Productive Capacities for the New Decade
Side event – LDC5 PrepCom

Co-organized by UNCTAD, the Enhanced Integrated Framework (EIF),
the Committee for Development Policy and the Technology Bank for LDCs

Talking points for Mr Ratnakar Adhikari, Executive Director,
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Thank you, Professor Ocampo.

Good afternoon, everyone!

I would like to respond to the first question we are trying to address during this event.

With the launch of the Productive Capacity Index last year, UNCTAD has managed to shine a spotlight on the issue. This will hopefully motivate countries not only to mainstream productive capacity-building into their national development agendas but also allocate resources to implement prioritized actions.

In light of this, I would like to make three points:

I. There are opportunities for the LDCs to build back better

For this, "sustainable productive capacity-building" agenda should be included in the LDCs recovery plan. This is even more important for graduating countries, which need to strengthen their productive capacity to enhance their competitiveness in the international market.

In the present context, three areas within the domain of the Productive Capacity Index are particularly important for the LDCs.

First, the institutional dimension is important for improving the overall business climate; facilitating trade and investment; and reducing trade costs. Because of its cross-cutting nature, it affects other dimensions of the Productive Capacity Index.

Second, strengthening the health system, which has hitherto been neglected, is an important part of human capital development. However, education and skills development are equally critical.

Third, increasing the investment in technology, in particular digital technology, both to enhance competitiveness and to move up the value chain ladder would be key to both productive capacity-building.

This aspect has gained a heightened significance in light of COVID-19, where e-commerce is gaining prominence, with e-commerce retail sales positing 25% growth in 2020 – 10% higher than the business as usual projections.

LDCs, such as Cambodia, The Gambia, Rwanda and Senegal, are exploiting the potential of e-commerce, with the support of development partners, including the EIF.

II. Financing is the hardest bit

Although the LDCs have made some progress in the last two decades on **mobilizing domestic resources**, their external resources gap increased from 13.8% to 15.6% of GDP in the recent period, which underscores the need to mobilize external resources for financing productive capacity.

LDCs without the capacity to mobilize other sources of external finance often turn to debt as a relatively convenient instrument, which led to the rise of external debt in the LDCs even prior to the COVID-19 pandemic.

The COVID-19 crisis is exacerbating concerns over the ability of many of these countries to meet their debt repayment obligations with one LDC having already defaulted on its external debt.

Remittances, too, have been an important source of financing for a number of LDCs, and they, too, declined by 1.6% to USD 548 billion, although not as sharply as initially predicted.

Many LDCs have also relied on **official development assistance** (ODA), including **Aid for Trade** (AfT), to finance their productive capacity. ODA from members of the OECD's Development Assistance Committee rose to an all-time high of USD 161.2 billion in 2020, up 3.5% in real terms from 2019. However, how much of that went to productive capacity is not clear.

AfT to the LDCs has grown annually since 2006, reaching USD 16.6 billion in 2019. The effects of the pandemic on this pre-crisis trajectory remains to be seen.

Considering the prevailing financial context, additional **Foreign Direct Investment** (FDI) will be vital. However, indications from recent UNCTAD figures are not positive as FDI to the LDCs had already declined in the initial period of 2020, although there are a few opportunities worth exploiting.

Therefore, identifying innovative, sustainable sources of funding will be crucial for the recovery. This includes various modalities, such as public-private partnerships, blended finance and impact investment.

III. Partnership is the key

The post-COVID-19 productive capacity-building agenda cannot be managed by LDC governments alone. At the national level, they need to partner with their private sector and civil society.

At the regional level, they need to partner with regional trade bodies and regional development banks. The EIF is, for example, partnering with the AFCFTA Secretariat and the International Islamic Trade Finance Corporation to help countries take advantage of regional trade opportunities, which can eventually help in productive capacity-building.

At the global level, they need to work hand in hand with development partners, international financial institutions and foreign investors, among others.

This also applies to international organizations. The EIF, for example, has invested about 70% of its resources to productive capacity-building. However, through partnerships, it has been able to leverage additional resources. Two examples are worth highlighting here:

- The EIF partnership with Vanuatu and New Zealand that helped mobilize USD 19 million for the re-construction of the Port Vila seafront.
- The EIF partnership with UNDP and the Government of Cambodia helped mobilize USD 150 million in impact investment to help create infrastructure for the cassava value chain.

All such avenues need to be explored now more than ever.

I thank you for your kind attention.