fact is that the LDCs are a part of the raison d' être of such UN agencies as UNCTAD. The ideas they espouse on economic policy are to say the least, old fashioned. They hark back to the 1950s and 1960s when trade was not seen as being friendly to development, when poor countries remained outside of the multilateral trade negotiations and when ownership was not considered a significant factor in economic performance.

LDCs have not done well with trade negotiations or reforming their own trade regimes to a satisfactory degree. Nor have they moved away from public ownership of large parts of their economies. This is one reason why productivity is low in LDCs. To the contrary, UNCTAD and other UN agencies have argued that LDCs have done enough trade reforms and that it is now up to the developed countries to grant them preferences. This is a dead-end. For these reasons, LDCs will do well to diversify their relations with the donor community and pay more attention to bilateral assistance.

[74] World Bank (2001) see: Mauritania: Integrated Framework: Diagnostic Trade Integration Study.

(8) Emphasize the movement towards democracy and political competition with LDCs. There is a consistent and clear relationship between economic development outcomes and democracy. Without a movement towards democracy, LDCs are condemned to remain in poverty. Moreover, non-democratic states have certain deleterious effects on property rights, ethnic harmony and stability. Most of the LDCs, particularly, though not exclusively in SSA, have had a poor record in these areas.

First, as indicated by their post-colonial history, many of these countries turned into authoritarian regimes and kleptocracies to the detriment of their citizens. There were little incentives to save and invest in such environments. They had low levels of domestic savings, low levels of investment in general and very low or negative returns to public investments. One fundamental flaw has been to regard ownership as neutral to enterprise, when it is not.

Second, the absence of democracy , has led to a lack of a peaceful or efficient process to resolve competition among different groups, particularly in multi-ethnic settings. Instead, this had created opportunities to reward persons from the same group, tribe or family. In other words, to rent seeking by these entities. Third, the absence of democracy has lead to political instability which have a deleterious effect on economic stability, legitimate enterprise development and strong policy regimes.

VII Conclusions

A review of the process involved in designating LDCs, including the definitions used as well as the development outcomes of these countries leads this essay to conclude that the current situation is not satisfactory in several respects. This is evidenced by the poor development outcomes in these countries. The approach by the UNCTAD, the principal UN agency for

LDCs treats these countries as wards needing affirmative action on an international scale rather than countries that can improve their lot by strong trade and institutional reforms and provision of key infrastructure.

This essay has reviewed the characteristics of LDC, noting their diversity, human resource weaknesses, ethnic fractionalization, limited economic and political freedoms and poor infrastructure. These characteristics have conditioned their development outcomes which are less satisfactory than those achieved by low income developing countries. There are many anomalies in the designation of countries as LDCs. More than half of them have incomes that are five times the per capita income of countries that have per capita income of $ 1.00 a day, measured through PPP method. Nor, are all the poor in countries like India which has 25% of the world population included in the category of LDCs. This is because, the criteria used by the United Nations to designate countries as LDCs includes human resource weakness and economic volatility in addition to per capita income. There is little or no justification to use such wide mixture of criteria (that relates to ten sub-indexes) , at least not on economic grounds.

The process of designating countries as LDCs is unnecessary, bureaucratic and subject to many limitations. Most of all, LDCs have no say in the matter. It also is not consistent with the approaches used by MFIs and WTO or bilateral providers of external assistance. They use more flexible criteria to support countries presently designated as LDCs which as noted are not the poorest countries in the world. Nor do they have a majority of the poor when measured on a world-wide rather than a national basis.

While development outcomes of these countries are influenced by the history, geography and policy regimes, the last mentioned provide a possible lever to improve development assistance. Of course, history and geography

condition the long term trends in countries within which LDCs can undertake policy and institutional reforms and crucial infrastructure investments to improve their development outcomes. The essay notes that UNCTAD reports have not emphasized policy and institutional reforms in their annual reports. Instead, it has played more of an advocacy role for giving special and differential treatment for these countries.

This essay has proposed that countries that have per capita incomes less than $ 2000 per capita incomes in 2004 (on PPP basis) be identified as LDCs. This would reduce the current group of fifty countries to twenty five and over time such a special category will neither be necessary nor viable. Let bilateral and multilateral donors provide external assistance recognizing the diversity of these countries and the particular individual need, rather than as a special group. And, let these countries self-select their status as is done in relation to the MFIs and WTO.

The essay makes the following proposals to lead to better development outcomes for LDCs and to donor governments and agencies to make their assistance more effective and performance based:

(1) The designation and graduation of LDC processes are unnecessary: These should be discontinued within the next three year. No other category of countries is subject to such a process and no other group of countries are made to be dependent on UN agencies, particularly the UNCTAD.

(2) Designation criteria flawed, they should be changed. Donor countries could identify the LDCs they want to support by using a PPP based GNP per capita measure .A proper designation based on per capita income and access to capital markets as followed by MFIs is a better way of setting about it.

(3) Address the diversity among LDCs for assistance strategies. This essay has demonstrated the diversity of LDCs with respect to their endowments, history, geography and policy and institutional reforms and infrastructure. It does not make sense to treat all of them as belonging to one group that is alike. Let the donor community, depending on their own comparative advantage, decide what forms and extent of assistance they would be ready to provide to individual countries.

(4) Emphasize the need for Policy Reform over financial support. While financial support is warranted for a re-defined group of LDCs, it should not detract from policy reforms. It must be directed at improving performance in LDCs. The main action here should be on policy reforms that liberalize the economy in trade, regulation and the domestic financial sector and provide more head-room for the private sector.

(5) Address supply side issues which are the main constraints on improved performance of LDCs. Although constraints to development in LDCs, mostly lie on the supply side. External assistance could be best targeted to these areas. Along with policy reforms, much can be done to improve the institutions such as the property rights, the legal environment and costs of doing business in these countries and address infrastructure constraints.

(6) Emphasize financial assistance over providing preferences. The main problems of the LDCs are behind the border of their own country rather than at the border of the importing country. Preferences are a dead end, a value loosing asset that could freeze production in areas where a country has no comparative advantage. Instead developed countries could provide well-targeted development assistance to address behind the border for improving ports, road networks and laboratory facilities.

(7) LDCs should have a more diversified group of supporters specially among bilateral donors and move away from UNCTAD, and other UN agency ward-ships to have . The stewardship of the UN for LDCs has not been successful by most measures- in terms of supporting good policy, providing funds or playing a useful advocacy role. LDCs have become the raison d'être for UNCTAD as other developing countries have gone on to have more diversified sources of funds including FDI after they have liberalized their policy regimes and strengthened their institutions.

(8) Emphasize the movement towards democracy in LDCs. There is a consistent and clear relationship between economic development outcomes and democracy. Without a movement towards democracy, LDCs are condemned to remain in poverty.

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Table 1

Demographics of Least Developed Countries

	2007 Population (thousands)	Area (thousands sq km)	Location[1]	Telephone Intensity [2]	Roadway Intensity [3]
Afghanistan	31,890	648	LL	114	19
Angola	12,264	1,247	O	130	24
Bangladesh	150,448	144	O	141	1
Benin	8,078	113	O	106	7
Bhutan	2,328	47	LL	71	6
Burkina Faso	14,326	274	LL	147	18
Burundi	8,391	28	LL	303	2
Cambodia	13,996	181	O	385	5
Cape Verde	424	4	IS	6	3
Central African Republic	4,369	623	LL	437	26
Chad	9,886	1,284	LL	760	38
Comoros	711	2	IS	42	2
Dem. Rep. of Congo	65,752	2,345	O	6,203	15
Djibouti	496	23	O	45	8
Equatorial Guinea	551	28	O	55	10
Eritrea	4,907	121	O	130	30
Ethiopia	76,512	1,127	LL	125	31
Gambia, The	1,688	11	O	38	3
Guinea	9,948	246	O	380	6
Guinea-Bissau	1,473	36	O	139	10
Haiti	8,706	28	IS	62	7
Kiribati	108	1	IS	24	1
Laos	6,522	237	LL	72	8
Lesotho	2,125	30	LL	44	5
Liberia	3,196	111	O	463	11
Madagascar	19,449	587	IS	291	12
Malawi	13,603	118	LL	132	8
Maldives	369	0.3	IS	11	3
Mali	11,995	1,240	LL	160	66
Mauritania	3,270	1,031	O	80	135
Mozambique	20,906	802	O	300	26
Myanmar (Burma)	47,374	679	O	99	25
Nepal	28,902	147	LL	64	8
Niger	12,895	1,267	LL	537	87
Rwanda	9,908	26	LL	431	2
Samoa	214	3	IS	16	1
São Tome and Principe	200	1	IS	29	3
Senegal	12,522	196	O	47	14
Sierra Leone	6,145	72	IS	256	6
Solomon Islands	567	28	O	77	21
Somalia	9,119	638	O	91	29
Sudan	39,379	2,506	O	59	211
Tanzania	39,384	945	O	265	12
Timor-Lesté	1,085	15	IS	-[4]	3
Togo	5,702	57	O	97	8
Tuvalu	12	0.03	IS	17	3
Uganda	30,263	236	LL	300	3
Vanuatu	212	12	IS	31	11
Yemen	22,231	528	O	25	7
Zambia	11,477	753	LL	121	8
LDCs (50 countries)	**786,275**	**20,826**	**16 LL, 12 IS, 22 O**	**285**	**20**
World	**6,602,224**	**510,072**	**--**	**5**	**16**

Notes:

[1] LL – Landlocked country, IS – Island nation, O-Other (nations that have ocean or sea access)

[2] Number of people per phone land-line.

[3] Square km of area per km of roadway (paved and unpaved).

[4] Telephone Intensity data unavailable.

Source: 2007 CIA World Factbook (http://www.cia.gov/cia/publications/factbook)

Table 2

Political Measures of Least Developed Countries

	Civil Liberties [1, 2]						Political Independence [3]	First Democratic Election [3]	History of Conflict [4, 5]
	1977-1981	1982-1986	1987-1991	1992-1996	1997-2001	2002-2006			
Afghanistan	7	7	7	7	7	6	1919	1965/2004	1978-2002 CW
Angola	7	7	6	6	6	5	1975	1992	1975-91 & 1993-94 & 1997-20002 CW
Bangladesh	4	5	4	4	4	4	1971	1978	1975-79 & 1982-86 CW
Benin	6	7	6	3	2	2	1960	1991	1963-1970 CU
Bhutan	5	5	5	7	6	5	1949	Never	NA
Burkina Faso	4	5	5	4	4	4	1960	1978/1991	1966-1978 CW, 1978 - 87 CU
Burundi	6	6	6	7	6	5	1962	1993	1966-1996 CW
Cambodia	7	7	7	6	6	5	1953	1993	1970-1998 CW
Cape Verde	6	6	5	2	2	1	1975	1991	NA
Central African Republic	6	6	6	4	4	5	1960	1993	1966-81 & 1996-97 CU
Chad	6	7	6	5	5	5	1960	1998	1969-1998 CW
Comoros	4	5	5	4	4	4	1975	1990	1974-2005 CU, 1974-76 & 1997-1999 CW
Congo, Dem. Rep.	6	7	6	6	6	6	1960	NA	1960-67 & 1977-78 & 1996-2000 CW
Djibouti	4	6	5	6	6	5	1977	1999	1990's CW
Equatorial Guinea	6	6	7	7	7	6	1968	Never	NA
Eritrea	..	..	..	5	5	6	1993	Never	1998-2000 BW
Ethiopia	7	7	7	5	5	5	Free	1995	1977-1993 CW/BW, 1998-2000 BW
Gambia, The	3	4	2	4	5	4	1965	1970	
Guinea	7	6	6	5	5	5	1958	1993	
Guinea-Bissau	6	6	6	4	5	4	1974	1994	1998-2000 CW
Haiti	6	6	5	6	5	6	1804	1990	1960's & 1970's CW, 1990's CU
Kiribati	2	2	2	1	1	1	1979	1979/1994	NA
Lao PDR	7	7	7	6	6	6	1949	1997	1953-57 & 1958-61 & 1965-73 CW
Lesotho	5	5	5	4	4	3	1966	1993	1970-86 & 1997-98 CW
Liberia	5	5	6	6	5	5	1847	1847	1989-97 CW
Madagascar	6	6	4	4	4	3	1960	1993	
Malawi	7	7	6	4	3	4	1964	1994	1980's CU
Maldives	5	5	5	6	5	5	1965	1968	
Mali	6	6	5	3	3	2	1960	1992	1980's & 90's BW/CW
Mauritania	6	6	6	6	5	5	1960	1994	1976-79 CW, 1980's CU, 1989 BW
Mozambique	7	7	6	4	4	4	1975	1994	1980's CW
Myanmar	6	7	7	7	7	7	1948	Never	1948-78 CW
Nepal	4	4	4	4	4	4	1923	1959	1923-62 CU, 1996-2001 CW
Niger	6	6	6	5	5	3	1960	1993	1960-74 & 1990-95 CW
Rwanda	6	6	6	6	6	5	1962	1965	1960's-1990's CU/CW, 1991-96 CW
Samoa	2	3	2	2	2	2	1962	NA	NA
São Tome and Principe	6	7	5	2	2	2	1975	1991	NA
Senegal	4	4	3	4	4	3	1960	1960	1968-73 & 1998-1993 CU
Sierra Leone	5	5	5	6	5	3	1961	1962	1990-2001 CW
Solomon Islands	2	2	1	2	3	3	1975	1976	1997-2000 CW
Somalia	7	7	7	7	7	7	1960	1960	1977-88 BW, 1988-97 CW, 1997-2000 CU
Sudan	5	5	6	7	7	7	1956	1958	1970's -1990's CW/CU
Tanzania	6	6	6	5	4	3	1964	1995	1964 CW
Timor-Lesté	..	..	..	..	3	3	2002	2002	1977-1990's CW/BW
Togo	6	6	6	5	5	5	1960	1993	1963-1980's CW
Tuvalu	2	2	1	1	1	1	1978	1981	NA
Uganda	6	5	5	5	5	4	1962	1992	1978-82 CW, 1998 BW, 1990's CU
Vanuatu	4	4	3	3	3	2	1980	NA	1980-81 CW, 1980's & 90's CU
Yemen	..	..	5	5	6	5	1918/1990	1993	Before 1990 CU/BW, 1994 CW
Zambia	5	5	5	4	4	4	1964	1964/1991	1997 CU

Notes:

[1] Data up to year 2005 obtained from Freedom House, Freedom in the World: Comparative scores for all countries from 1973 to 2006, available at: http://www.freedomhouse.org/template.cfm?page=15. 2006 data obtained from Freedom House publication, Freedom in the World 2007: Selected Data From Freedom House'S Annual Global Survey Of Political Rights And Civil Liberties, available at:http://www.freedomhouse.org/uploads/press_release/fiw07_charts.pdf.

[2] In the Freedom House ratings, 1 represents the most free system and 7 the least free system.

[3] Dates obtained from CIA 2004 World Factbook, available at: http://www.cia.gov/cia/publications/factbook/

[4] Dates and information obtained from State Deparment Country Background Notes, available at: http://www.state.gov/r/pa/ei/bgn/ and on "The History Channel Encyclopedia" at: http://www.historychannel.com.

[5] CW - Civil War, BW - Border War, and CU - Civil Unrest.

Table 3

Freedom Status Index

Country	Average 1996-2006 PR	Average 1996-2006 CL	Status (2006)
Afghanistan	6.3	6.4	PF
Angola	6.0	5.5	NF
Bangladesh	3.2	4.0	PF
Benin	2.2	2.1	F
Bhutan	6.5	5.7	NF
Burkina Faso	4.5	3.8	PF
Burundi	5.6	5.7	PF
Cambodia	6.1	5.5	NF
Cape Verde	1.0	1.6	F
Central African Republic	4.4	4.5	PF
Chad	6.0	5.0	NF
Comoros	4.8	4.0	PF
Congo, Dem. Rep.	6.4	6.0	NF
Djibouti	4.6	5.4	PF
Equatorial Guinea	6.9	6.5	NF
Eritrea	6.7	5.3	NF
Ethiopia	4.7	4.9	PF
Gambia, The	5.6	4.7	PF
Guinea	6.0	5.0	NF
Guinea-Bissau	3.7	4.5	PF
Haiti	5.5	5.5	PF
Kiribati	1.0	1.0	F
Laos	7.0	6.0	NF
Lesotho	3.1	3.5	F
Liberia	4.9	5.1	PF
Madagascar	2.5	3.6	PF
Malawi	3.2	3.4	PF
Maldives	6.0	5.2	NF
Mali	2.3	2.5	F
Mauritania	5.7	5.0	PF
Mozambique	3.0	4.0	PF
Myanmar	7.0	7.0	NF
Nepal	3.9	4.2	PF
Niger	4.6	4.1	PF
Rwanda	6.6	5.5	NF
Samoa	2.0	2.1	F
Sao Tome & Principe	1.4	2.0	F
Senegal	2.9	3.5	F
Sierra Leone	4.1	4.3	PF
Solomon Islands	2.5	2.8	PF
Somalia	6.5	7.0	NF
Sudan	7.0	7.0	NF
Tanzania	4.3	3.7	PF
Timor-Leste	4.0	3.3	PF
Togo	5.7	5.0	NF
Tuvalu	1.0	1.0	F
Uganda	5.0	4.3	PF
Vanuatu	1.4	2.5	F
Yemen	5.2	5.5	PF
Zambia	4.5	4.0	PF
LDC Average	**4.5**	**4.4**	**--**
Developing Countries Average			**--**
Advanced Economies Average			**--**
World Average	**3.4**	**3.4**	**--**

Source: Freedom House. Data up to year 2005 available at: http://www.freedomhouse.org/template.cfm?page=15. 2006 data available at:http://www.freedomhouse.org/uploads/press_release/fiw07_charts.pdf.
Notes and Clarifications: "PR" stands for "Political Rights," "CL" stands for "Civil Liberties," and "Status" is the Freedom Status. Political Rights and Civil Liberties are measured on a one-to-seven scale, with one representing the highest degree of freedom, and seven the lowest. "F," "PF," and "NF," respectively, stand for "Free," "Partly Free," and "Not Free." Beginning with the ratings for 2003, countries whose combined average ratings fall between 3 and 5 are "Partly Free," and those between 5.5 and 7 are "Not Free." Several countries became independent, split into two or more countries, or merged with a neighboring state. Scores for these countries are given only for the period of their existence as independent states.

Table 4

Economic Measures of Least Developed Countries

	GDP Growth (annual %) [1]					Trade (% of GDP) [1]					Economic Freedom [2]			
	1981-1985	1986-1990	1991-1995	1996-2000	2001-2004	1981-1985	1986-1990	1991-1995	1996-2000	2001-2004	1998-2002		2003-2007	
Afghanistan	..	..	..	..	12.6	..	..	..	..	79.1	..	..	..	..
Angola	1.5	3.3	-3.8	6.4	10.5	61.1	60.1	116.8	149.6	133.0	24.3	R	43.4	R
Bangladesh	3.7	3.7	4.4	5.2	5.4	19.4	18.4	22.6	31.3	36.1	46.6	R	49.6	R
Benin	4.7	0.9	4.2	5.3	4.1	54.8	44.1	46.4	44.6	40.7	57.9	MU	52.7	MU
Bhutan	6.8	10.2	3.6	6.1	7.4	59.9	67.9	77.3	81.0	71.2	..	..	..	..
Burkina Faso	4.2	2.6	3.8	4.3	5.1	39.9	36.3	34.9	36.7	31.3	53.8	MU	55.3	MU
Burundi	5.4	3.7	-2.4	-1.3	2.2	33.8	35.3	38.4	25.2	36.3	40.4	R	48.2	R
Cambodia	..	..	7.9	7.4	9.2	..	16.8	50.2	85.9	126.8	59.9	MU	60.3	MF2
Cape Verde	8.6	3.5	5.2	6.4	5.0	..	59.3	64.6	79.9	97.2	52.2	MU	58.3	MU
Central African Republic	2.3	0.0	1.1	2.4	-0.7	57.5	43.7	41.7	36.0	28.3	57.0	MU	54.1	MU
Chad	9.2	1.9	2.4	2.7	13.8	36.6	46.5	44.3	49.2	87.1	44.8	R	48.7	R
Comoros	4.3	1.6	0.9	1.5	2.8	67.1	56.2	61.5	52.7	46.6	..	..	..	..
Congo, Dem. Rep.	1.9	0.0	-7.1	-3.9	4.0	39.2	53.2	38.8	48.3	57.3	28.1	R	..	..
Djibouti	..	..	-3.1	-0.4	3.0	..	132.3	110.0	88.6	87.1	55.5	MU	54.7	MU
Equatorial Guinea	..	1.4	7.0	33.0	10.9	69.7	106.8	104.9	245.8	..	42.8	R	50.4	MU
Eritrea	..	..	12.5	1.2	3.7	..	..	93.7	104.0	96.6	..	..	..	..
Ethiopia	-1.3	4.9	0.5	4.8	5.2	19.1	17.1	18.2	33.1	45.2	48.1	R	51.4	MU
Gambia, The	3.2	4.1	2.1	4.5	3.9	108.3	114.4	127.0	103.5	97.2	52.8	MU	56.1	MU
Guinea	..	4.5	3.7	4.2	3.1	..	59.6	47.4	46.8	51.2	56.1	MU	54.7	MU
Guinea-Bissau	6.4	3.8	3.2	1.1	-0.1	53.3	50.6	48.4	60.9	84.4	36.5	R	42.7	R
Haiti	-1.0	0.2	-4.7	2.4	-0.4	46.7	38.7	33.7	39.6	50.9	43.1	R	48.5	R
Kiribati	1.3	2.1	4.2	5.7	-0.3	136.7	141.5	119.2	99.3	100.8	..	..	..	..
Lao PDR	5.0	4.4	6.4	6.2	6.2	8.7	30.7	53.7	71.6	59.4	28.4	R	41.9	R
Lesotho	3.1	5.9	4.0	3.0	2.8	140.0	139.2	140.7	131.2	152.6	49.8	R	52.7	MU
Liberia	-1.9	-16.5	-21.7	39.3	-3.4	107.2	89.9	..	..	68.8	..	..	..	..
Madagascar	-1.5	2.7	-0.3	3.8	2.6	31.7	38.3	46.7	54.9	60.6	54.1	MU	61.6	MF2
Malawi	2.2	2.3	3.5	3.9	2.7	53.3	53.5	67.3	62.6	74.4	53.1	MU	54.0	MU
Maldives	..	..	..	8.4	4.6	..	..	169.9	166.8	161.3	..	..	..	..
Mali	-2.2	3.9	3.0	5.2	6.4	49.2	50.7	54.3	61.9	68.9	59.9	MU	55.6	MU
Mauritania	0.9	2.5	3.3	2.6	4.0	125.2	115.5	77.9	94.1	100.7	47.0	R	56.2	MU
Mozambique	-4.6	5.6	2.7	8.0	8.9	27.2	37.8	56.2	49.1	73.3	50.9	MU	56.0	MU
Myanmar	4.8	-2.0	5.9	7.8	9.0	18.5	8.1	3.7	2.1	..	41.8	R	39.4	R
Nepal	5.0	4.5	5.3	4.8	3.0	31.2	32.3	47.4	57.4	49.4	50.2	MU	50.5	MU
Niger	-2.3	2.6	0.8	2.9	4.0	53.7	41.1	37.2	41.3	40.7	45.9	R	52.2	MU
Rwanda	2.7	1.5	-4.0	9.8	5.4	32.5	25.3	35.4	31.3	36.5	42.4	R	50.0	MU
Samoa	1.9	0.8	1.1	4.0	4.3	..	..	83.6	91.9	95.5	56.2	MU	..	..
Sao Tome and Principe	..	1.8	1.6	2.1	3.8	73.2	84.0	109.3	115.2	130.0	..	..	..	..
Senegal	3.2	3.2	1.5	4.4	4.7	79.7	56.0	61.4	67.2	70.3	56.8	MU	57.2	MU
Sierra Leone	0.9	1.1	-5.0	-3.5	13.9	38.4	42.6	47.2	43.2	58.1	46.7	R	44.4	R
Solomon Islands	6.5	7.1	5.4	-2.2	1.8	133.6	124.3	138.0	126.0	79.6	..	..	..	..
Somalia	2.5	1.2	..	..	..	77.0	40.3	..	..	..	15.6	R	..	..
Sudan	0.8	4.6	5.1	6.3	6.3	28.4	14.8	..	24.0	37.1	41.9	R	..	..
Tanzania	..	5.4	1.8	4.1	6.9	..	50.1	57.0	42.0	43.5	56.9	MU	56.2	MU
Timor-Leste	..	..	..	13.7	1.6	..	..	..	..	..	..	..	..	..
Togo	-0.2	2.5	0.6	4.5	2.5	102.1	91.1	65.8	74.7	82.0	44.0	R	47.3	R
Tuvalu	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Uganda	0.7	5.1	7.0	6.6	5.6	28.4	26.5	30.2	34.1	39.1	64.1	MF2	61.9	MF2
Vanuatu	6.0	-0.3	6.7	1.6	0.3	107.8	107.3	103.4	99.5	..	..	..	..	..
Yemen, Rep.	..	..	5.6	5.5	3.3	..	34.4	86.5	79.6	78.9	42.2	R	49.0	R
Zambia	0.5	1.6	-1.3	2.8	4.8	68.1	70.7	75.8	63.5	49.3	60.2	MF2	55.4	MU
Least Developed Countries	**2.7**	**3.3**	**3.2**	**4.4**	**5.2**	**33.6**	**32.6**	**41.1**	**47.4**	**54.8**	**47.6**	R	**52.1**	MU
Low & Middle Income Countries	**1.7**	**3.0**	**1.8**	**4.8**	**5.5**	**32.5**	**36.1**	**46.2**	**51.3**	**60.8**				

Notes:

[1] Data obtained from World Bank 2007 World Development Indicators.

[2] Data obtained from The Heritage Foundation 2007 Index of Economic Freedom, available at: http://www.heritage.org/index/. Scores are percentages based on 10 different measures of economic freedom. Scores between 80 and 100 denote economies that are Free (F), 70 to 79.9 - Mostly Free (MF1), 60 to 69.9 - Moderately Free (MF2), 50 to 59.9 - Mostly Unfree (MU), and below 50 - Repressed (R).

Table 5

LDCs: Gross Per-Capita Income, Atlas and PPP methods (current US $)

Country	Method	2001-2005
Angola	Atlas	1,020
Angola	PPP	1,753
Bangladesh	Atlas	437
Bangladesh	PPP	2,023
Benin	Atlas	447
Benin	PPP	1,093
Bhutan	Atlas	1,113
Bhutan	PPP	..
Burkina Faso	Atlas	347
Burkina Faso	PPP	1,163
Burundi	Atlas	93
Burundi	PPP	670
Cambodia	Atlas	380
Cambodia	PPP	2,313
Cape Verde	Atlas	1,673
Cape Verde	PPP	5,350
Central African Republic	Atlas	307
Central African Republic	PPP	1,177
Chad	Atlas	317
Chad	PPP	1,057
Comoros	Atlas	557
Comoros	PPP	1,913
Congo, Dem. Rep.	Atlas	110
Congo, Dem. Rep.	PPP	643
Djibouti	Atlas	953
Djibouti	PPP	2,277
Eritrea	Atlas	163
Eritrea	PPP	1,093
Ethiopia	Atlas	133
Ethiopia	PPP	947
Gambia, The	Atlas	277
Gambia, The	PPP	1,747
Guinea	Atlas	407
Guinea	PPP	2,200
Guinea-Bissau	Atlas	157
Guinea-Bissau	PPP	770
Haiti	Atlas	423
Haiti	PPP	1,630
Kiribati	Atlas	1,135
Kiribati	PPP	8,280
Lao PDR	Atlas	390
Lao PDR	PPP	1,783
Least developed countries	**Atlas**	**337**
Least developed countries	**PPP**	**1,332**
Lesotho	Atlas	760
Lesotho	PPP	3,907
Liberia	Atlas	117
Liberia	PPP	..

Country	Method	2001-2005
Low & middle income	**Atlas**	**1,518**
Low & middle income	**PPP**	**4,746**
Madagascar	Atlas	287
Madagascar	PPP	867
Malawi	Atlas	157
Malawi	PPP	623
Maldives	Atlas	2,290
Maldives	PPP	..
Mali	Atlas	327
Mali	PPP	947
Mauritania	Atlas	513
Mauritania	PPP	2,210
Mozambique	Atlas	270
Mozambique	PPP	1,083
Nepal	Atlas	247
Nepal	PPP	1,493
Niger	Atlas	210
Niger	PPP	760
Rwanda	Atlas	213
Rwanda	PPP	1,113
Samoa	Atlas	1,770
Samoa	PPP	5,637
Sao Tome and Principe	Atlas	400
Sao Tome and Principe	PPP	2,000
Senegal	Atlas	597
Senegal	PPP	1,660
Sierra Leone	Atlas	210
Sierra Leone	PPP	733
Solomon Islands	Atlas	587
Solomon Islands	PPP	1,903
Sudan	Atlas	530
Sudan	PPP	1,787
Tanzania	Atlas	320
Tanzania	PPP	687
Timor-Leste	Atlas	523
Timor-Leste	PPP	..
Togo	Atlas	310
Togo	PPP	1,440
Uganda	Atlas	253
Uganda	PPP	1,350
Vanuatu	Atlas	1,383
Vanuatu	PPP	2,987
Yemen, Rep.	Atlas	543
Yemen, Rep.	PPP	813
Zambia	Atlas	417
Zambia	PPP	903

Source: World Development Indicators, World Bank 2007.
Note: GNI data was not available for Afghanistan, Equatorial Guinea, Myanmar, Somalia, and Tuvalu.

Table 6a

GDP per capita, PPP (constant 2000 international $)

	1981-85	1986-90	1991-95	1996-00	2001-05
Malawi	581	522	517	584	567
Congo, Dem. Rep.	1,690	1,601	977	697	599
Tanzania	..	508	492	505	603
Burundi	848	897	850	664	640
Sierra Leone	952	851	697	520	649
Niger	935	823	720	705	699
Guinea-Bissau	917	952	1,000	937	761
Madagascar	999	948	841	820	804
Yemen, Rep.	..	711	710	799	834
Zambia	1,090	979	853	788	853
Ethiopia	877	842	705	798	863
Mali	727	686	695	751	886
Mozambique	586	589	614	739	993
Benin	937	891	861	933	1,005
Rwanda	1,162	1,079	981	947	1,014
Eritrea	..	..	987	1,199	1,031
Burkina Faso	872	917	914	977	1,047
Chad	769	877	860	829	1,050
Central African Republic	1,434	1,366	1,168	1,173	1,128
Least developed countries	**1,054**	**1,061**	**1,003**	**1,073**	**1,199**
Uganda	830	787	896	1,102	1,238
Togo	1,597	1,502	1,287	1,418	1,331
Nepal	887	990	1,126	1,262	1,360
Senegal	1,397	1,398	1,305	1,380	1,508
Haiti	2,491	2,215	1,806	1,612	1,524
Gambia, The	1,670	1,646	1,613	1,570	1,652
Lao PDR	957	978	1,153	1,406	1,676
Bangladesh	1,086	1,158	1,266	1,446	1,698
Sudan	1,117	1,105	1,201	1,393	1,700
Solomon Islands	1,817	2,145	2,347	2,289	1,711
Angola	1,703	1,807	1,342	1,411	1,719
Comoros	1,972	1,947	1,810	1,730	1,760
Djibouti	..	2,847	2,447	1,954	1,884
Sao Tome and Principe	..	1,809	1,777	1,779	1,891
Mauritania	1,912	1,902	1,861	1,896	1,916
Guinea	..	1,770	1,765	1,919	2,037
Cambodia	..	..	1,304	1,536	2,071
Lesotho	1,633	1,861	2,255	2,621	2,828
Vanuatu	3,031	2,751	3,120	3,188	2,853
Low & middle income	**2,562**	**2,874**	**3,025**	**3,482**	**4,193**
Kiribati	3,773	3,596	3,695	4,309	4,239
Cape Verde	2,723	3,214	3,460	4,158	4,877
Samoa	3,832	4,116	3,900	4,373	5,169
Equatorial Guinea	1,266	1,200	1,308	3,798	6,098

Source: World Bank, World Development Indicators, 2007.
Notes: Data unavailable for Afghanistan, Bhutan, Liberia, Maldives, Myanmar, Somalia, Timor-Leste, and Tuvalu.

Table 6b

GDP per capita (constant 2000 US $)

	1981-85	1986-90	1991-95	1996-00	2001-05
Congo, Dem. Rep.	242	229	140	100	86
Burundi	143	151	143	112	108
Ethiopia	131	126	106	120	129
Guinea-Bissau	168	174	183	171	139
Malawi	151	135	134	152	147
Liberia	635	459	98	129	152
Niger	211	185	162	159	157
Eritrea	..	..	172	209	180
Sierra Leone	289	259	212	158	197
Chad	162	184	181	174	221
Madagascar	284	269	239	233	228
Nepal	150	168	191	214	231
Mali	193	182	184	199	235
Central African Republic	299	285	244	245	235
Togo	291	274	235	259	243
Burkina Faso	204	214	213	228	244
Rwanda	282	262	238	230	246
Uganda	174	164	187	230	259
Mozambique	155	155	162	195	262
Least developed countries	**257**	**258**	**245**	**265**	**299**
Tanzania	..	253	245	251	300
Benin	301	286	277	300	323
Gambia, The	328	323	316	308	324
Zambia	420	377	329	303	329
Cambodia	..	..	216	255	343
Sao Tome and Principe	..	333	327	328	348
Lao PDR	209	214	252	307	366
Guinea	..	331	330	359	381
Comoros	429	423	394	376	383
Timor-Leste	..	..	..	380	390
Bangladesh	257	274	300	342	402
Mauritania	413	411	402	409	414
Sudan	279	276	300	347	424
Haiti	731	650	530	473	447
Senegal	415	415	388	410	448
Kiribati	450	429	441	514	506
Lesotho	303	345	418	486	525
Yemen, Rep.	..	456	455	512	534
Solomon Islands	681	804	879	858	641
Angola	768	815	605	636	775
Djibouti	..	1,183	1,017	812	783
Bhutan	306	431	512	666	907
Vanuatu	1,238	1,124	1,275	1,302	1,166
Cape Verde	705	832	896	1,077	1,263
Low & middle income	**876**	**948**	**995**	**1,131**	**1,310**
Samoa	1,080	1,160	1,099	1,233	1,457
Maldives	..	..	1,661	1,989	2,341
Equatorial Guinea	741	703	766	2,223	3,570

Source: World Bank, World Development Indicators, 2007.
Notes: Data unavailable for Afghanistan, Myanmar, Somalia, and Tuvalu.

Table 7

	Current Account Balance (% of GDP) [1]					Overall budget balance, including grants (% of GDP) [2]			
	1981-85	1986-90	1991-95	1996-2000	2001-05	1981-85	1986-90	1991-95	1996-01
Afghanistan	-5.9	.. [3]	..	..	..	..	..	..	..
Angola	2.9	-1.7	-8.9	-3.2	-0.7	..	..	..	..
Bangladesh	-2.5	-2.1	0.1	-0.9	0.0	0.1	-0.6	..	..
Benin	-11.7	-2.9	-5.3	-5.0	-6.3	..	..	..	..
Bhutan						-1.9	-5.3	-0.2	-2.4
Burkina Faso	-3.1	-0.7	-1.5	-12.3	-10.3	-0.4	-0.7	1.9	..
Burundi	-3.6	-5.0	-2.4	-3.9	-13.6	0.4	-3.4	-3.5	-1.9
Cambodia	..	..	-5.0	-5.2	-3.8	-8.0	..	-4.1	-5.7
Cape Verde	..	-1.2	-7.1	-9.5	-8.2	..	..	..	..
Central African Republic	-4.3	-5.0	-3.5	..	..	..	..	..	..
Chad	0.4	-2.4	-4.8	..	..	..	..	..	..
Comoros	-14.0	-5.0	-3.6	..	..	..	-3.6	..	..
Congo, Dem. Rep.						-15.2	..	..	..
Djibouti	..	..	-9.9	..	..	-1.6	-2.9	-9.0	-0.3
Equatorial Guinea	..	-16.6	-22.3	-132.8	..	..	..	..	..
Eritrea	..	..	20.0	-18.8	..	..	..	..	..
Ethiopia	-1.7	-2.2	0.3	-2.0	-5.8	..	..	..	..
Gambia, The	-8.2	6.8	2.7	-9.0	-5.4	..	..	..	..
Guinea	..	-6.4	-6.7	-4.3	-4.3	-5.9	-6.2	..	-3.6
Guinea-Bissau	-48.0	-30.9	-26.3	-9.4	-0.3	..	..	..	..
Haiti	-6.8	-1.7	-1.5	-1.9	-1.6	..	..	..	..
Kiribati	5.8	-14.0	-5.8	..	..	-27.3	-16.3	..	..
Lao PDR	-5.9	-9.9	-6.7	-5.2	-4.7	-1.0	..	..	-1.2
Lesotho	2.8	2.4	-0.3	-26.3	-10.8	..	..	..	..
Liberia	0.6	-8.4	..	..	..	..	..	..	..
Madagascar	-7.7	-5.6	-8.2	-6.0	-4.0	..	-10.6	3.4	0.9
Malawi	-9.3	-5.3	-11.0	-6.0	-6.9	-10.2	-9.1	..	..
Maldives	-29.2	4.2	-7.0	-6.8	-16.0	..	-3.0	-4.3	-2.4
Mali	-10.2	-11.0	-8.7	-9.1	-7.7	-8.1	-5.7	..	..
Mauritania	-23.2	-10.6	-5.7	5.4	..	-7.6	-3.2	-8.9	-3.3
Mozambique	-10.8	-15.6	-18.8	-15.5	-15.6	-6.4	-5.8	..	..
Myanmar						..	..	..	..
Nepal	-3.7	-6.2	-7.3	-4.1	1.5	..	..	..	..
Niger	-5.5	-9.5	-7.3	-6.5	-7.0	-6.3	-6.8	-5.7	-4.1
Rwanda	-4.3	-4.5	-3.5	-4.1	-4.7	..	..	..	..
Samoa	0.5	10.7	-18.3	2.5	-3.6	..	..	-5.2	..
Sao Tome and Principe	-31.0	-24.1	0.0	-20.3	-43.3	..	..	..	..
Senegal	-13.4	-8.2	-6.4	-5.6	-6.3	..	..	..	..
Sierra Leone	-5.7	1.4	-5.9	-12.0	-9.2	-5.9	..	..	-0.8
Solomon Islands	-13.5	-9.0	-3.3	0.8	..	-10.1	-6.2	-4.7	-6.1
Somalia	-16.7	-12.2	..	..	..	-7.8	-7.9	..	..
Sudan	-2.1	-1.5	-6.6	-6.7	-5.9	..	..	..	..
Tanzania	..	-9.2	-15.4	-7.3	-2.0	..	..	..	..
Timor-Leste						..	..	..	..
Togo	-4.2	-5.1	-7.7	-9.1	-10.3	-2.7	..	..	..
Tuvalu						..	..	..	..
Uganda	-0.3	-3.4	-4.6	-5.0	-4.8	-3.1	..	..	-2.8
Vanuatu	-4.8	-7.6	-6.8	-4.0	-11.0	1.3	-4.7	..	-3.5
Yemen, Rep.	..	15.3	-9.3	3.7	4.7	..	..	-9.7	-2.3
Zambia	-12.7	-12.6	-9.1	-12.9	..	-12.6	-14.9	..	..
LDCs (median)	**-8.4**	**-5.8**	**-6.4**	**-10.2**	**-7.1**	**-6.1**	**-5.7**	**-4.5**	**-2.4**
Developing countries (median)	..	..	..	..	..	**-4.5**	**-3.3**	**-2.4**	**-2.0**

Notes:

[1] Data from World Bank World Development Indicators, 2007.

[2] Data from World Bank World Development Indicators, 2003.

[3] Data not available.