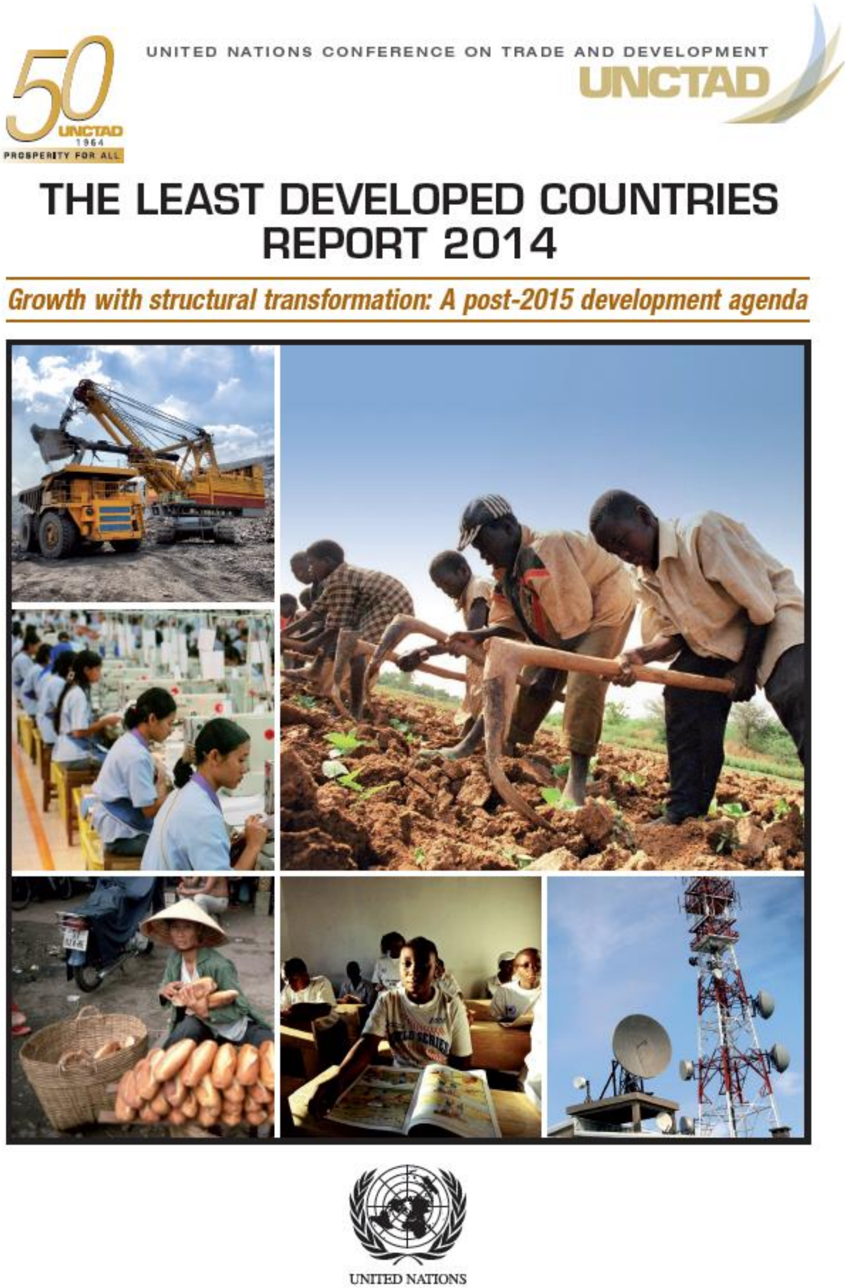

The Least Developed Countries Report 2014

Growth with structural transformation: A post-2015 development agenda

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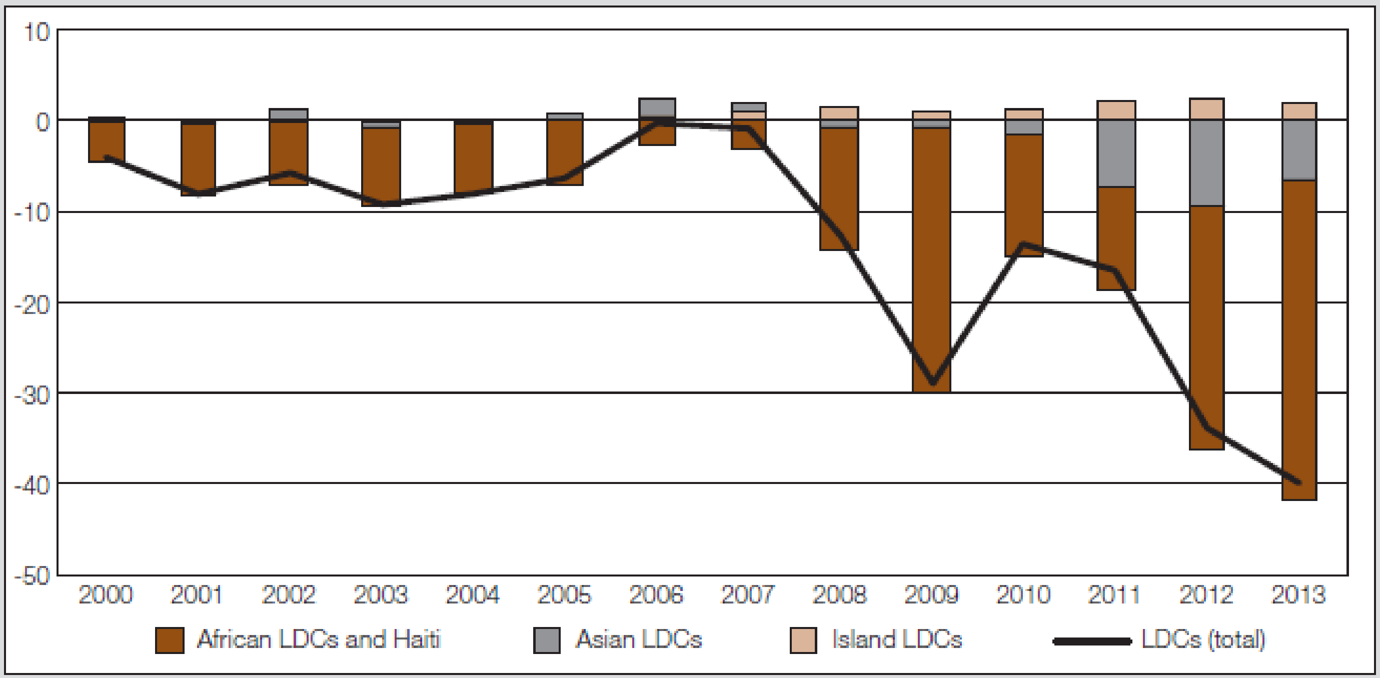
Recent trends in economic performance

- Despite the unfavorable external environment:
  - the LDC group attained an average real GDP growth of 5.6% in 2013
  - FDI inflows and remittances reached the record high of $28 billion and of $31 billion, respectively, in 2013
  - ODA showed signs of stagnation, amounting to $43 billion in 2012
- LDC's capital inflows increased, but their external resource gap continued to widen

Recent trends in economic performance

Since the onset of the global economic crisis, the current account deficit has increased to a peak of $40 billion in 2013

Chart 1. Current account balance of LDCs, 2000–2013
(Billions of current dollars)



Source: UNCTAD secretariat calculations, based on data from IMF, *Balance of Payments* database (accessed August 2014).

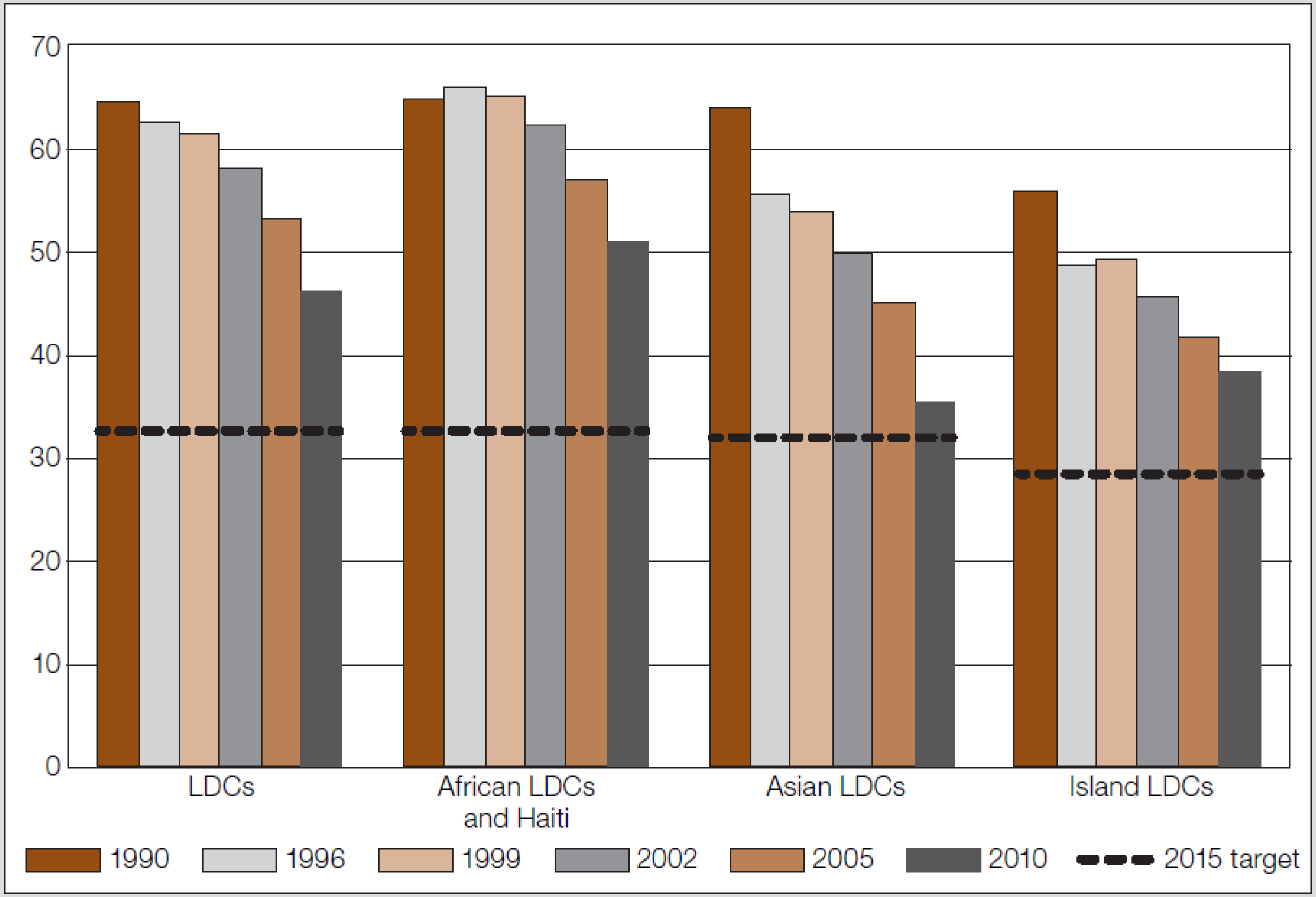
I. LDCs' progress towards the MDGs

- Based on seven targets, on average, the LDCs:
  - reduced the proportion of people living in poverty from 65% in 1990 to 46% in 2010
  - reduced the average prevalence of undernourishment in LDCs by about a quarter
  - increased the average primary school enrolment ratio from 50% in 1990 to 75% in 2012 and improved the gender balance in education
  - decreased under-five and maternal mortality rate by nearly half
  - experienced a decline in the prevalence of HIV/AIDS
  - improved access to water and sanitation

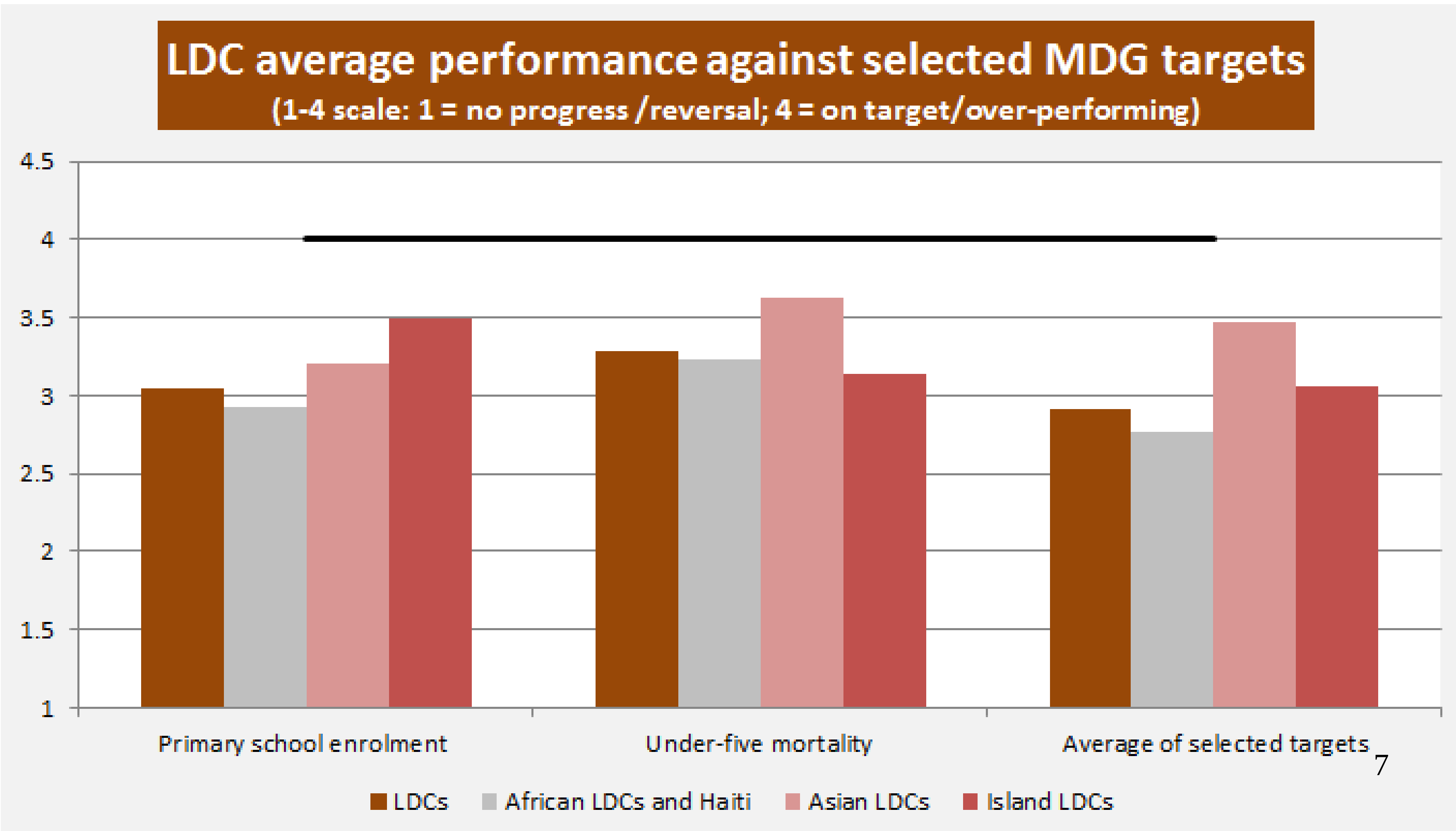
- Some groups of countries have performed better than other LDCs. They are:
  - Manufacture exporters
  - Mixed exporters
  - Those LDCs that have shown progress towards structural transformation
  - Mainly Asian LDCs

Asian LDCs are broadly on course to halve poverty by 2015 but most African LDCs fall well short of the MDG poverty target

Chart 6. Per cent of population living below the poverty line of $1.25 a day (PPP), 1990–2010



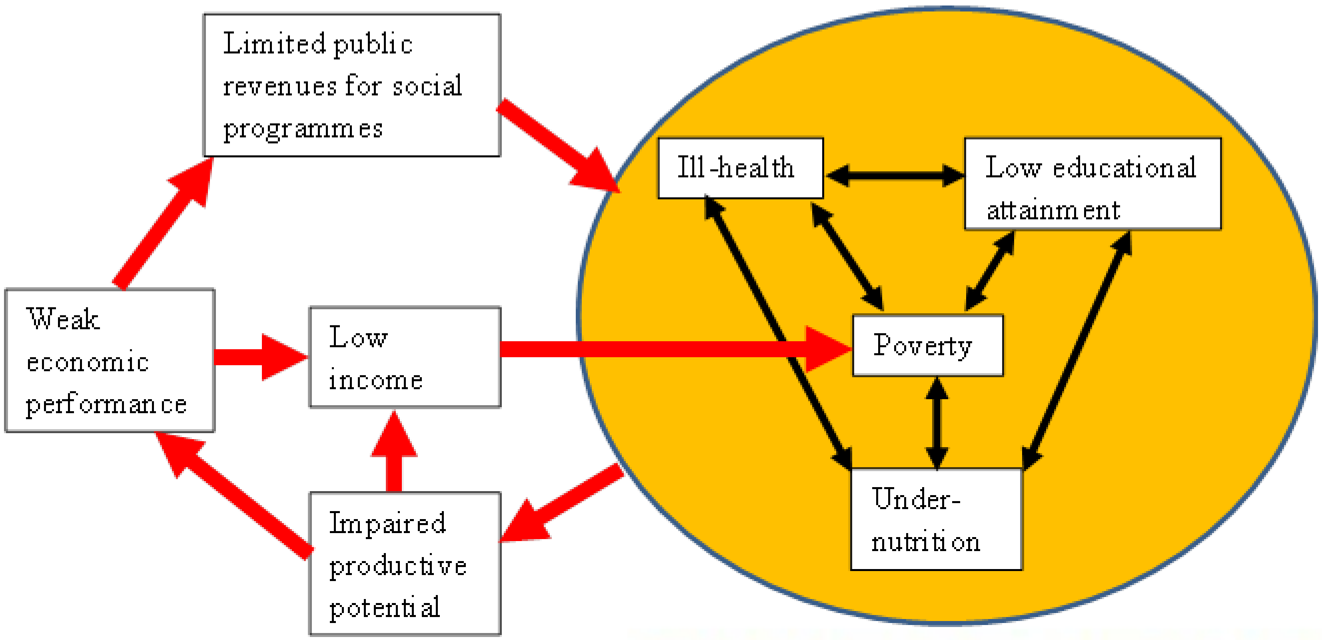
Asian LDCs perform better than African LDCs across selected MDG targets, but only one country (Laos) is on track on all



The LDC paradox

- Lack of productive capacity building
- Low productivity-based structural change
- Commodity export-driven growth
- Limited progress on MDG 8 (“a global partnership for development”):
  - Major donors have fallen far short of their commitments on ODA
  - Limited utilization of existing preferences
  - Slow recovery of global demand and impact on emerging economy

- LDCs are trapped in a vicious circle
  - From ED to HD: weak economic performance limits the ability of a country to reduce poverty
  - From HD to ED: poverty limits human development, undermining labour productivity, and reducing investment
  - This weakens economic performance, creating a vicious circle



The inability of the majority of LDCs to meet most of the MDGs largely reflects:

1. LDCs' failure to break out of this vicious circle

2. MDGs' strong focus on human outcome indicators, with little consideration of the means of achieving them (i.e. economic development)

3. Low productivity performance

- For the post-2015 development agenda to be more successful in meeting the planned SDGs it has to achieve growth with structural transformation

- What is structural transformation?
  - The process of shifting resources from less to more productive sectors/activities
    - **within** sectors through technological change and innovation;
    - **between** sectors

- The SDGs are universal goals and will be much more ambitious than MDGs

- The LDCs are the **battleground** where SDGs will be won or lost!
  - World poverty can only be *eradicated* if it is eradicated *everywhere*; and this will be most challenging in the LDCs

- The post-2015 development agenda and the SDGs need
  - to encompass structural transformation and
  - to be much stronger on global action

Three interrelated areas of domestic policy are particularly important for sustaining economic transformation:

1. Resource mobilization for public and private investment
2. Industrial and sectoral policies to channel resources into most productive sectors and activities
3. Macroeconomic policies which foster investment and demand growth
4. Rural Development and Diversification

Achieving the SDGs will also require efforts by the international community as ambitious as the goals themselves

1. Resource mobilization

- Balance domestic investment and FDI according to their different advantages in different contexts
  - FDI where it offers access to markets and technology
  - But local investment is likely to offer stronger forward/backward linkages, more jobs per $, more reinvestment of profits
  - Diaspora investment may combine the best of both

- Local investment requires credit and profitable opportunities - industrial and macroeconomic policies are critical

- Maximize the impact of ODA through labour-intensive methods in infrastructure investment, and local procurement

2. Industrial policy

- Active industrial policy is essential
  - horizontal (economy-wide) policies and
  - vertical (specific activities) policies
- Focus on job creation
- Innovation requires experimentation
  - not "picking winners" but "picking possibles"
  - even "failures" provide valuable information about what does not work

2. Industrial policy

- Dual strategy
  - Develop sectors in line with current comparative advantage, but also
  - Promote and anticipate *changes in* comparative advantage
- Opportunities
  - Forward/backward linkages, e.g. natural resource-based clusters

•Instruments: development banks, fiscal incentives, trade policies, export promotion, formalisation, ICT….

3. Macroeconomic policies

- Emphasize credit for local investment and demand growth

- Keep demand growth steady through countercyclical policies (including commodity stabilization funds)

- But keep the *long-term* fiscal deficit within the limits of financial sustainability

- Increase and diversify public revenue sources and strengthen tax collection capacity to increase fiscal space

International measures

- ODA - donors should fulfil long-standing commitments on
  - quantity (commitment to 0.15-0.2% of GNI for LDCs)
  - quality (especially basing ODA on recipients' priorities/strategies)
- International finance reform
  - Effective and development-friendly crisis prevention and response
  - Improved global tax governance
- Trade - a more development-oriented trading system, including
  - Special and Differential Treatment; easier WTO accession; technology transfer under TRIPs; review of bilateral agreements' compatibility with SDGs, and changes where required
- Prompt, effective and equitable action on climate change

Rural development and diversification

- Rural development is essential to poverty eradication
  - Two thirds of the LDC population live in rural areas
  - Industry will not create enough jobs, and cities cannot absorb enough people, to take all out of poverty by 2030

- Agricultural upgrading and rural diversification are critically interdependent, allowing demand and supply to grow in parallel

- Rural electrification using renewable energy technologies can be a major driver of rural development

- Labour-intensive infrastructure investment can provide a "kick start"

Female Rural Entrepreneurship for Economic Diversification (FREED)

- Rural women
  - Would increase productive potential most from achieving the SDGs
  - Could be an important force for rural economic diversification in LDCs
  - But they are constrained by cultural norms, including traditional roles in unpaid household and care work

- UNCTAD is proposing FREED
  - an international support mechanism, funded primarily from ODA
  - to provide financial and other support to the establishment and consolidation of new women's enterprises in rural areas of LDCs

LDC Report 2014 - Key Messages

- The LDCs are the battleground on which the post-2015 development agenda and the SDGs will be won or lost
- The international community must learn from the LDC paradox - LDCs' failure to achieve most MDGs despite strong growth
- Meeting the much more ambitious SDGs requires completing a virtuous circle of economic and human development
- This requires economic transformation in LDCs, and changes in the global economic system
- This implies
  - a major shift in LDCs' own policies
  - action by the international community as ambitious as the proposed goals
  - including economic transformation and global economic change in the SDGs

Thank you

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