



# THE LEAST DEVELOPED COUNTRIES REPORT 2014

## *Growth with structural transformation: A post-2015 development agenda*

### CHAPTER 3

## FROM MDGs TO SDGs: RECONNECTING ECONOMIC AND HUMAN DEVELOPMENT



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*The relationship between human development and economic development is a key issue for the post-2015 development agenda.*

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In some respects, 2015 marks a turning point for development: a transition from a period when development efforts focused on the Millennium Development Goals (MDGs) to a period that will focus on a post-2015 development agenda covering a broader and much more ambitious set of Sustainable Development Goals (SDGs) to be achieved by 2030. The outcome of the discussions under way for such an agenda and the accompanying SDGs will play a major role in shaping the context and discourse of development over the next 15 years – a role even more prominent than that of the Millennium Development Goals (MDGs) since their adoption in 2000. A key issue will be the relationship between human development and economic development. This connection is discussed in the present chapter, as follows. Section A explains the interdependence of human and economic development, and how they relate to the MDGs and the planned SDGs. Section B defines structural transformation and sustainability, and shows how they are linked to development and the SDGs. Section C analyses the major requirements to meet the latter sustainably.

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## A. The interdependence of human and economic development

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*Economic and human development can only be met by pursuing both sets of goals together.*

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### 1. HUMAN DEVELOPMENT AND ECONOMIC DEVELOPMENT

Human development and economic development are inextricably linked. Human development, broadly defined, is the primary objective of economic development: if economic development does not improve the quality of life of people in developing countries, it would serve little purpose; and a major reason for UNCTAD's particular concern with least developed countries (LDCs) is their very low level of key elements of human development, such as household earnings, nutrition, health and education.

Equally, economic development is an essential *means* to human development. Human development depends critically on private incomes for poverty reduction. Those incomes, in turn, depend mainly on employment and wages, and on social entitlements, which, in their turn, depend largely on public expenditures and revenues. These latter are principally outcomes of economic policies and the economic development they bring (or fail to bring).

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*Poverty, undernutrition, poor health and low educational attainment are part of a vicious circle which plays a key role in preventing LDCs from progressing socially and economically.*

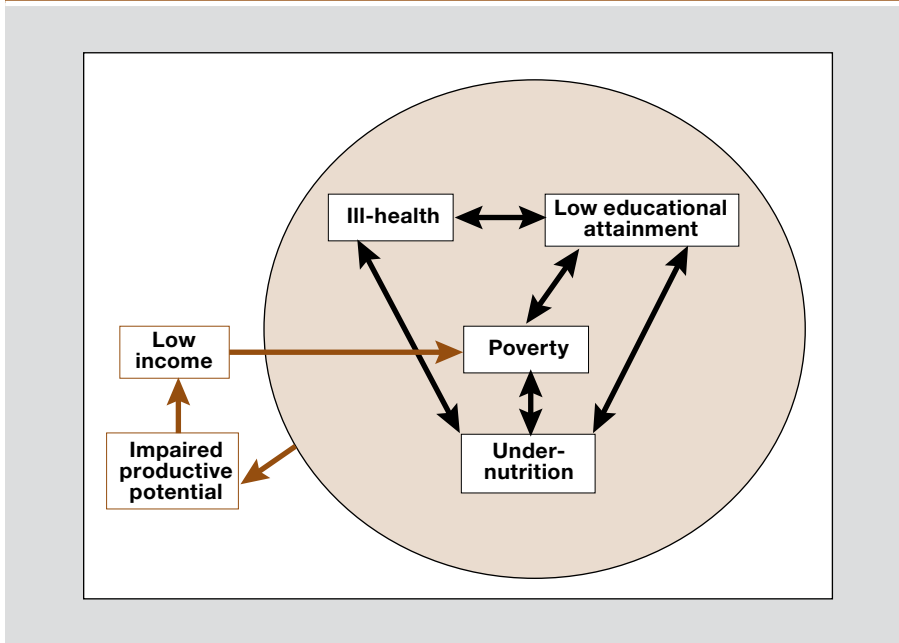
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Thus economic and human development can only be met by pursuing both sets of goals together. This requires an appropriate balance, whereby policies are designed in each domain taking full account of the consequences in the other. The pursuit of economic goals without regard for the human consequences will at best limit, and at worst reverse, progress towards social goals. This was a major failing of economic policies that focused on controlling inflation and reducing external imbalances in the 1980s and 1990s (Nayyar, 2012). Equally, however, pursuing human development goals without addressing the underlying economic causes will at best result in progress being unsustainable, and may even be counterproductive in the long term.

The levels of poverty, nutrition, population health and education are substantially worse in most LDCs than in the other developed countries (ODCs). This is partly because they are LDCs, but it is also an important reason why they are LDCs. Indeed, poverty, undernutrition, poor health and low educational attainment are part of a vicious circle which plays a key role in preventing LDCs from progressing socially and economically (chart 20).

People living in extreme poverty cannot afford an adequate and healthy diet, and often have poor living conditions and limited access to health services.

Chart 20. The vicious circle of economic and human underdevelopment



Source: UNCTAD secretariat.

This worsens their already poor health, which increases their rate of absence from work; and inadequate calorie and iron intake reduces workers' productivity when they are working (Popkin, 1978; Edgerton et al., 1979; Strauss, 1986; Strauss, 1993; Horton, 1999). Improved nutrition in early childhood can increase productivity and incomes substantially in adulthood, as well as improving cognitive development (Hoddinott et al., 2008). Children are kept away from school, because their families cannot afford the costs for fees, books and uniforms, nor can they afford to lose the income their children can provide by working. Access to education is often limited, particularly beyond primary level, and its quality may be relatively weak; and, even among those who go to school, poor nutrition and health increases their absence and weakens their performance (Popkin and Lim-Ybanez, 1982; Glewwe et al., 2001).

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*Poverty limits human development, undermines labour productivity and reduces investment, thereby weakening economic performance...*

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Equally, poverty, economic insecurity and poor health are serious obstacles to productive investment. Poor households have limited savings to invest, and they cannot afford to tie them up or to risk losing them. The severe consequences of any reduction in income forces households to be risk-averse, and to retain such savings as they can to maintain a minimum level of consumption in case of illness, crop failure, accidents or other misfortunes. In most African LDCs, 50–80 per cent of household savings are held in preparation for emergencies (Africa Progress Panel, 2014: 123), and when such emergencies occur, savings are depleted and productive assets may be sold. Moreover, poor households generally are unable to borrow to invest, especially at an affordable interest rate, because of limited access to formal financial markets and the high risk of non-payment, arising partly because of their vulnerability to economic shocks. Poverty and economic insecurity have considerable costs and adverse impact on economic development. *A contrario*, social protection can make a positive contribution towards economic growth and poverty reduction (Alderman and Yemtsov, 2012).

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*... and weak economic performance in turn limits the ability of a country to achieve poverty reduction, thereby creating a vicious circle.*

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Poverty limits human capital development, undermines labour productivity and reduces investment, thereby weakening economic performance. And weak economic performance in turn limits the ability of a country to achieve poverty reduction and augment its resources for health and education, thereby creating a pernicious vicious circle. These connections lie at the heart of the development

challenge for LDCs. They are also an important underpinning of the human development goals included in the MDGs and the planned SDGs.

## 2. HUMAN DEVELOPMENT AND THE MDGs

While the MDGs focus on human development, the two cannot be equated. The MDGs and the associated targets were the outcome of a prolonged political process, constrained by issues of measurement and data availability. Their coverage is partial and selective, omitting key areas; and some targets are weakened by the absence of targets for complementary variables. For example, the potential benefits of achieving universal enrolment in primary schools could be undermined if it results in a reduction in the quality of education, which is not covered by the goals (Saith, 2006). There are also serious measurement problems concerning the health-related MDGs, which in most cases makes estimates of progress extremely unreliable (Attaran, 2005; Yamin and Falb, 2012; Fukuda-Parr and Yamin, 2013). Even the MDGs' major goal of extreme poverty reduction has been severely criticized on methodological grounds (Pogge and Reddy, 2006; Reddy and Pogge, 2009).

Some observers find that the MDGs' approach of shaping the global development agenda around a limited set of outcome goals has produced unintended consequences, some of which have undermined the objectives of the goals themselves. As stated by Fukuda-Parr et al. (2014: 115), "The unintended consequences revealed in the [Power of Numbers] Project cannot merely be ascribed to the goals and targets having been selected or implemented badly, as is sometimes claimed. They are more fundamental structural issues arising from the nature of quantification and the nested structure of goals, targets and indicators that the MDGs created.... By attempting to elaborate an entire international agenda through numerical targeting, the simplification, reification and abstraction of quantification created perverse effects in the MDGs".

Nonetheless, achieving the major improvements in poverty, nutrition, health and education embodied in the MDGs and the planned SDGs could potentially break the vicious circle of economic and human underdevelopment described above. They could provide a strong basis for increasing the productive potential, both of the population and of the natural resource base at a sustainable level. But the vicious circle itself limits the ability of LDCs to achieve improvements in human development, compounding the effects of the resource and capacity constraints and geographical challenges they face.

The inability of the majority of LDCs to meet most of the MDGs, as discussed in chapter 2 of this Report, is partly a reflection of their failure to break out of this vicious circle.

## 3. ECONOMIC DEVELOPMENT AND SUSTAINING HUMAN DEVELOPMENT

The analysis above exposes a critical shortcoming in the MDG approach. The MDGs focused very strongly on targets for improvements in readily measurable outcome indicators, such as poverty, mortality rates and school enrolment. But they gave little consideration to the means of achieving these outcome targets, i.e. how income could be created or augmented for reducing or eradicating poverty, how enough public revenues could be raised to pay for more and better health services and school places, or how the obstacles to generating these resources could be overcome.

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*The little consideration given to the means of achieving these outcome targets is a critical shortcoming in the MDG approach.*

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The MDG approach was essentially a linear one, focusing entirely on human development goals and programmes targeted directly at meeting those goals (chart 21). By focusing on outcome goals to the exclusion of the means for achieving them, it encouraged reliance on specific programmes aimed at improving the targeted indicators that were mostly financed by official development assistance (ODA). While such programmes may have helped to attain, or partially attain, some of the goals, they have done little to ensure that the progress made can be sustained beyond the target date. Ensuring sustainability depends critically on reversing the vicious circle described above. It can also substantially accelerate improvements by exploiting the potential feedback effects. For example, increasing the productive potential of workers is not only a *product* of poverty reduction; it also provides an important *means* of reducing poverty by allowing poor people to generate more income. But exploiting this synergy means ensuring that people have the opportunity to use this potential productively and with fair remuneration — that is, by generating decent employment.

Thus economic development has a major role to play in achieving human development goals, and a still more critical role in sustaining advances in human development over the long term. Employment is a critical linkage in this process (Nayyar, 2012), especially when it is accompanied by rising labour productivity. What is needed is an economic development process that creates enough productive and remunerative jobs to allow people to generate the income needed to escape poverty, while also generating the public revenues needed to finance health services and education. This in turn requires an international economic system that supports such development processes.

As argued in this Report, it is the virtual omission of economic development from the MDG agenda which has been partly responsible for the failure of most LDCs to achieve most of the goals. If the post-2015 agenda is to be more successful in achieving the planned SDGs, it will need to encompass all of the elements presented in chart 22: economic transformation, employment creation, the generation of fiscal resources and a favourable global economic environment.

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*Ensuring sustainability depends critically on reversing the vicious circle of underdevelopment.*

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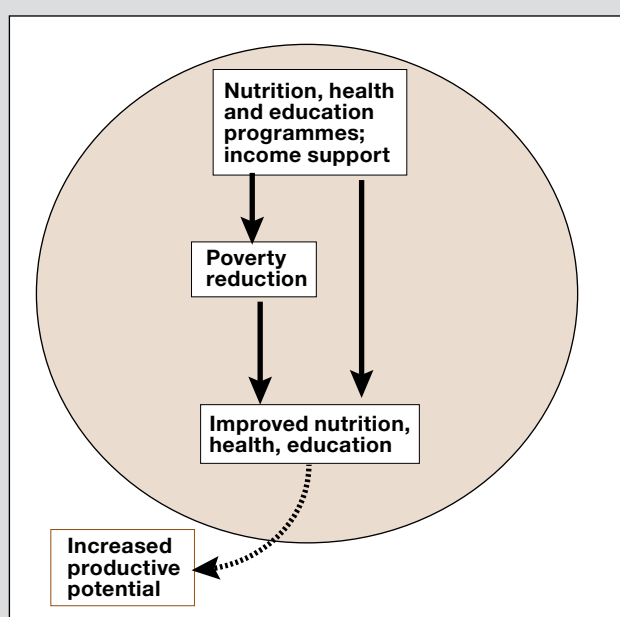


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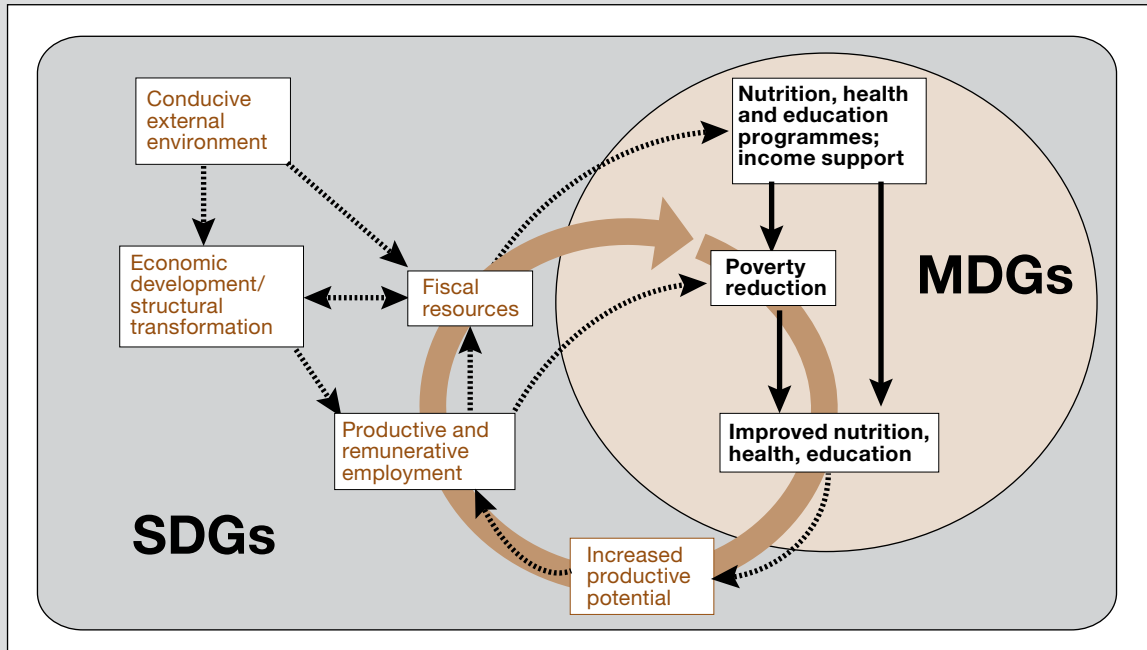
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**Chart 21. The MDGs: A linear approach**



Source: UNCTAD secretariat.

Chart 22. Completing the circle: A framework for the SDGs



Source: UNCTAD secretariat.

## B. Structural transformation and multidimensional sustainability

*Development is not merely a matter of economic growth.*

### 1. DEVELOPMENT, STRUCTURAL TRANSFORMATION AND THE PLANNED SDGs

*LDCs development involves not only increasing the scale of their economies, but also the latter's structural transformation.*

Development is not merely a matter of economic growth. And LDCs are not merely smaller versions of developed economies; they are structurally different. Therefore, their development, especially in the early stages, involves not only increasing the scale of their economies, but also the latter's structural transformation, like the metamorphosis of a caterpillar into a butterfly. As countries develop, their economies become larger, but also different in nature. Thus the process of economic development is intertwined with economic structural change and transformation (ECLAC, 2008; McMillan and Rodrik, 2011; Lin, 2012).

*Productivity is central to this process.*

Productivity is central to this process. Increasing labour productivity is essential to long-run economic growth, and, combined with a rise in employment, it allows real labour incomes to rise. Unless output per worker increases, the only way of keeping domestic prices under control and maintaining competitiveness is by compressing real wages, but this would hamper poverty reduction. Higher productivity, on the other hand, allows wages to increase, thereby fostering more inclusive growth, contributing to human development and poverty reduction, and keeping inequality in check.

Different productive sectors and activities have very different levels of productivity, along with varying potential for innovation, employment creation,

economies of scale, etc. Thus the balance between sectors, and between activities within sectors, has important implications for long-term growth potential. In the earliest stages of development, countries are dominated by “traditional” sectors, notably small-scale family agriculture and informal services. These are generally refuge sectors to which people resort in the absence of other income sources. They tend to have substantial surplus labour and very low productivity, and consequently generate limited income. Moreover, their potential for innovation and economies of scale is generally limited.

Historically, structural transformation has been understood as the transfer of labour (and capital) from the traditional sectors to the modern sectors of the economy. It thus entails different growth rates in different sectors, as productive resources are moved from sectors with lower productivity to those with higher productivity (chapter 4 of this Report). The main emphasis has been on a shift from agriculture towards manufacturing, which has been seen as offering the greatest potential for increasing returns and technological innovation.<sup>1</sup>

However, the divisions between broadly defined sectors (agriculture, extractive industries, manufacturing and services) mask enormous differences within each sector — from small subsistence farms to plantations, from artisanal mining to oil rigs, from a person with a sewing machine to a textile factory, from a street seller to a software consultant. Thus, differences in productivity within each broad sector may be as great as those between sectors.

More recently, therefore, the understanding of structural transformation has been extended to include not only shifts between sectors, but also within sectors, towards activities which are more knowledge-intensive or have higher value added or greater learning potential. Thus structural change may be defined as the ability of an economy to continually generate new dynamic activities, characterized by higher productivity and increasing returns to scale (Ocampo, 2005; UN/DESA, 2006; Ocampo and Vos, 2008). Interpreted in this way, structural transformation may be seen as a counterpart at the macro level to the (generally micro-level) concept of innovation; that is, as the introduction of, for example, new products, processes, organizational methods, inputs and markets, which are either new to the world or (in a narrower sense) new to a particular firm or country (UNCTAD, 2007). In LDCs, innovation and structural transformation generally occur mainly in the broader sense: they represent a movement *towards* the global technology frontier rather than moving the frontier itself.

In this Report, structural transformation is thus defined as including:

- Increasing labour productivity within sectors through technological change, investment (increasing the capital used per worker) and innovation (including the development of new products); and
- Additional improvement in aggregate productivity at the national level, as productive resources (including labour) are shifted from less to more productive activities or sectors.

This process of structural transformation is critical to converting the vicious circle of underdevelopment (as shown in chart 20) into a virtuous circle of accelerated economic and human development (as shown in chart 22). But this does not happen naturally or automatically; it requires a deliberate policy effort and a conducive international environment. As discussed in chapter 4 of this Report, few LDCs have undergone any significant economic transformation since 1990, and it is this failure which underlies their generally weak performance in achieving the MDGs.

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*The balance between sectors, and between activities within sectors, has important implications for long-term growth potential.*

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*The process of structural transformation is critical to converting the vicious circle of underdevelopment into a virtuous circle of accelerated economic and human development.*

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## 2. DEFINING “SUSTAINABILITY”

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*Without a solid economic foundation, progress in human development risks ultimately being reversed.*

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Economic transformation is critically important in the context of the planned SDGs, not only because it is more likely to help ensure that the goals will be achieved, but also because it will enable the progress made to be sustainable beyond the target date of 2030. Without a solid economic foundation, progress in human development risks ultimately being reversed: without viable livelihoods, poverty will rise again, worsening nutrition and health, and without a firm economic source of public finances, health services and education will deteriorate once external support begins to wane.

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*The economic, financial, political and social dimensions of sustainability should be central to the SDGs and the post-2015 development agenda.*

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This is part of a larger issue, namely the meaning of “sustainable” development. The concept of sustainability is central to the SDGs and the post-2015 development agenda. In practice, however, this has generally been interpreted to refer to *environmental* sustainability, particularly in relation to climate change. However, while environmental sustainability is undoubtedly important, it is only one of several factors which may prevent development from being sustained. Equally, if not more, important are the economic, financial, political and social dimensions of sustainability. Failure to take account of these dimensions could result in a reversal of progress, and in failure to meet the SDGs over the long term. From an LDC perspective, the key issue is whether development and progress towards the SDGs can be sustained; what prevents them from being sustained is a secondary consideration.

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*Poverty can only be eradicated by increasing primary income. This means increasing employment, wages and incomes.*

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Completing the circle of economic and human development, as discussed above, may be seen as the economic dimension of sustainability. Given the magnitude of poverty in LDCs, eradicating it through income transfers alone will be impossible: the financial, administrative and logistical challenges would be formidable. And, in the absence of development, such transfers would need to be continued indefinitely, and on a very large scale, to prevent a return of extreme poverty. Poverty would not be eradicated, but only alleviated for as long as transfers could be sustained. Thus poverty can only be eradicated by increasing the primary incomes (from employment and self-employment) of those now in poverty sufficiently to reduce the transfers needed to a feasible level. This means increasing employment, wages and incomes.

Equally, the major investments in other areas, such as education, health and water supply, that would be necessary to meet the planned SDGs in these areas will give rise to substantial recurrent costs, such as for teachers’ and health professionals’ salaries, drugs and other medical supplies, and maintenance. Cost recovery would by definition be zero for primary and secondary education (since the SDGs, as currently envisaged, specify that these should be free), and at most limited in the areas of health services, water and sanitation, given the need for accessibility and limited purchasing power. The potential for cost recovery for maintenance of other infrastructure is also likely to be limited by low income levels. Financing these costs sustainably will require a considerable increase in public sector revenues.

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*Social and political sustainability is critical, particularly in the early stages of development.*

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Social and political sustainability is also critical, particularly in the early stages of development. Economic transformation, and especially the emergence of a “modern” sector, benefits some segments of the population more than others. Where it is based on the development of manufacturing, in particular, it tends to benefit urban areas and populations disproportionately. Those who have capital to invest, or the human capital required to take higher paying jobs in the emerging “modern” sector would benefit the most, whereas unskilled workers left in the traditional sectors would benefit the least. This may increase inequality and widen rural-urban, regional and/or inter-ethnic disparities. While failure to achieve economic and human development carries its own risks, attention to such effects and the development of mechanisms to manage them successfully are essential to ensure the political sustainability of development.

Environmental sustainability is also critically important. However, there is a major distinction between local environmental issues and global issues such as climate change. While the former need to be addressed by national governments, balancing their own short- and long-term interests, the primary consideration concerning the latter is how global responses will affect the economic environment for development. This is particularly important in the case of climate change (box 3). Reconciling development paths with such global

*Environmental sustainability is also critically important.*

### Box 3. Climate change, global carbon constraints and poverty eradication: Implications for post-2015 development

A key goal and long-standing commitment of the international community is to limit global warming to less than 2°C above pre-industrial levels, but was not included explicitly in the Open Working Group's final proposal for the SDGs.<sup>a</sup> That climate change goal implies a very considerable reduction in global emissions of carbon dioxide and other greenhouse gases. Only one of the four emissions scenarios envisaged by the Intergovernmental Panel on Climate Change is consistent with this objective (IPCC, 2013).<sup>b</sup> Depending on the Earth System Model used, this requires a global emissions reduction of between 14 per cent and 96 per cent from the 1990 level globally (45–97.5 per cent from the 2011 level).

Traditional environmental issues such as land, water and air pollution, (and biodiversity and deforestation to a large extent) are local issues. Pollution affects those in the vicinity of its source. These effects may spill across national borders, but they are geographically defined in relation to the source. For local environmental issues, the key question is how individual countries can best deal with them, balancing the need for long-term environmental sustainability with the more immediate need for economic development and improved living standards.

In the case of anthropogenic climate change, however, it is *total global* emissions of greenhouse gases which have an impact on the *global* climate. The effect of each country's greenhouse gas emissions and carbon footprint on its *own* climate is negligible. This is why global action is so critical, but also why it has proved to be so problematic. Each country bears the economic cost of its own emission reductions, but benefits mainly from the emission reductions of others. Thus, climate change, by virtue of its global nature, can only be dealt with by the global community as a whole.

The key issue for LDCs concerns the potential effects of this global response on their development. Without effective global action to tackle climate change, extreme weather events and rising sea levels will unquestionably undermine any progress towards poverty eradication. Nowhere is this more important than in LDCs, given their greater exposure and vulnerability, and their more limited adaptive capacity (IPCC, 2013). Low-lying countries such as Bangladesh, the Gambia and Tuvalu face the threat of inundation and storm surges, which could displace substantial segments of their population. The frequency, severity and duration of droughts are likely to increase. In addition, agriculture — a critically important income source in most LDCs — will be increasingly affected by “season failure” arising from greater variability of rainfall between and within seasons (AGRA, 2014).

There is widespread recognition that LDCs' own carbon emissions should not be subject to limitations which would impede their development. However, global action to reduce carbon emissions may be expected to have significant effects on global markets and consumption patterns in major export markets, with potentially important implications for LDCs' export opportunities. Assuming that global action is taken on climate change, it will be important to ensure that development strategies take full account of such secondary effects.

Most obviously and directly, global carbon emission constraints imply a limit to fossil fuel exports. However, some goods and services which have been important for export diversification in some LDCs may also be affected, notably long-haul tourism (of particular importance to island LDCs, but also, for example, to the Gambia and Cambodia) and perishable horticultural products that need to be transported by air (e.g. soft fruits and vegetables, and cut flowers).

Sustainable consumption and energy efficiency goals could also potentially affect the upgrading of manufactured exports (particularly of durable goods) as development progresses. Efforts to increase energy efficiency have already led to greater sophistication and complexity of goods such as cars and washing machines in developed-country markets. Moreover, efforts towards more sustainable consumption could imply an increased concern with product life and a shift towards higher quality consumer durables, as well as an acceleration of this trend. Similarly, improved environmental standards for production are likely to raise production costs and the technology-intensity — and possibly the capital-intensity — of industrial production, effectively raising barriers to new entrants to these industries.

More generally, given the close link between global GDP and greenhouse gas emissions, emission reductions on the scale indicated above implies some limit to the potential rate of global economic growth. It may be possible to achieve the 2°C warming target with a growth rate comparable to that achieved in the period prior to the current financial crisis (around 3 per cent per year), but it seems unlikely that it would be compatible with a major growth acceleration.

As discussed in section C.2 of this chapter, however, the income growth rate of the poorest households is considerably greater than the above-mentioned rate. Thus, meeting the poverty eradication target while simultaneously fulfilling global goals on climate change will require the incomes of the poorest to grow much faster than the global economy; that is, it will require a considerable shift in the distribution of the additional income generated by global economic growth in favour of the poorest, whose incomes have grown much more slowly than the global growth rate in recent decades (Woodward and Simms, 2006; Milanovic, 2012). This is also consistent with a widespread concern in discussions on the post-2015 agenda (though not on the SDGs themselves, as envisaged at the time of writing) with reducing inequality, globally as well as nationally.

<sup>a</sup> The Report of the High-Level Panel on the Millennium Development Goals “underlined the importance of holding the increase in global average temperatures below 2 degrees Centigrade above preindustrial levels”, and cited as one of the global impacts of its proposed goals, “Average global temperatures on a path to stabilize at less than 2° C above pre-industrial levels” (United Nations, 2013:19, 55); and drafts of the outcome document of the Open Working Group (OWG) until June 2014 included as target 13.1 to “hold the increase in global average temperature below a x°C rise in accordance with international agreements” (OWG, 2014a). However, the OWG outcome document published in July (OWG, 2014b), while strengthening the goal itself and linking it explicitly to global negotiations under the United Nations Framework Convention on Climate Change, omitted this target.

<sup>b</sup> This scenario limits the temperature rise to 1.6°C, with an upper confidence interval of 2.3°C.

environmental concerns will be critical. Thus an important element for achieving the planned SDGs will be to find “win-win” options that will benefit development and environmental sustainability, and, more particularly, poverty reduction and climate stabilization.

*The SDGs are much more ambitious than the MDGs.*

*To achieve the planned SDG of poverty eradication, the LDCs will need to reduce their poverty rate from 46 per cent to zero in 15 years.*

*Achieving such a goal in LDCs will be extremely difficult, given their multiple and overlapping structural, geographical, environmental and social problems.*

*To fulfil much more challenging goals in a much less favourable environment will require economic transformation on a scale unprecedented in LDCs.*

## C. Achieving the SDGs: What would it take?

### 1. FROM THE MDGs TO THE SDGs

As currently envisaged, the SDGs are much more ambitious than the MDGs. For example, where the MDGs aimed to halve extreme poverty and reduce under-five mortality by two thirds in 25 years, the SDGs are expected to aim for complete poverty eradication and to eliminate preventable child deaths in just 15 years. Such ambitious targets are welcome, and long overdue, but they are also extraordinarily challenging.

To put the scale of this challenge in context, the level of poverty in China in 1994 was about the same as the current level in LDCs as a whole: 46 per cent, based on the \$1.25-a-day poverty line. During the following 15 years, the country achieved an annual growth rate of per capita GDP 9.4 per cent. Nevertheless, in 2009 still 11.8 per cent of China’s population was living in poverty. To achieve the planned SDG of poverty eradication, the LDCs will need to reduce their poverty rate from 46 per cent to zero over the same time span (15 years). In other words, they would need a much bigger economic miracle than China’s.

Achieving such a goal in LDCs will be extremely difficult, given their multiple and overlapping structural, geographical, environmental and social problems. The challenge is exacerbated by extremely uncertain prospects for the external environment as the global economy continues to struggle in the wake of the global financial crisis. Economic recovery in the developed countries remains tentative and fragile; and the associated return to more normal interest rates and greater market confidence may well draw capital away from emerging markets, thereby slowing their growth. Aid budgets in most donor countries remain under pressure as they pursue fiscal austerity programmes, and commodity markets face considerable uncertainty.

To fulfil much more challenging goals in a much less favourable environment, and to do so sustainably, will require nothing short of a revolution in LDCs’ economic performance. More specifically, it will require economic transformation on a scale unprecedented in these countries.

### 2. WHAT KIND OF STRUCTURAL TRANSFORMATION IS NEEDED?

Meeting human development goals sustainably will not only require economic transformation.

LDCs will need to strive for the kind of economic transformation that will contribute positively to the achievement of human development goals on a sustainable basis. The period to 2030 is relatively short for achieving structural transformation: few, if any, LDCs can expect to complete the transformation process (in the sense of shifting the economy entirely into higher productivity activities) within this period of time. If economic transformation is to contribute effectively to achieving the planned SDGs by 2030, policies should aim to promote employment and ensure that the necessary fiscal resources are

available for poverty reduction, health services and education during the transformation process.

Eradicating poverty, as envisaged in the SDGs, means that the entire population of every country must have an income level above the poverty line. As discussed above, given the limited scope for income transfers, this would have to be achieved primarily through increases in income from employment, self-employment and family agriculture. And these higher incomes will only be sustainable if they are matched by higher productivity. Moreover, it would entail extremely large increases in income, since the current average income of the poorest 5 per cent of the population across LDCs as a whole is very low, at around \$0.25 per day in 2010. Raising this average to \$1.25 per day by 2030 would require a fivefold increase, which would necessitate an average annual growth rate of per capita income of 8.3 per cent. This is more than three times the rate achieved even in the favourable economic climate of 2002–2010 (2.7 per cent per year), and 20 times that achieved over the previous two decades (0.4 per cent per year).<sup>2</sup> Moreover, this would still leave some 2–3 per cent of the population dependent on income transfers to escape extreme poverty.

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*Eradicating poverty means that the entire population of every country must have an income level above the poverty line.*

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In some LDCs, the incomes of the poorest are much higher, and the challenge may be more manageable. Bhutan has already reduced the proportion of those living below the \$1.25-a-day poverty line to less than 5 per cent. Five other LDCs (Cambodia, Djibouti, Sao Tome and Principe, Sudan and Yemen) had poverty rates between 13 and 20 per cent. At the other end of the scale, however, in five LDCs (Burundi, the Democratic Republic of the Congo, Liberia, Madagascar and Zambia) poverty rates were between 75 per cent and 85 per cent in 2010, and for them the challenge will be formidable. In these countries, overall, the average income of the poorest 5 per cent is just \$0.13 per day, requiring an annual growth rate of 15 per cent to reach \$1.25 per day by 2030.<sup>3</sup>

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Thus, what is needed is not merely to increase overall productivity, but also to create sufficient new productive and remunerative employment opportunities across the entire population, with productivity high enough to sustain incomes above the poverty line. This means increasing demand faster than the increase in labour productivity: if labour productivity is increased without (domestic and foreign) demand growing at least as fast, either employment will decline, or workers will be pushed out of the sectors of rising productivity into lower productivity “refuge” sectors of informality and family agriculture. Either way, the result will be a rise rather than a fall in poverty.

Neither the Washington Consensus approach nor the more interventionist East Asian model based on export-oriented manufacturing seems likely to achieve this. In both Latin America and sub-Saharan Africa, the Washington Consensus model increased efficiency in manufacturing primarily by driving relatively inefficient producers out of business, and those that survived shed labour. While this increased labour productivity in manufacturing, overall employment in the sector fell. The result was a process of reverse structural transformation in which labour moved from the manufacturing sector into lower productivity sectors, notably the informal sector (McMillan et al., 2013).

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*What is needed is not merely to increase overall productivity, but also to create sufficient new productive and remunerative employment.*

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The East Asian model is more conducive to structural transformation, to the extent that it entails an increase in manufacturing employment. However, this alone is clearly insufficient to eradicate poverty in 15 years in most LDCs. As Rodrik (2014: 11 and fig.16) observes, the peak level of employment in manufacturing has declined in successive generations of industrializing countries, from above 30 per cent in the United Kingdom and Germany to the mid-teens in the Latin American and Asian economies, where a process of premature deindustrialization has begun. This falls far short of the increase in higher-wage employment required for poverty eradication in most LDCs. This suggests that

employment in manufacturing alone is insufficient to generate sufficient well-paid jobs to achieve poverty eradication. Raising productivity and incomes in other sectors, particularly agriculture and services, will also be essential.

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For exporters of manufactures among the LDCs, continuing along a development path based largely on export-oriented manufacturing, along with supplementary measures in other sectors, seems likely to provide the best available option. For other LDCs — particularly island and landlocked LDCs, and those heavily dependent on agriculture — developing export-oriented manufacturing on a sufficient scale to eradicate poverty by 2030 would be extremely challenging. For larger countries among these groups, however, production of labour-intensive consumer goods (e.g. clothing, footwear and processed foods) for domestic and/or regional markets may provide a more viable entry point for a more gradual process of industrialization. The rising consumption levels associated with rapid poverty reduction could contribute substantially to such a process.

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*Raising productivity and incomes in other sectors, particularly agriculture and services, will also be essential.*

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Reviewing sub-Saharan Africa's recent economic turnaround, Rodrik concludes that "If African countries do achieve growth rates substantially higher than [2 per cent per capita, on a sustained basis], they will do so pursuing a growth model that is substantially different from earlier miracles based on industrialization. Perhaps it will be agriculture-led growth. Perhaps it will be services. But it will look quite different than what we have seen before" (Rodrik, 2014: 15).

It seems likely that this also applies, to a greater or lesser extent, to other LDCs which have not as yet developed substantial export-oriented manufacturing sectors. It is also quite clear that eradicating poverty in most of these countries by 2030 will require a substantially faster per capita growth rate than 2 per cent, even if a much greater share of growth accrues to the poorest among their populations than has been the case so far.

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*Of particular importance in most LDCs is rural development, since the majority of people in LDCs live in rural areas.*

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Of particular importance in most LDCs is rural development, since the majority of people in LDCs live in rural areas, with a handful of exceptions (Djibouti, Sao Tome and Principe, Angola, the Gambia, Haiti and Tuvalu, where 36–49 per cent live in rural areas). In 20 LDCs — including three of the five exporters of manufactures (Bangladesh, Cambodia, Lesotho) — the proportion of the population living in rural areas is between 70 per cent and 90 per cent. Across developing countries in all regions, poverty also tends to be greater in rural areas than in urban areas, even allowing for differences in living costs, although this tendency appears to have diminished over time (Ravallion et al., 2007).

Thus, in the great majority of LDCs, the additional income required for poverty eradication is needed the most by people in rural areas. Even if there were unlimited employment growth in urban areas, the potential for poverty eradication through industrial development alone would be limited by the social and environmental constraints associated with a sustainable pace of urbanization. Moreover, the potential to increase agricultural productivity without a major reduction in employment is limited by the substantial labour surplus in small-scale agriculture in most LDCs. This suggests that the diversification of rural economies into non-agricultural activities and the generation of off-farm income sources in rural areas would need to be key objectives. Even in established exporters of manufactured goods, this is likely to be a necessary adjunct to further industrialization if poverty is to be eradicated by 2030.

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## Notes

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- 1 While mining typically has relatively high labour productivity, this reflects its high level of capital intensity; thus the potential for technological upgrading and employment generation are limited.
- 2 UNCTAD secretariat estimates, using data from World Bank, PovcalNet (<http://iresearch.worldbank.org/PovcalNet/index.htm?0,0>). These data cover 39 of the 48 LDCs, which account for 88 per cent of the total LDC population.
- 3 Poverty data are from PovcalNet; data for income growth are UNCTAD secretariat estimates using PovcalNet data.

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