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### Trade and Development Board Trade and Development Commission Expert Meeting on the Ways and Means of Improving the Implementation of Priority Areas Agreed in the Istanbul Programme of Action

Geneva, 6 and 7 November 2017

Item 3 of the provisional agenda

**Ways and means of improving the implementation of priority areas  
agreed in the Istanbul Programme of Action:  
Productive capacities and doubling the share of the  
least developed countries in world exports**

## Improving implementation of the Istanbul Programme of Action, goals and targets related to productive capacities and doubling the share of the least developed countries in global exports

### Note by the UNCTAD secretariat

#### *Executive summary*

UNCTAD has been providing substantive analysis on the need for building productive capacities in least developed countries (LDCs), which has led to growing recognition that building productive capacities is a key requirement for these countries to achieve sustainable economic growth and development, as captured by the Sustainable Development Goals. The challenge is how to operationalize the UNCTAD analytical framework given the particular circumstances of LDCs.

With a view to building consensus on ways and means of accelerating building productive capacities in LDCs, successive sessions of the United Nations Conference on Trade and Development have called for further deepening work on the subject. In this context, at the sixty-fourth executive session of the Trade and Development Board, member States requested UNCTAD to organize a single-year expert meeting “dedicated to discussion of ways and means of improving the implementation of priority areas agreed in the Istanbul Programme of Action, and focused on its goals and targets related to productive capacities and doubling the share of the least developed countries in global exports”.<sup>1</sup>

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<sup>1</sup> See TD/B/EX(64)/2, agreed conclusions 530 (EX-LXIV), paragraph 10.



This note is prepared to assist member States in their deliberations. It provides an assessment of the progress achieved by LDCs vis-à-vis the targets and goals set out in the Programme of Action for the Least Developed Countries for the Decade 2011–2020 (Istanbul Programme of Action) related to building productive capacities and doubling the share of least developed countries in global exports. The note outlines some of the challenges faced by LDCs during implementation and raises a series of questions for discussion by the expert meeting. It further provides some policy conclusions and the way forward for improved implementation towards achieving the targets of the Istanbul Programme of Action.

## I. Background

1. There is growing recognition that building productive capacities is a key requirement for LDCs to achieve sustainable economic growth and development, as captured by the Sustainable Development Goals. While the economies of LDCs may experience growth due to, among other reasons, windfall gains from natural resource discoveries or price increases, tariff preferences, increases in official development assistance or other income sources, these have only weak links to actual competitiveness and long-term growth prospects. For LDCs to spur structural transformation and achieve sustainable and inclusive growth, boosting their productive capacities is a necessity.

2. UNCTAD proposed the concept of productive capacities, defined in *The Least Developed Countries Report 2006: Developing Productive Capacities* as “the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop”.<sup>2</sup> The report explains that:

(a) “Productive resources” is another term for the factors of production: natural resources, human resources, financial capital resources and physical capital resources.

(b) Entrepreneurial capabilities concern the skills, knowledge and abilities of enterprises to mobilize productive resources, to invest, innovate and upgrade products and their quality and to create markets. Enterprises here are understood in a broad sense that encompasses households. The two components of entrepreneurial capabilities are core competences and technological capabilities, where the former deal with routine knowledge, skills and information in the production of and competition in goods and services, and the latter can be considered to be concerned with advancing existing competences.

(c) Production linkages refer to the flows and movements between enterprises and between different types of economic activity that take place in supply chain networks. The complexity of the production systems means that the production linkages can take many forms: flows of goods and services through backward and forward linkages; flows of information and knowledge; flows of productive resources; linkages within networks of territorial clusters; and linkages between large and small firms as well as between domestic and foreign firms.

3. The concept of productive capacities has gained growing recognition in intergovernmental bodies and international development discourse. The Istanbul Programme of Action, adopted by the Fourth United Nations Conference on the Least Developed Countries on 23 May 2011, identified productive capacity as the first priority area for action. The Istanbul Programme of Action notes that:

Least developed countries’ economies feature limited productive capacities, which constrain their ability to produce efficiently and effectively and to diversify their economies. This handicap translates into binding supply constraints and ultimately into weak export and economic potentials and limited productive employment

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<sup>2</sup> UNCTAD, 2006, *The Least Developed Countries Report 2006: Developing Productive Capacities* (United Nations publication, Sales No. E.06.II.D.9 New York and Geneva).

generation and social development prospects. Building a critical mass of viable and competitive productive capacity in agriculture, manufacturing and services is essential if least developed countries are to benefit from greater integration into the global economy, increase resilience to shocks, sustain inclusive and equitable growth as well as poverty eradication, achieve structural transformation, and generate full and productive employment and decent work for all (A/CONF.219/3/Rev.1, para. 44).

4. Similarly, the political declaration adopted at the Comprehensive High-level Midterm Review of the Implementation of the Istanbul Programme of Action for the Least Developed Countries for the Decade 2011–2020, adopted on 29 May 2016, recognizes “that increasing productive capacity leads to inclusive economic growth and social development and is vital to the achievement of sustainable development and for building resilience” (A/CONF.228/3, para. 13).

5. The Trade and Development Board, meeting at its sixty-fourth executive session in February 2017, underscored “the importance of empowering the least developed countries to build their productive capacities with a view to the structural transformation of their economies, build resilience to external shocks, and achieve broad-based, inclusive and sustainable economic growth and development consistent with the Sustainable Development Goals”.<sup>3</sup>

6. Against this background, and building on earlier UNCTAD work, member States requested UNCTAD to organize the present single-year expert meeting “dedicated to discussion of ways and means of improving the implementation of priority areas agreed in the Istanbul Programme of Action, and focused on its goals and targets related to productive capacities and doubling the share of the least developed countries in global exports”.

7. UNCTAD is carrying out significant work across its three pillars to assist LDCs in building their productive capacities given its importance for sustainable development. UNCTAD continues to support intergovernmental consensus-building and exchange of experiences with regard to the role of productive capacities in the development of LDCs. At the sixty-fourth session of the Trade and Development Board in September 2017, participants in a high-level panel discussion on accelerating progress in building productive capacities in LDCs and other vulnerable economies are expected to provide valuable inputs and recommendations to inform the deliberations by experts as well as to further work by the UNCTAD secretariat.

8. In research and policy analysis, in addition to proposing the concept of productive capacities, UNCTAD continues to better delineate it with a view to translating it into more concrete policy recommendations for LDC Governments. For example, in June 2017, UNCTAD convened a brainstorming meeting of United-Nations system bodies and international organizations using the concept of productive capacities, including the United Nations Industrial Development Organization, Department of Economic and Social Affairs, International Trade Centre, International Air Transport Association and the Commonwealth Secretariat, as well as a number of academics, to sharpen the concept and improve collaboration on related research.

9. In particular, UNCTAD is engaged in developing indicators for measuring the levels of productive capacities in different countries. The Doha Mandate (para. 65 (e)) states that UNCTAD should “continue to further develop quantifiable indicators and related variables to measure economy-wide productive capacities in LDCs”. The mandate also appears in the Nairobi Maafikiano (para. 76 (k)) and informs ongoing work to develop productive capacity indicators at the Division for Africa, Least Developed Countries and Special Programmes of UNCTAD.

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<sup>3</sup> See TD/B/EX(64)/2, agreed conclusions 530 (EX-LXIV), paragraph 4.

10. The most comprehensive UNCTAD work on developing productive capacities indicators is *Benchmarking Productive Capacities in Least Developed Countries*.<sup>4</sup> The report computes a relatively simple index to represent productive capacities, with five component categories (structural transformation, transport, information and communications technology (ICT), energy and private sector development). This is based on the components of productive capacities identified in the Istanbul Programme of Action. The scores resulting from this analysis indicate to LDCs where they are succeeding in building their productive capacities and where they are lacking. On reviewing the report, member States adopted agreed conclusions that requested the UNCTAD secretariat continue its analytical work to develop performance measures and quantifiable indicators to measure economy-wide productive capacities.<sup>5</sup>

11. Earlier work on LDCs is currently being expanded and applied to the landlocked developing countries. For instance, the scope of productive capacities as developed in the Istanbul Programme of Action is not as broad as presented in *The Least Developed Countries Report 2006*, which originally suggested an index based on a wide-ranging set of categories and indicators. A further consideration with respect to methodology is the calculation of the index, which takes the average of equally weighed indicators and categories. The productive capacities index developed to date assumes the five categories are of equal importance, whereas an argument could be made that some categories should be given greater weight than others.

12. Improved information on existing levels of productive capacities can aid policymakers in setting out future priorities for development policymaking and support accountability of decision makers. Monitoring assists in evaluating where past policy choices may have been effective or not and, consequently, can lead to policies and actions that should be pursued or abandoned. Another potential benefit from measuring and benchmarking is that insights may be discerned from cross-country comparisons. Quantitatively assessing productive capacity levels for multiple countries can provide some level of confidence in determining best practice development.

13. Constructing a meaningful and practical index on productive capacities in LDCs requires addressing several challenges, starting with data availability. For many possible indicators on productive capacities, data are not readily available in several LDCs or are not reliable. Until the issue can be addressed through better data collection, this poses a significant constraint on the construction of measurable indicators. There is also a need to find an appropriate balance between the comprehensiveness of the index and its practicability. The concept of productive capacity is very broad, and accurate measurement would require considering hundreds of variables. However, in order to make the index manageable and easy to understand, there is a need to limit its scope to a smaller number of the most relevant indicators.

14. UNCTAD is also providing targeted technical assistance to LDCs in developing their productive capacities. This work has a particular focus on improving institutional and human capacities to formulate and implement better policies and strategies in the areas of international trade, investment, trade logistics domestic resources mobilization and debt management. UNCTAD research and policy analysis work contributes to improved domestic policy formulation and consensus-building at the regional and international levels on matters related to trade and development of LDCs. LDCs also benefit from targeted projects and programmes in a range of areas. For example, UNCTAD has been assisting selected LDCs in tapping the development potential of fishery resources by addressing demand- and supply-side constraints facing the sector. UNCTAD also developed a handbook on mainstreaming trade in domestic development policies in LDCs to better harness the potential of trade to advance socioeconomic transformation in the countries. Further efforts by donors, beneficiary countries and the secretariat are needed to ensure continuity and sustainability of capacity-building projects and programmes. Predictability of resources, ownership capacities of LDCs and ensuring continuity and

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<sup>4</sup> UNCTAD, 2016, *Benchmarking Productive Capacities in Least Developed Countries*. UNCTAD/WEB/ALDC/2015/9. Geneva.

<sup>5</sup> See TD/B/60/11, agreed conclusions 518 (LX), paragraph 5.

sustainability of capacity-building activities are critical to building productive capacities and enhancing the substantive and developmental impact of these activities.

## II. Assessment of progress towards achieving goals and targets on productive capacity of the Istanbul Programme of Action

15. This chapter provides a brief assessment of progress towards the Istanbul Programme of Action goals and targets on productive capacity. The assessment draws extensively on the UNCTAD publication *Benchmarking Productive Capacities in Least Developed Countries* and is based on the latest available data, from 2014, which requires updating prior to the final review of implementation of the Istanbul Programme of Action.

16. The Istanbul Programme of Action does not provide an explicit definition of productive capacity, though its division into eight priority areas makes it clear which are the key issues encompassed by productive capacities and those that are not. Thus, chapter IV, section A of the Istanbul Programme of Action on productive capacity (paras. 44–55) introduces this priority area and then considers four relevant themes.

17. The main goals and targets that may be pursued in building productive capacities are first presented:

(a) Increase significantly the value addition in natural resource-based industries paying special attention to employment generation;

(b) Diversify local productive and export capability with a focus on dynamic value added sectors in agriculture, manufacturing and services;

(c) Significantly increase access to telecommunication services and strive to provide 100 per cent access to the Internet by 2020;

(d) Strive to increase total primary energy supply per capita to the same level as other developing countries;

(e) Significantly increase the share of electricity generation through renewable energy sources by 2020;

(f) Enhance capacities in energy production, trade and distribution with the aim of ensuring access to energy for all by 2030;

(g) Ensure that the least developed countries have significant increase in combined rail and paved road mileage and sea and air networks by 2020 (para. 45).

18. The four themes for action considered are infrastructure; energy; science, technology and innovation; and private sector development. Infrastructure refers to physical infrastructure, such as electricity, transport and ICT. The theme of energy is concerned with production levels and, arguably most of all, access to affordable, reliable and renewable energy. The emphasis of developing science, technology and innovation is on establishing and strengthening institutions as well as promoting cooperation and collaboration among the pertinent actors involved in innovation in science and technology. Private sector development includes the promotion of small and medium-sized enterprises and how to overcome structural constraints that limit the growth of the private sector.

19. LDCs have made some progress in some areas of building productive capacities, as reflected in the Istanbul Programme of Action.<sup>6</sup>

20. One area of progress in building productive capacities is ICTs, for which the Istanbul Programme of Action has one specific goal and target: to “significantly increase access to telecommunications services and strive to provide 100 per cent access to the Internet by 2020” (para. 45 (c)). In addition, in the subsection devoted to infrastructure LDCs commit to take several actions related to ICT, including to “develop modern ICT infrastructure and Internet access...”, “build and expand broadband connectivity, e-networking and e-connectivity...” and “promote public–private partnerships

<sup>6</sup> See TD/B/60/8 and Corr.1, paragraph 32.

for the development and maintenance of transport and ICT infrastructure and their sustainability” (para. 48.1 (c)–(e)).

21. The state of LDCs with respect to ICT infrastructure may be approximated by three indicators: Internet users, mobile cellular subscriptions and telephone lines. Unsurprisingly, the proportion of mobile phone subscriptions per 100 people is considerably higher, on the whole, than that of Internet users or telephone lines. While the lowest level is 0 or close to 0 for all indicators, the highest levels are much greater for mobile phones. In 2011, the highest levels achieved by LDCs were 96 subscriptions per 100 people, as opposed to 30 Internet users per 100 people and 19 telephone lines per 100 people. In fact, only two LDCs have landline networks that are in excess of 10 per 100 people, though it should be noted that the spread of mobile phones has lessened the importance of fixed telephone lines.

22. For LDCs to achieve the benchmarks of 100 per cent access to the Internet and mobile cellular subscriptions by 2020, the targets in the Istanbul Programme of Action, a calculation shows in 2011 that the growth rates needed in relation to Internet access ranged from 14.3 to 93.7 per cent a year. However, it should be born that the Internet is a fast expanding technology and, conceivably, at least some LDCs will come close to attaining this target.

23. With regard to mobile telephony, 29 LDCs would need to reach growth of 10 per cent a year (some of them, less) in cellular subscriptions to attain the benchmark, a realistic target in another fast expanding technology.

24. Another area where LDCs compare favourably with developing countries that are not LDCs is the Istanbul Programme of Action goal on renewable energy. Data reveal that many LDCs actually have very high shares of renewables in their electricity output. In fact, no fewer than five LDCs have shares of 100 per cent, with a further four LDCs having shares above 90 per cent. Moreover, the majority of LDCs with available data have shares, higher than the unweighted average share of other developing countries, at 24 per cent. The average share of renewable electricity for LDCs, by contrast, is 53 per cent.

25. Furthermore, it is worth noting that several LDCs are making significant efforts and investments to build productive capacities, though the results remain to be seen. One indication of LDCs’ efforts to invest in the development of human skills, for example, is how much of government expenditure goes to education. Encouragingly, many LDCs have higher levels of public spending on education than other developing countries, with LDCs having in fact a higher unweighted average (at 18 per cent) and median (at 17 per cent) than other developing countries (with an unweighted average of 15 per cent, and a median of 14 per cent). Reviewing LDCs with data on spending on education over several years gives the impression that the share has increased in some two thirds of the countries during a period of at least five years.

26. Despite progress in some areas, LDCs continue to lag behind other developing countries in several important aspects of building productive capacities.

27. One area where LDCs lag behind is infrastructure. The Istanbul Programme of Action lists infrastructure as one of the four major themes where LDCs and their development partners are encouraged to take actions, while issues related to transport are included among the main goals and targets to be pursued. The goal related to transport is to “ensure that the least developed countries have significant increase in combined rail and paved road mileage and sea and air networks by 2020” (para. 45 (g)).

28. An assessment of the data available on paved roads and rail lines demonstrates the challenge facing LDCs. In terms of total roads networks, the median density is 2,147 km per million people in LDCs, compared to 3,446 km per million people in 58 developing countries that are not LDCs. Only 7 of the 41 LDCs with available data have densities that are higher than the average in other developing countries.

29. This gap is further exacerbated by the fact that only a small proportion of roads in LDCs are paved. The average is 22 per cent. The unweighted average of paved roads in 50 other developing countries is 56 per cent.

30. Rail networks in LDCs give a similar impression as road networks, at least in quantitative terms.<sup>7</sup> The average density of rail networks among LDCs is 77 km per million people, while in middle-income countries it is 102 km per million people. By way of comparison with a former LDC, Botswana has a density of 437 km of rail lines per million people, which is slightly higher than the density in South Africa (436 km per million people) and not much lower than the density in the European Union (464 km per million people).

31. One way of measuring the challenge facing LDCs in matching the transport infrastructure of other developing countries is to measure the annual average growth rates needed for LDCs to achieve the benchmark of other developing countries by the Istanbul Programme of Action target date of 2020. The needed growth rates of paved roads in LDCs to match the current level of paved roads in other developing countries range from 0.5 per cent a year (in Nepal) to 46.4 per cent a year (in the Democratic Republic of the Congo). Three countries have already achieved the benchmark. However, 11 LDCs would need to increase paved roads by 10.0 per cent a year (some of them, less) to achieve the benchmark value of 56.4 per cent by the end of the current decade. The paucity of time-series data on how the proportion of paved roads has evolved in LDCs precludes any notion of ongoing trends, but analysis nonetheless suggests that it is unlikely that a majority of LDCs will have achieved a similar level of proportion of paved roads to that of middle-income countries by 2020.

32. Regarding rail tracks, the rate of annual average growth that would be needed for LDCs to match the density found in other developing countries ranges from a low of 0.7 per cent a year (for Senegal) to a high of 30.3 per cent a year (for Uganda). Five of the 16 LDCs for which data are available have already achieved the benchmark of 101.5 km per million people.<sup>8</sup> Though data reveal that LDCs have made little progress in extending their railways in the past decade, it seems conceivable that about half of the 16 LDCs<sup>9</sup> could have a density to match the current average of developing countries that are not LDCs by 2020, provided that concerted efforts are made to this effect.

33. A further significant challenge for LDCs lies in the goal of increasing total primary energy supply and access to energy. Though trending upward since the early 2000s, total primary energy supply per capita in LDCs remained at about 0.28 tonne of oil equivalent per capita in 2012, compared to a world average of 1.88 tonne of oil equivalent per capita. As many as seven LDCs had a total primary energy supply per capita lower than 0.2 tonne of oil equivalent per capita, and the median was 0.30 tonne of oil equivalent per capita. The fact that, over the 2000–2012 period, total primary energy supply per capita expanded faster than the world average in only 15 LDCs suggests widespread divergence. As a result, it will be difficult for most LDCs to reach the benchmark by 2020.

34. Access to energy refers to the share of the population that has access to electricity and the share of the population that has access to clean fuels and technologies for cooking. Access to electricity for LDCs ranges from 5 per cent (in South Sudan) to virtually full access (in Bhutan), with a median value of 34 per cent.<sup>10</sup>

35. The share of the population in LDCs that have access to clean fuels and technologies for cooking ranges from 2 per cent (7 countries) to 68 per cent (Bhutan), with a median value of 6.6 per cent. The unweighted averages for LDCs are 39 per cent with respect to access to electricity and 13 per cent with respect to access to clean fuels and technologies for cooking. Clearly, access to energy in LDCs is considerably behind other developing countries, where the unweighted averages for access to electricity and access to clean fuels and technologies for cooking are 98 per cent and 87 per cent, respectively.

<sup>7</sup> There are no readily available data on the quality of either road or rail networks in LDCs.

<sup>8</sup> The countries are Djibouti, Mauritania, Mozambique, the Sudan and Zambia.

<sup>9</sup> Benin, Djibouti, Mauritania, Mozambique, Senegal, the Sudan, the United Republic of Tanzania and Zambia.

<sup>10</sup> Data on access to electricity and clean fuels and technologies for cooking are from the World Development Indicators 2017 (data as of 2014) of the World Bank.

36. As would be expected, access to energy is higher in urban areas than in rural areas. Access to electricity in urban areas in the median LDC is 59 per cent, whereas it is only 11 per cent in rural areas. The gap for non-solid fuels<sup>11</sup> is smaller, but nonetheless substantial: 13 per cent in urban areas in the median LDC, vis-à-vis 2.4 per cent in rural areas.

37. The goal set in the Istanbul Programme of Action is to ensure “access to energy for all by 2030” (para. 45 (f)). Again, the challenge can be better understood by considering the growth rates needed to achieve universal access to electricity and clean fuels and technologies for cooking by 2030. At present, the LDCs as a group would have to achieve a rate of increase in the number of people gaining access to electricity that is 3.5 times the rate that they achieved between 2004 and 2014, if they are to achieve the goal. Simply maintaining their recent impressive rate of progress would allow only 4 of the 47 LDCs to achieve universal access to electricity by 2030, while only 7 more could do so even if they doubled their rate of progress. Nearly half of the LDCs, 21 of the 47, would need to increase the number of people gaining access each year by a factor of more than five, and 11 by a factor of more than ten.

38. LDCs also continue to lag far behind other developing countries in terms of capacities in science, technology and innovation, and private sector development. While the Istanbul Programme of Action does not contain specific goals or targets with respect to the development of productive capacities in science, technology and innovation, a consideration of expenditure and existing capacities in terms of researchers demonstrates the existing disparities.

39. With regard to research and development spending as a share of gross domestic product (GDP), the lowest share among LDCs is 0.02 per cent (the Gambia) and the highest is 0.47 per cent (Democratic Republic of the Congo), while the median is 0.21 per cent. The unweighted average share of GDP that goes to research and development in other developing countries is 0.43 per cent; 2 LDCs have shares higher than this. The median share in other developing countries is 0.29 per cent; 5 LDCs have shares higher than this.

40. Another proxy for the state of research and development in LDCs is the number of researchers and technicians in research and development. In 2010, the number of researchers ranged from 8 per million people to 384 per million people (and a median of 34 per million people) in LDCs, and the number of technicians varied between a low of 11 per million people to 142 per million people (and a median of 30 per million people). The unweighted averages of other developing countries are 535 researchers in research and development per million people and 175 technicians in research and development per million people (with medians considerably lower at 316 researchers and 80 technicians, respectively, per million people).

41. As with science, technology and innovation, the Istanbul Programme of Action does not contain any goals or targets concerning private sector development, but includes a subsection on it with several actions to be undertaken by LDCs and their development partners. Among the actions are to promote (a) an enabling environment for private sector development, (b) greater access to financial services and (c) women’s entrepreneurship.

42. If one considers the distribution of LDC rankings in the World Bank’s ease of doing business index, the positions of LDCs are skewed towards the bottom of the rankings. The positions range from 56 (Rwanda) to 190 (Somalia), which is the lowest ranking in the world. Fifteen of the 20 countries with the least business-friendly regulations are LDCs.

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<sup>11</sup> “Non-solid fuels include (i) liquid fuels (for example, kerosene, ethanol, or other biofuels), (ii) gaseous fuels (such as natural gas, liquefied petroleum gas and biogas) and (iii) electricity. Solid fuels include (i) traditional biomass (for example, wood, charcoal, agricultural residues and dung), (ii) processed biomass (such as pellets and briquettes); and (iii) other solid fuels (such as coal and lignite).” See World Bank, 2013, *Sustainable Energy for All: Global Tracking Framework*, Vol. 3, Washington, D.C. Available at <http://documents.worldbank.org/curated/en/603241469672143906/Global-tracking-framework> (accessed 25 August 2017).



By comparison, the average ranking of other developing countries is 97 and the median ranking is 99. More positively, several LDCs have made considerable headway in the past decade. The most familiar success story is Rwanda, which has made several significant reforms in 2000s to further private sector development. The country also put in place a Doing Business Unit to lead reform work.<sup>12</sup> Other LDCs that have pushed ahead with reforms and climbed the rankings include Burundi, Sierra Leone and Solomon Islands.

43. An index that assesses the economic empowerment of women in different countries is the third billion index developed by Booz and Company. The Istanbul Programme of Action section on productive capacities explicitly draws attention to promoting women's entrepreneurship. Focusing thus on the elements of the index that deal with entrepreneurial support, the scores range from a low of 28.0 to a high of 42.3, which means that all LDCs had scores below the average for all countries (50) and below the unweighted average of other developing countries (48.2). Consequently, many LDCs are among the lowest ranked countries in terms of entrepreneurial support for women, with 8 LDCs placed in the bottom 10 and no LDC ranking higher than 98 out of 128 countries. Unequal inheritance laws in several LDCs provide one concrete example of the generally weak support that LDCs give women entrepreneurs. A review from 2012 found that 10 out of 26 countries that do not give sons and daughters equal inheritance rights to property from their parents are LDCs.

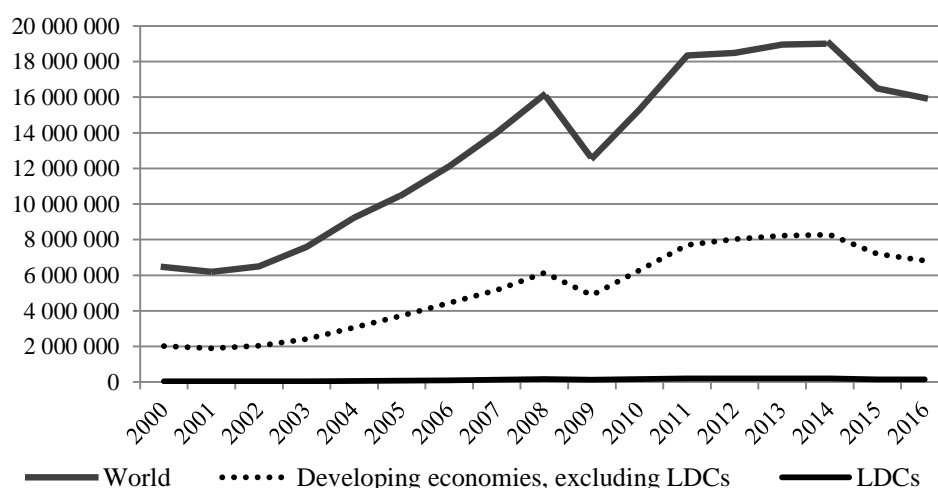
### III. Doubling the share of the least developed countries in global exports

44. The difficulties faced by LDCs in building productive capacities are compounded by the challenges this group of countries faces in achieving Istanbul Programme of Action goals related to doubling the share of LDCs in global exports, and related goals of export diversification and structural transformation. Specifically, the trade target is to double the share of LDC exports in world exports by 2020, including broadening the export base of those countries. This would bring their share of exports to approximately 2 per cent of world trade.

Figure 1

#### Merchandise exports

(Millions of United States dollars)



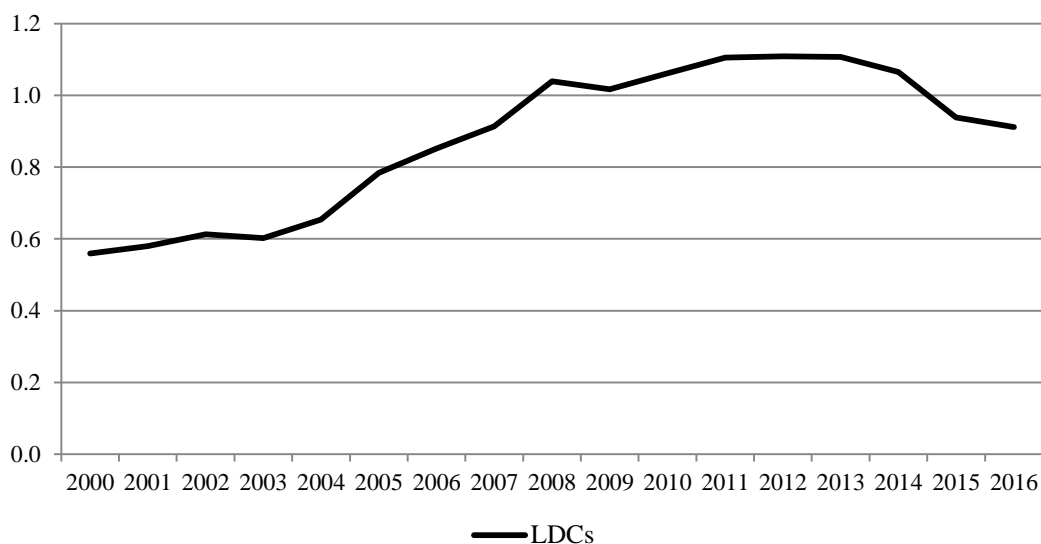
Source: UNCTADStat database.

<sup>12</sup> World Bank, 2013.

45. Figure 1 shows the development of exports by LDCs and the world in terms of current United States dollars since 2000. The figure demonstrates that the share of LDC exports in global exports can vary due to changes in the value of LDC exports or in world exports. The actual evolution of the export share of LDCs in global exports is shown in figure 2.

Figure 2

**Share of total LDC merchandise exports in world merchandise exports**

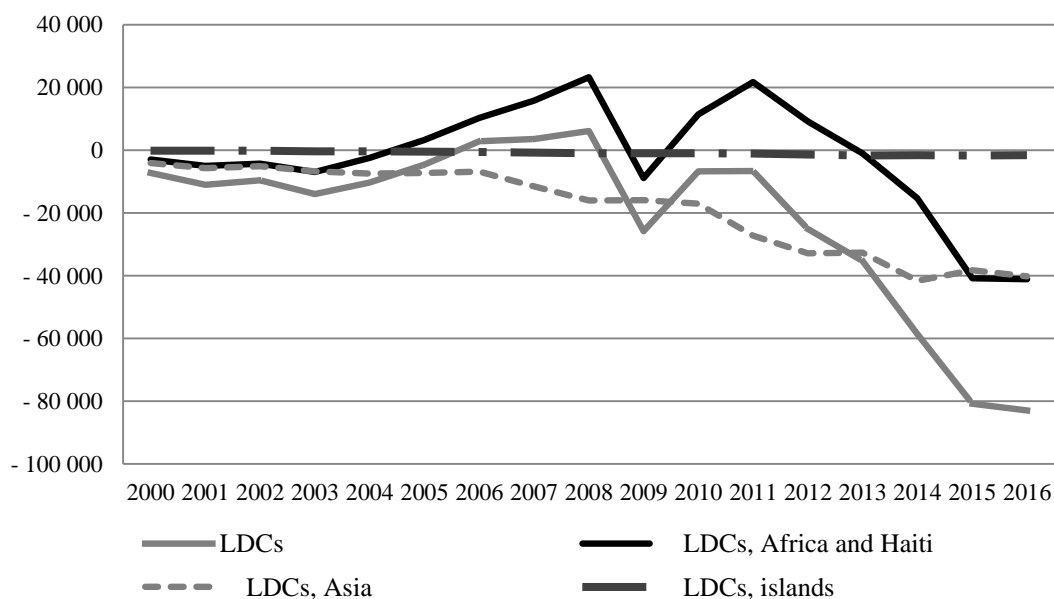


Source: UNCTADStat database.

46. After initially increasing from 0.6 per cent in 2000, the LDC share in global exports increased to 1.1 per cent by 2010 and remained broadly constant at that level until 2013. In 2014, the share began to decline, and it currently stands at 0.9 per cent. A further concern relates to the evolution of the trade balance of LDCs, which has deteriorated sharply since 2010, as shown in figure 3.

Figure 3

**Merchandise balance in LDCs**  
(Millions of United States dollars)



Source: UNCTADStat database.

47. The merchandise trade balance of LDCs as a group deteriorated from a deficit of about \$7 billion in 2011 to a deficit of \$83 billion in 2016.

48. Expansion of the export share of LDCs will require a sustained structural transformation of LDC economies, as well as greater export diversification. The efforts of LDCs to diversify their exports have so far not yielded significant progress.

49. With regard to the goal of diversification, LDCs as a group continue to lag far behind developed and other developing countries. The merchandise export concentration index (or the Herfindahl–Hirschman index) gives an indication of the extent to which production in LDCs is specialized (with the level of concentration increasing from 0 to 1). It shows that concentration for 48<sup>13</sup> LDCs in 2011 ranged from 0.14 (Nepal) to 0.97 (Angola). The unweighted average (mean) was 0.47 and the median was 0.44. By comparison, the unweighted average for all of the world's economies was 0.36 and the unweighted average for other developing countries was 0.39.

50. A worrying trend is that the diversification of LDC economies has narrowed over the years. Between 1995 and 2011, the index value for LDCs as a group virtually doubled. This trend largely stemmed from higher concentration levels in the group comprised of African LDCs and Haiti, where concentration surged from 0.25 in 1995 to 0.58 in 2011. The index values for Asian LDCs and island LDCs remained fairly steady during the 17-year period.

51. With regard to structural transformation, the picture is more mixed. It is widely acknowledged that expanding value addition in manufacturing can be a critical component of a country's structural transformation and economic development. Although structural change can also take place through shifting of resources to the services sector or to higher value added activities in the primary sector, manufactures is of special interest due to the employment the sector can generate, the higher productivity levels it can spur and the close linkages that may exist among subsectors.

52. The evidence shows a mixed picture regarding the size of the manufacturing sector in LDCs. While value added in the manufacturing sector as a share of GDP decreased in 29 LDCs between 2000 and 2015, it rose in 19 LDCs. The average share of value added in the manufacturing sector in LDCs stayed broadly constant, at just below 11 per cent between 2000 and 2015. However, while African and island LDCs as well as Haiti on average saw declines in the share of manufacturing value added, Asian LDCs on average saw an increase.

53. Interestingly, the relative consistency of the share of manufacturing value added in LDCs contrasts with a decline in other developing countries (excluding China), which saw the average share of manufacturing value added decline from 18.9 per cent in 2000 to 16.3 per cent in 2015.<sup>14</sup> Thus, while LDCs as a group have not achieved significant increases in the share of manufacturing value added, they have avoided the decline experienced in other other developing countries.

54. However, the average share of manufacturing value added continues to be significantly lower in LDCs (11 per cent) than in other developing countries (16.3 per cent). As many LDCs are starting from a low base, their manufactures output needs to expand significantly faster than that of other developing countries if they seek to emulate the value added shares exhibited in the latter group.

#### IV. Conclusion and way forward

55. An assessment of the data shows that, while LDCs as a group have achieved some progress towards some of the goals and targets in the Istanbul Programme of Action related to productive capacities, they remain far behind with regard to the majority of targets.

<sup>13</sup> South Sudan was not included in this calculation. Also, following the graduation of Equatorial Guinea in 2017, the current number of LDCs is 47.

<sup>14</sup> UNCTADStat database.

56. In terms of transport infrastructure, the average level for LDCs is well behind the average level seen in other other developing countries. In the field of energy, total primary energy supply per person and access to electricity continue to lag far behind the levels achieved in other developing countries. Past trends further suggest that, unless there is a significant increase in investments, it will be difficult for LDCs to achieve the targets set by the Istanbul Programme of Action. However, due to their heavy reliance on hydropower, the proportion of electricity generation from renewable energy sources in LDCs actually exceeds that achieved in other developing countries. In the areas of science and technology and private sector development, LDCs also continue to experience significant challenges in closing the gap with middle-income countries.

57. With regard to the Istanbul Programme of Action goal of doubling the share of LDCs in global exports, LDCs are in fact experiencing a reversal. Between 2013 and 2016 the share of LDCs in global merchandise exports exhibited a declining trend. This was accompanied by a trend of greater export concentration, which undermines progress towards the Istanbul Programme of Action goal of greater diversification of exports.

58. LDCs continue to face a series of challenges in building productive capacities and doubling their export share. These challenges are seen at the national level and in the international environment.

59. At the national level, many LDCs are unable to mobilize sufficient resources to implement significant development projects to support productive capacities. In 2014, the external resource gap of LDCs as a group averaged 3.2 per cent of GDP. This is often exacerbated by weak institutional capacities as well as governance challenges. In some cases, development policy in LDCs is also inadequately focused on the need to build productive capacities. While the private sector plays a crucial role in the development of productive capacities, in LDCs it is often constrained by rules and regulations or hindered by the absence of an adequate legal, institutional and infrastructure environment that would enable the private sector to flourish. The lack of adequate skills among the workforce due to insufficient education and training opportunities is a further obstacle.

60. At the international level, the efforts of LDCs to diversify their economies and build productive capacities continue to be hindered by several factors. While many LDCs benefit from duty-free and quota-free access to major export markets, products of export interest to LDCs are often exempted. Furthermore, their ability to take advantage of these opportunities is sometimes constrained by complicated rules of origin and administrative requirements. Similarly, LDCs face challenges in terms of development financing. Despite commitments to maintain official development assistance to LDCs by the members of the Development Assistance Committee of the Organization for Economic Cooperation and Development, net official development assistance flows to LDCs fell by 12.2 per cent between 2013 and 2014, and a further 9.2 per cent between 2014 and 2015. Furthermore, in 2015, only 7 of the 26 members of the Development Assistance Committee provided more than 0.15 per cent of their gross national product in official development assistance to LDCs. The overall average was 0.09 per cent. Moreover, only a proportion of these aid flows are devoted to supporting productive capacities. Many LDCs also have difficulty in attracting sufficient foreign direct investment or benefiting from personal remittances. Flows of foreign direct assistance and remittances to LDCs remain volatile and highly concentrated in a few countries.

61. Significant efforts by both LDCs and development partners will be required if the goals and targets related to productive capacities and doubling the share of LDCs in global exports is to be met by 2020. This calls for a paradigm shift in policymaking at the national level and enhanced support from development and trade partners of LDCs. It should however be noted that there is no simple, uniform and universal blue print that enables LDCs to build productive capacities and address persistent and emerging development challenges. These countries should design home-grown and indigenous development policies and strategies based on their specific socioeconomic circumstances, resource base, institutional capability and overall local conditions. Notwithstanding the need for country-specific policies and strategies, the task of building productive capacities in LDCs has the potential to promote structural transformation and is a critical prerequisite to inclusive growth. In this regard, it is critical that fiscal, monetary, industrial, rural and

infrastructure policies be oriented to the development of productive capacities. Governments of LDCs will have a crucial role in financing public investment in physical and human capital by accelerating public investment in infrastructure and raising spending on education and training. To do so will require strengthening government capacity to mobilize and manage fiscal and other sources of revenue, whether domestic or external. At the national level, this can be done initially through domestic resource mobilization, which entails changes in fiscal policy and tax administration. LDCs should also use enterprise development to transform productive structures into higher value added activities that involve more skilled and technology-intensive production, which in turn results in higher incomes that can fuel demand and stimulate new investment.

62. Development and trade partners of LDCs also have a crucial role to play in assisting these countries to build their productive capacities and double their share in world exports. Such support should go beyond the confines of official development assistance and technical assistance and include transfer of technology and know-how as well as building technological capabilities and innovation in these countries. This calls for improving the quantity of official development assistance, with a balanced distribution between social and economic sectors, improved market access and continued efforts to facilitate the flow of foreign direct investment.

### **Questions for consideration**

63. The following questions may be considered during the expert meeting:

- (a) How can LDCs accelerate fostering productive capacities, structural transformation and the diversification of exports?
  - (b) How can development partners and trade support LDC efforts to build productive capacities and double their share in world exports?
  - (c) How can trade play a catalytic role in building productive capacities, given the deteriorating trade balance?
  - (d) What respective roles can Government and the private sector play in building productive capacities?
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