

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

THE LEAST DEVELOPED COUNTRIES REPORT 2002

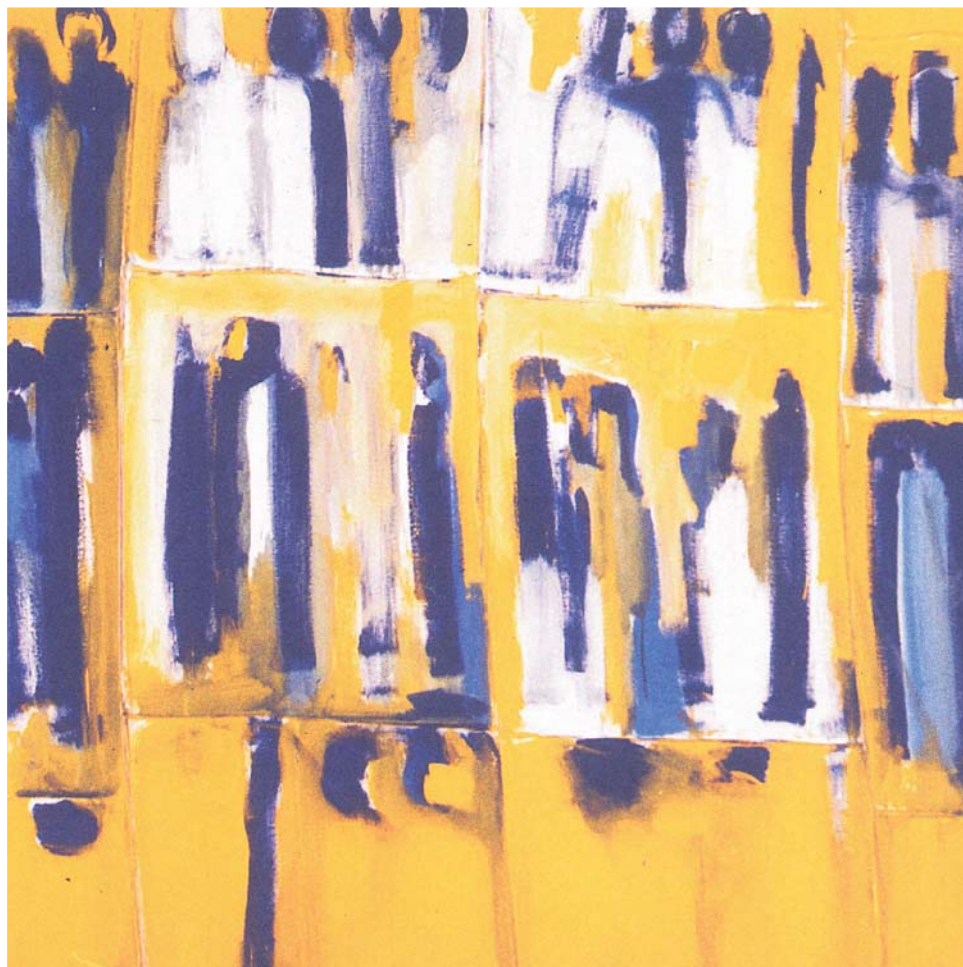
OVERVIEW

by the Secretary-General of UNCTAD



UNITED NATIONS

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Overview

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Overview

A REAL TURNING POINT?

In his speech opening the Third United Nations Conference on the Least Developed Countries (UNLDC III), the Secretary-General of the United Nations, Kofi Annan, urged Governments to ensure that the meeting, unlike its two predecessors, would mark “a real turning point in the everyday life of poor people in the poorest countries”. The purpose of this Report is to contribute to that vision by providing a better analytical basis for national and international policies designed to promote poverty reduction in the least developed countries (LDCs).

In recent years the international community has adopted poverty reduction as a central goal of international development cooperation. Within this context, an “overarching goal” of the Programme of Action for the Least Developed Countries for the Decade 2001–2010 agreed at UNLDC III is for the LDCs to make substantial progress towards halving the proportion of people living in extreme poverty by 2015. The Programme itself consists of a long list of actions that the LDCs and their development partners are urged to undertake. Implementing these actions in a way which supports the goal of poverty reduction will require a strategic perspective based on a better knowledge of the nature and dynamics of poverty in the LDCs, and also a more complete understanding of what policies can best reduce poverty in the particular yet diverse socio-economic conditions of these countries.

The inadequacy of the analytical foundations for effective poverty reduction in poor countries in general, and in the LDCs in particular, is not generally recognized. Current international poverty statistics are flawed in various ways and woefully inadequate in the LDCs. Yet calls are being made to allocate aid between countries according to the numbers of poor people. Analysis of the relationship between globalization and poverty is still at a rudimentary stage. Yet sweeping and simplistic policy conclusions are being drawn by anti-globalization activists, who are arguing that poor countries are

getting too much globalization, and by pro-globalization zealots, who are arguing that they are getting too little. The world's foremost experts on poverty find it difficult to agree on the nature of the relationship between economic growth and poverty in developing countries and its place in an overall poverty reduction strategy. Yet over one billion people, including 400 million in LDCs, are now living in countries whose Governments are preparing Poverty Reduction Strategy Papers (PRSPs) as a condition for access to concessional aid and debt relief, a process which a World Bank official has described, with both honesty and accuracy, as "an experiment".

The idealistic impulse to improve the standard of living of the poor is the right one. But unless the actual policy solutions are well grounded in a deep understanding of the causes of poverty, and how those causes have been, and can be, effectively addressed, they could end up with worse results than in the past. As Simon Kuznets warned in the famous 1955 article in which he hypothesized that income inequality would increase in the early stages of economic development and subsequently decline, policies to help the poor that are "the product of imagination unrestrained by knowledge of the past" are likely to be "full of romantic violence". That is to say, in spite of the best intentions, policies based on inadequate knowledge are likely to increase rather than reduce poverty.

This Report aims to avoid romantic violence. Its central message is that there is a major, but currently underestimated, opportunity for rapid reduction in extreme poverty in the LDCs through sustained economic growth. However, this opportunity is not being realized in most LDCs because they are stuck in an international poverty trap. It should be possible through the PRSP approach to promote poverty reduction more effectively than in the past. But this requires: (a) a more complete transition to genuine national ownership and increased policy autonomy; (b) a shift from the adjustment-oriented poverty reduction strategies that are emerging in the initial phases of the PRSP approach to development-oriented poverty reduction strategies; and (c) a more supportive international environment. The Report proposes an alternative approach to the design of poverty reduction strategies that focuses on doubling average household living standards through growth-oriented macroeconomic policies, the building of domestic productive capacities and strategic integration into the global economy, whilst at the same time incorporating policies which reduce the

risk of particular social groups and regions within the country being excluded from the benefits of economic growth. It also argues that international policy needs to give more attention to breaking the link between primary commodity dependence, pervasive extreme poverty and unsustainable external debt, and that policies to counter the increasing polarization of the global economy are necessary in order to reduce the socio-economic marginalization of the poorest countries. With improved national and international policies, a real turning point can occur.

THE NEW POVERTY ESTIMATES

This Report analyses the relationship between poverty and development in the LDCs in the context of increasing global interdependence. Before the present Report, such analysis was impossible. Internationally comparable poverty estimates that were publicly available covered too few LDCs over too few years. This Report overcomes this problem by using a new set of poverty estimates for 39 LDCs over the period 1965–1999. This data set has been constructed specially for the Report. But it has important implications for the global analysis of poverty and also for the achievement of Millennium Development Goals and International Development Targets, as well as the achievement of the UNLDC III development targets.

The new estimates are based on a simple notion of what poverty is. Poverty is understood in absolute terms as the inability to attain a minimally adequate standard of living. The standard of living is measured by the level of private consumption, and those who are poor are identified by adopting the \$1-a-day and \$2-a-day international poverty lines which are now conventionally used to make internationally comparable estimates of global poverty. These international poverty lines specify the level below which private consumption is considered inadequate, and are measured, again in line with current practice, using purchasing power parity (PPP) exchange rates, which seek to correct for differences in the cost of living between countries.

Many now argue that poverty is multidimensional, constituted by an interlocking web of economic, political, human and sociocultural

deprivations, and characterized not simply by a lack of economic opportunity, but also by insecurity, vulnerability and powerlessness. The Report does not reject the multidimensional definition of poverty. Indeed, it is clear that this view offers an accurate description of the human experience of poverty. However, it uses a narrower definition as this enables greater analytical power, both to put national poverty dynamics in a global context and to understand the multidimensionality of the processes underlying these trends. The approach is best seen as complementary to approaches based on a multidimensional definition of poverty.

Although it uses a traditional definition of poverty, it innovates in the way in which the poverty estimates are derived. Current global and national poverty estimates which use the \$1-a-day and \$2-a-day international poverty lines are based on survey data of household income or consumption. The poverty estimates used in this Report are different. They are based on national-accounts-consistent poverty estimates which calculate the proportion of the population in a country who are poor using (i) average annual private consumption per capita as reported in national accounts data, and (ii) the distribution of private consumption amongst households as reported in household survey data.

It should be noted that national-accounts-consistent poverty estimates diverge from the World Bank's poverty estimates, which adopt the \$1-a-day and \$2-a-day international poverty lines but use household survey data to estimate both the average level and the distribution of private consumption. The nature of this divergence is important for global efforts to reduce extreme poverty. National-accounts-consistent poverty estimates suggest that the severity of poverty has been hitherto underestimated in the poorest countries, particularly in Africa, that the poverty-reducing effects of economic growth have equally been underestimated, and that the domain in which the \$1-a-day international poverty line is most relevant is countries with a gross domestic product (GDP) per capita of less than \$700.

The divergence between the household-survey-based and national-accounts-consistent poverty estimates should be a matter of concern for all engaged in more effective poverty reduction in developing countries. It implies that there is an urgent need to improve poverty statistics. This will require investment in statistical capacities for national accounts as well as

household surveys, and a major effort is required in the LDCs in both respects. However, in the meantime, it is necessary to proceed with policy analysis.

This Report bases its analysis on national-accounts-consistent poverty estimates because these provide as plausible estimates for the international comparison of poverty as purely household-survey-based poverty estimates. Data from neither national accounts nor household living standard surveys are perfect. But it is likely that national accounts procedures are more standardized between countries than household surveys, and this is particularly important as the purpose here is international comparison of poverty. Preliminary research also shows that national-accounts-consistent poverty estimates are more highly correlated with some non-monetary indicators of poverty than current household-survey-based poverty estimates.

Finally, national-accounts-consistent poverty estimates are adopted for a pragmatic reason. With these estimates, the Report has found a close statistical relationship between the average level of private consumption per capita and the incidence of poverty. It is so close in fact that one can use national accounts data on private consumption, which are widely available, to make statistically robust estimates of the expected incidence and depth of poverty in countries and years in which there are no

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