



Structural transformation and the post-2015 development agenda for LDCs

.....
UNCTAD Trade and Development Board

Geneva, 10 December 2014

Dr Dirk Willem te Velde
Overseas Development Institute



1. Structural transformation and the post-2015 development agenda – why is it important?
 2. Measuring structural transformation – where does it happen?
 3. Means of implementation / supporting economic transformation – how to support it?
-



- DEGRP – DFID/ESRC growth Research Programme
 - SET – Supporting Economic Transformation
 - ERD – European Report on Development 2014/2015 forthcoming (on Financing a transformative post-2015 agenda)
-

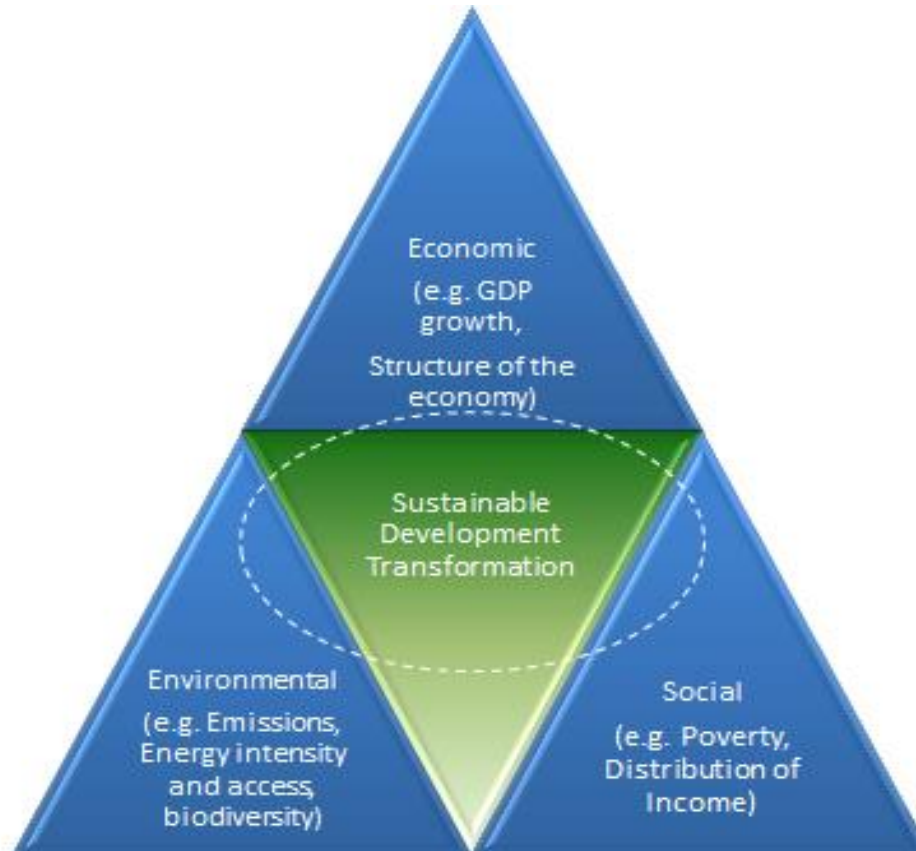
1) Structural transformation and the post-2015 agenda



- Many LDCs have experienced economic growth without structural transformation, with risks for sustained growth and quality jobs in the future.
 - Impossible to make sustained development progress without changes in (factor) productivity.
 - Increases in narratives on structural transformation in Africa/LDCs (UNCTAD, AfDB, UNECA, ACET, etc) and outside
 - MDG experience – attention has focused mostly on delivery of aid to social sectors, rather than working on the enablers of development
-



Sustainable development transformation (ERD 2014/15 preparatory work)



d.i.e

Deutsches Institut für
Entwicklungspolitik



German Development
Institute



HELLENIC REPUBLIC
National and Kapodistrian
University of Athens



Southern Voice
2015 On Post-MDG International Development Goals



Economic transformation / transformative economy

- There is a rebalancing of the agenda towards economic, social and environmental aspects
 - OWG post-2015 document August 2014 – economic content sees improvement over earlier drafts, e.g.
 - Goal 8. *Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all*
 - Goal 9. *Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation*

“This may reflect the emphasis of many countries on the primacy of economic transformation “(Bhattacharya, 2014)
 - UN SG synthesis report (4 December 2014):
 - “necessities of economic transformation” in first sentence
 - Prosperity dimension: to grow a strong, inclusive and transformative economy
-

2) Measuring aspects of innovation, productivity change and economic transformation

Growth Research Programme

Innovation and productivity change in low-income countries

A brief overview of policy and academic debates and potential links to current research projects in the ILO-UNU Growth Research Programme

Dirk Willem te Velde, ODI

23 July 2013

www.degrp.org

POLICY ESSAYS

Growth Research Programme

Enhancing productivity in Bangladesh's garment sector



DEGRP Policy Essays bring together the latest thinking on growth policy in low-income countries from leading researchers and decision-makers around the globe.

degrp.org

@degrp_growth

Current policy and research debates

Dirk Willem te Velde (ed.)
September 2014



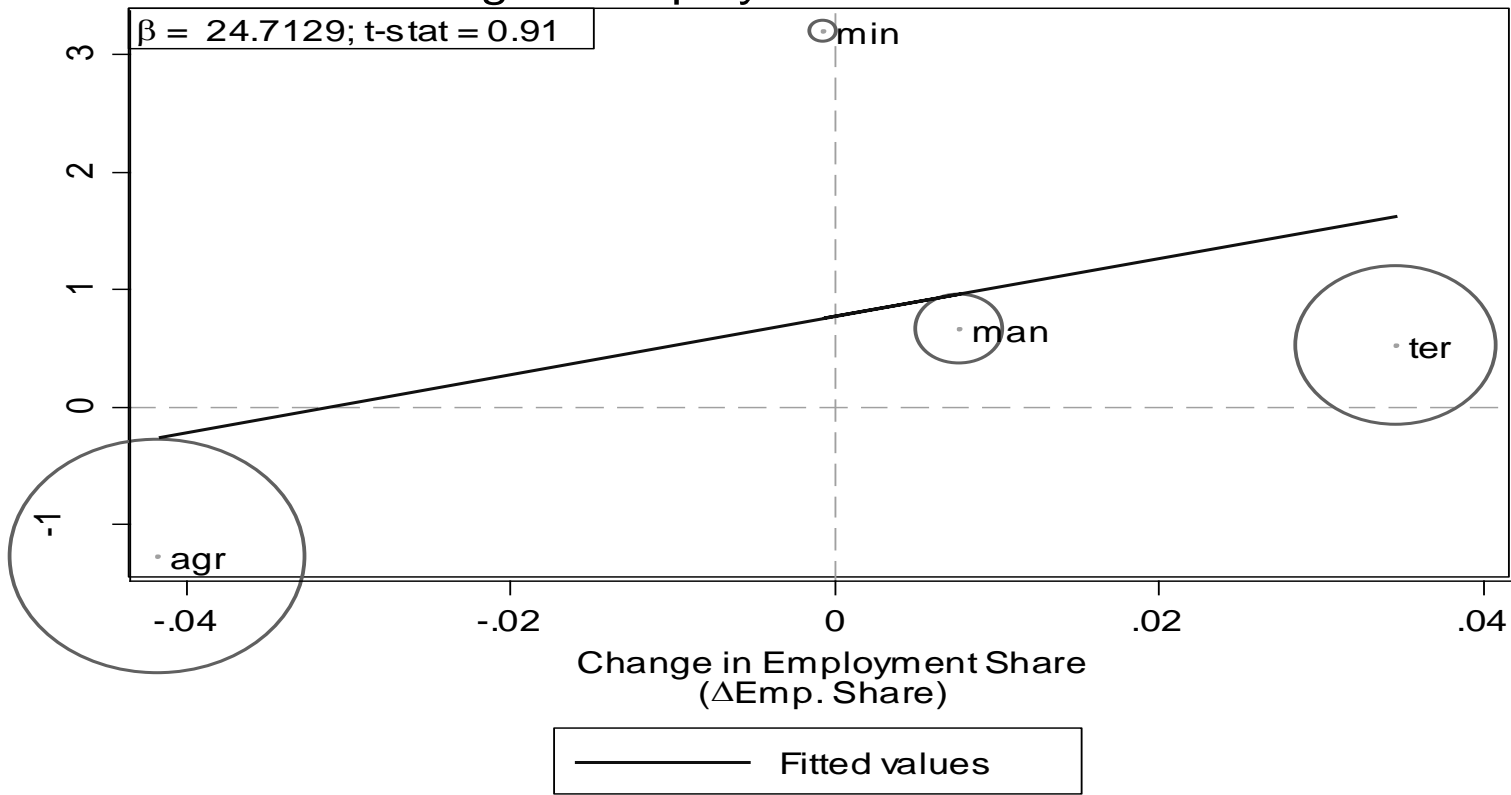
Where does productivity change happen?

- **Across sectors:** moving labour from agriculture to manufacturing and services helps productivity change (DEGRP evidence from Mcmillan and Rodrik, 2011; Mcmillan 2014; Gollin et al, 2014)
 - **Productivity change within sectors and within firms:**
 - productivity differentials across firms in a sector (Bloom and Van Reenen; Hsieh and Klenow)
 - within firms across production lines (DEGRP evidence: Woodruff, Serneels)
 - **Other:** innovation under the radar screen (DEGRP evidence from Fu), export diversification (eg IMF)
-



Labour moved from low productivity agriculture to higher productivity sectors, Africa 2000-2010

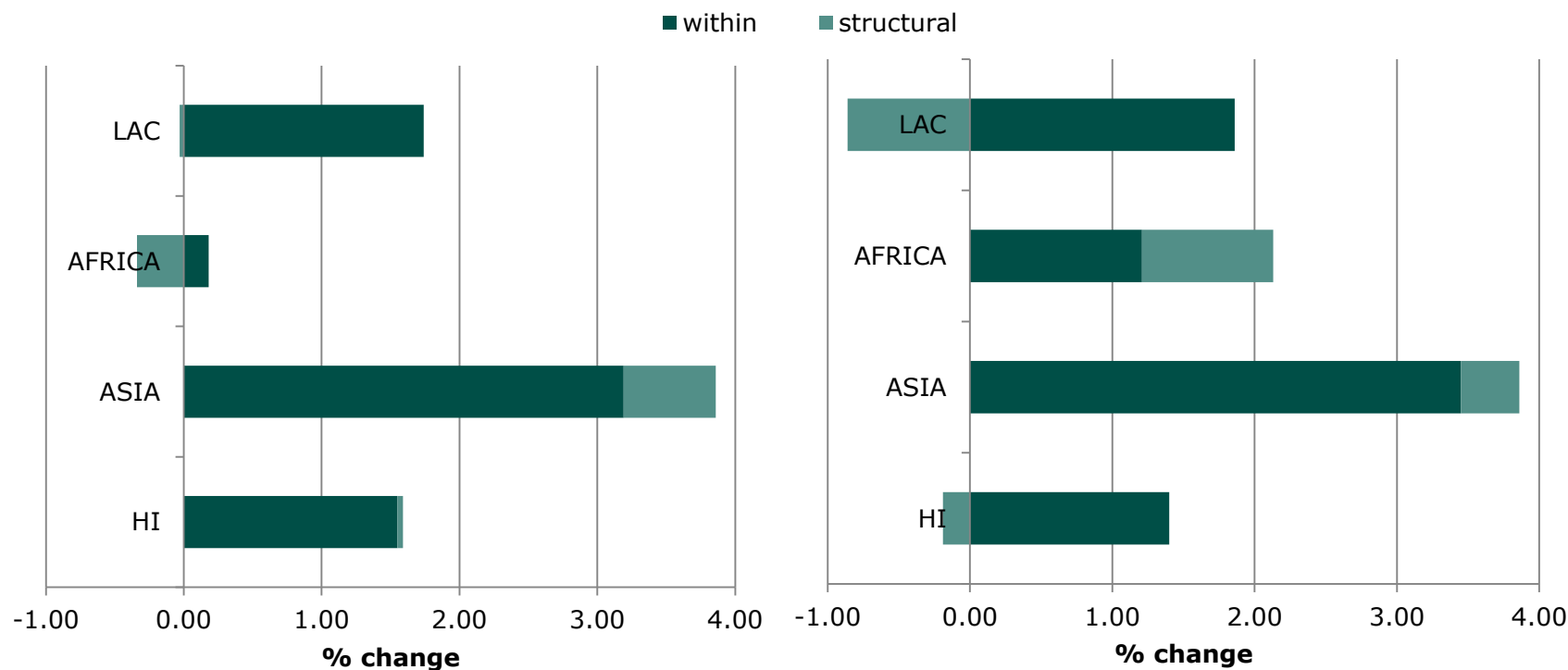
Correlation Between Sectoral Productivity and Change in Employment Shares in Africa



*Note: Size of circle represents employment share at beginning of period
**Note: β denotes coeff. of independent variable in regression equation:
 $\ln(p/P) = \alpha + \beta \Delta\text{Emp. Share}$
Source: Authors' calculations.

Structural change accounts for half of Africa's productivity growth after 2000, rest is *within* sector productivity change

Decomposition of productivity growth by country group 1990-99 2000-10



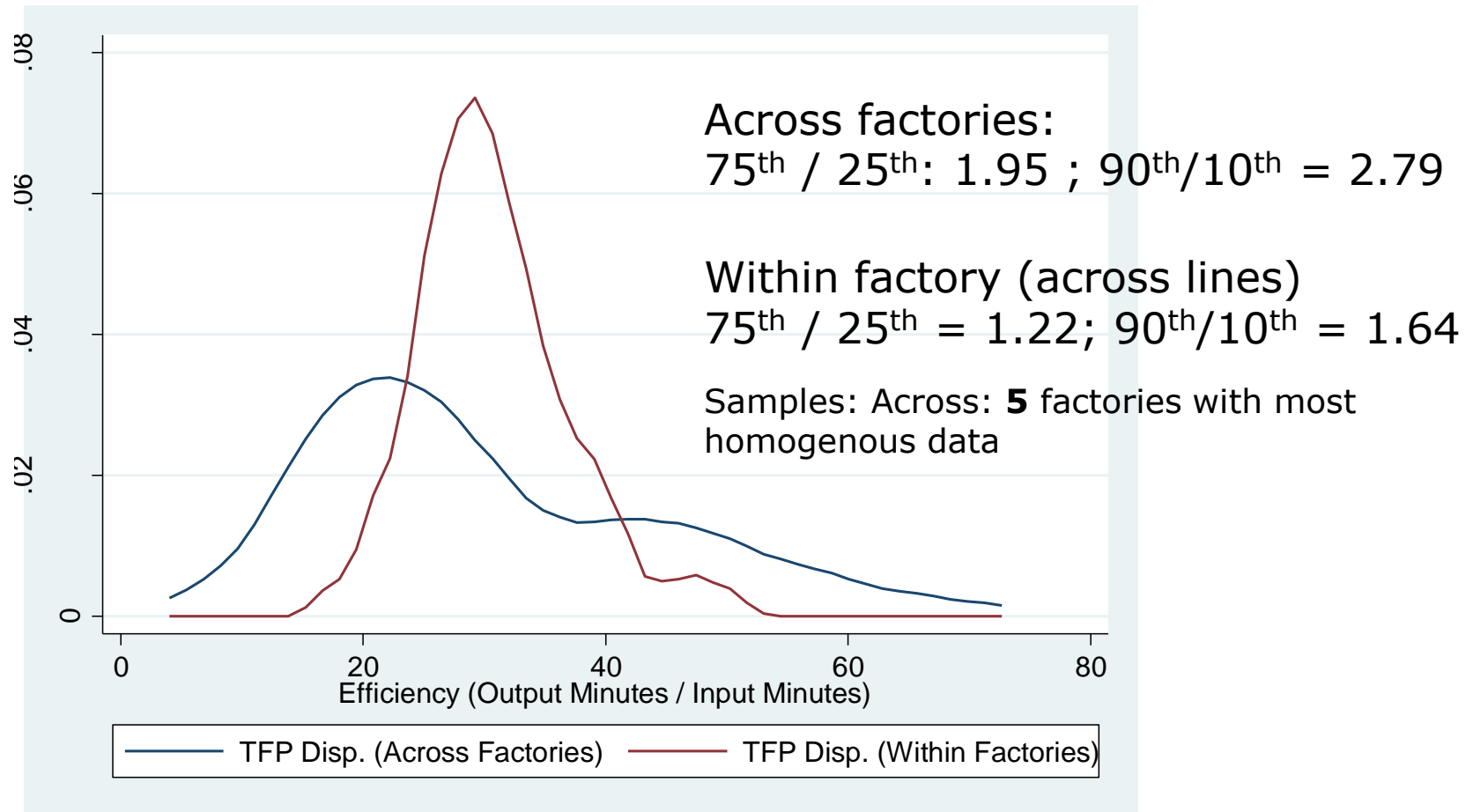
Mcmillan (2014)



Productivity varies within factories;

Bangladeshi garments:

(most productive vs least productive line differs by 2/3rd)





IPOA index for structural transformation

Istanbul Programme of Action for the LDCs (2011–2020)

Monitoring Deliverables, Tracking Progress
– Synthesis Report



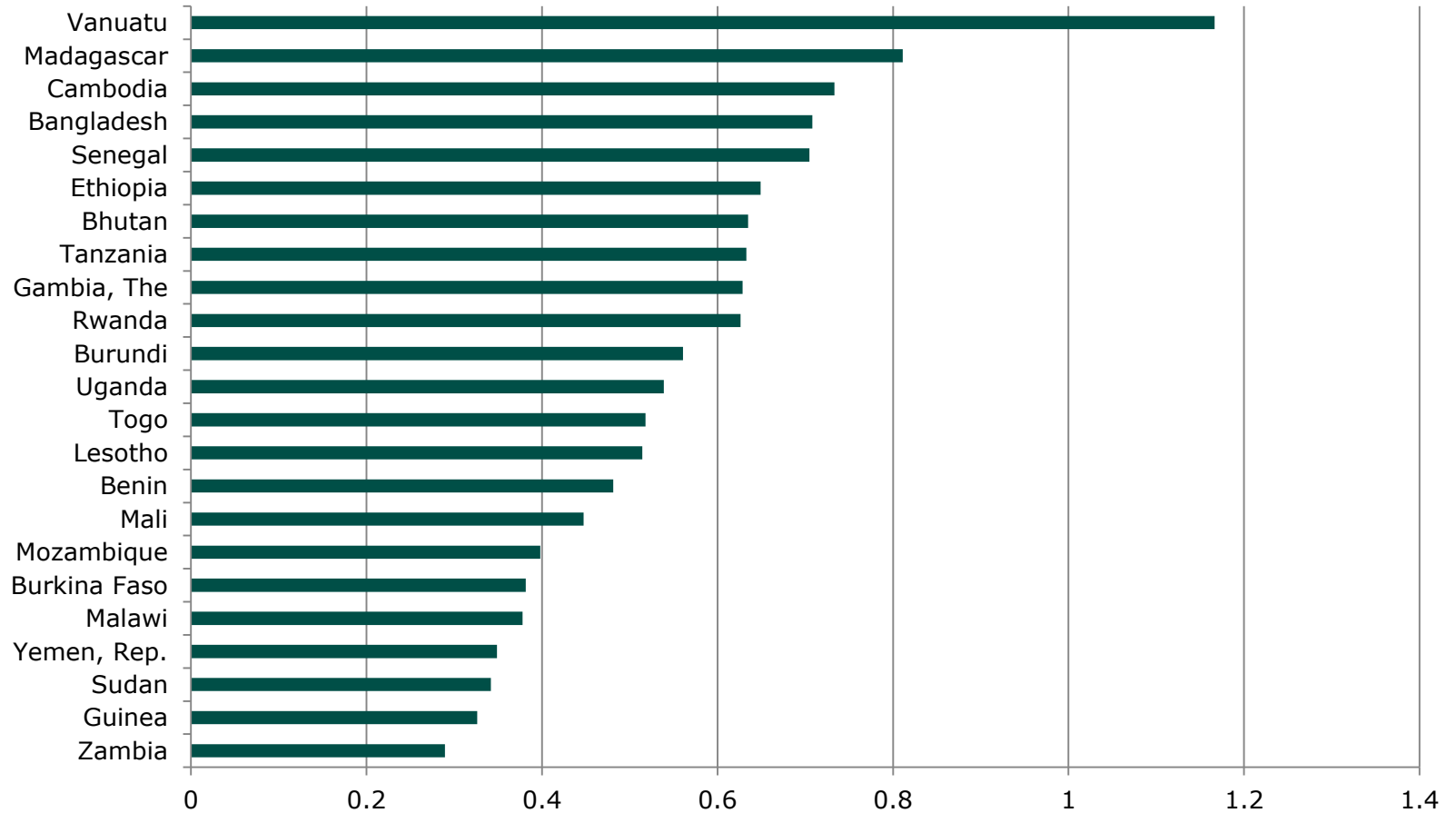
LDC structurally transforms itself with:

- Higher **agricultural productivity** by achieving a higher cereal yield;
- Higher share of **manufacturing** VA;
- Increases **GDP per capita**
- Increases **GFCF**
- Increases in the share of **ICT** in services exports;
- Greater product **diversification**;
- Greater number of **export markets**;
- Decreasing infant **mortality** rate;
- Better **telecommunications** infrastructure;
- More developed **financial markets**.



13Source: in *LDC IV Monitor* (led by Dr Bhattacharya)

IFI IPOA index for structural transformation, LDCs compared to MIC average (2005-2008)



3) Means of implementation / supporting economic transformation (SET)



Supporting economic transformation (recent policy insights)

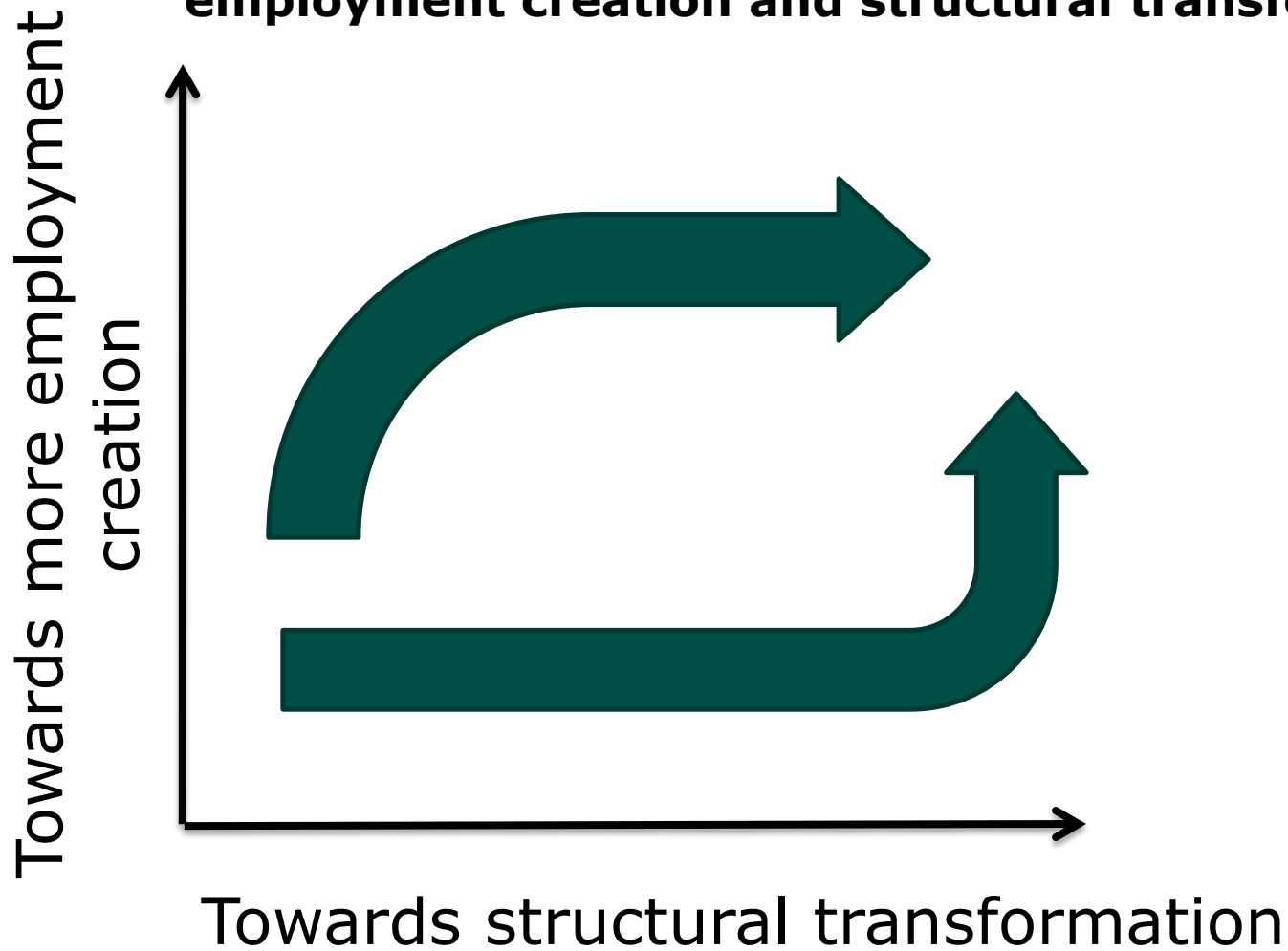
-
- **Te Velde (2003, 2013a, 2013b, 2014)**
 - facilitating intersectoral allocations of labour (e.g. SEZs, DFIs, IPAs),
 - improving competition within sectors, and
 - firm level training for improved capabilities
 - **Page (2012)** - tilting towards exports, supporting agglomerations, building firm capabilities.
 - **Hausmann (2013, 2014)** - complexity / pragmatic view of SEZs, development banks and IPAs
 - **Sutton (various)** - role for IPAs in fixing broken wheels.
 - **Lin (2011)** - 6 steps for growth identification and facilitation
 - **Rodrik (2013)** - unconditional manufacturing convergence so facilitate labour flows into manufacturing
 - **Hsiao and Klenow (2009)** - reallocation of resources across firms in sector
 - **Bloom and Van Reenen (2012)** - quality of management is key for firm productivity suggesting management training is important
 - **Woodruff (2014)** - productivity differs across product lines; supervisor training increases performance
 - **AfDB (2014)** - global value chains; **ACET (2014)** - growth with DEPTH; **IMF (2014)** - export diversification; **UNCTAD (2014)**
-



Assessing 3 policy tools

1. Industrial policy / SEZs as part of a strategic vision for transformation (Kingombe and Te Velde, forthcoming)
2. Supporting effective SBRs (te Velde, ed, 2013 for DEGRP; Treebhohun, ERD forthcoming)
3. Incentivising Development Finance Institutions (Jouanjean and te Velde, 2013) – a more transformative way of using aid

Tackling two key challenges for policy in LICs: employment creation and structural transformation



The evidence on SEZs



Structural transformation

- Success and failures: Policy and context matter
 - Take global conditions into account
 - Place SEZs in growth strategies
 - Use best-practice implementation

Growth
Research
Programme

State-business relations and industrial policy

Current policy and research debates

Dirk Willem de Vries (ed.)
2013

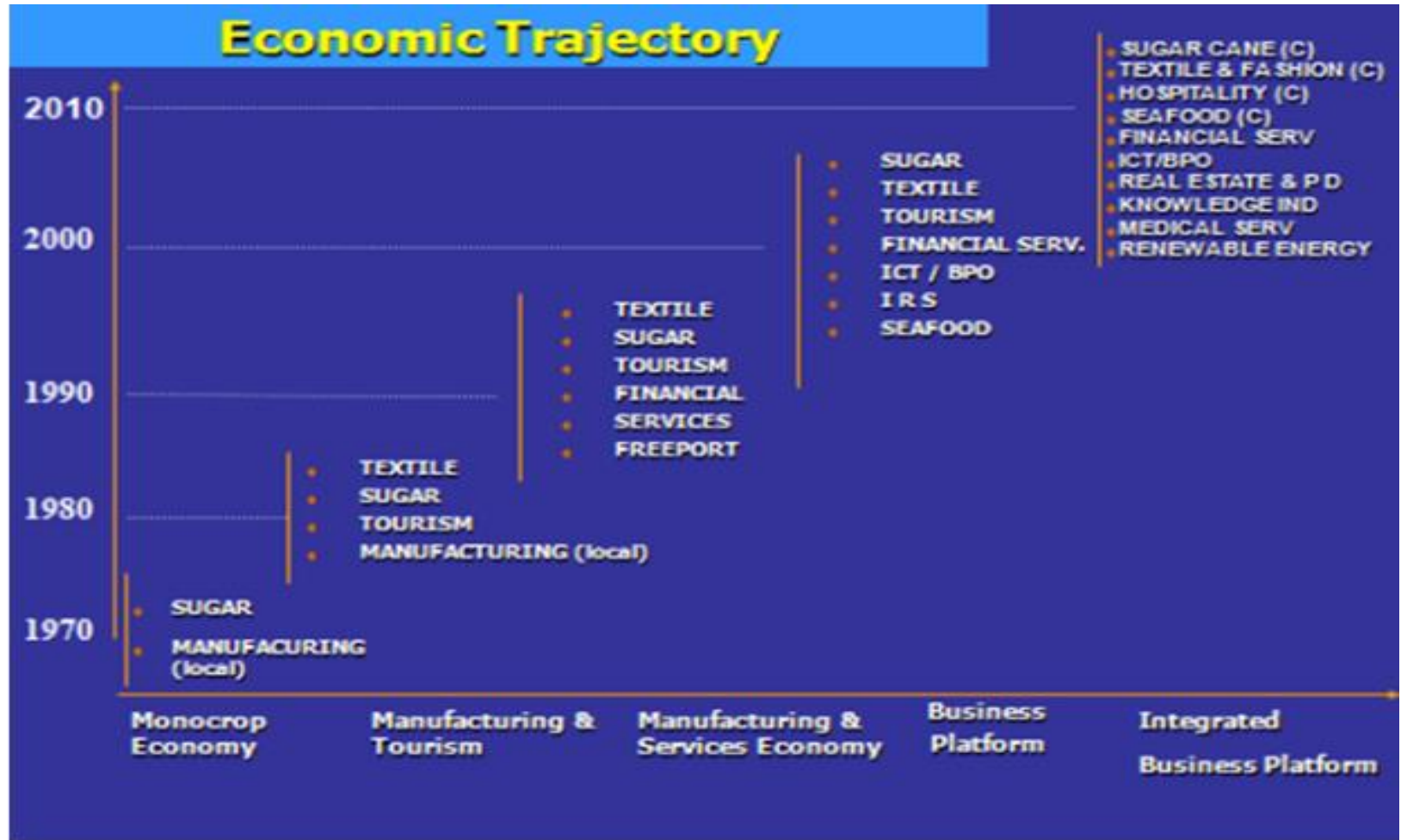


www.degrm.org.com

- Institutional (Trust: Transparency, Reciprocity, Credibility)
 - Capacity (in public and private sector)
 - Embeddedness, but competition not collusion
- Better measured SBRs raise economic growth and firm productivity
-



Effective SBRs helped engineer structural transformation in Mauritius





Using DFI for employment and productivity impacts

- Focus often on direct jobs - but it should also include jobs indirectly via transformation / productivity change
 - **Monitoring** direct jobs (some methodological differences, but easy to explain)
 - **Estimating** indirect jobs (input-output models)
 - **(gu)estimating** second-order growth effects (this works through transformation)
 - Different methods exist for estimating job effects (counting, input-output models, econometric, etc)
 - ODI micro-level study of Bugoye hydropower plant: PIDG supports electricity generation and jobs indirectly via productivity effects
-



Broad assessment of DFI impact (ODI)

Sector of DFI investment	Direct job effects	Indirect job effects (static and dynamic)	Induced and second order growth effects
Manufacturing such as garments	Very important (but depends on type of manufacturing)	Potentially important	Less important
Tourism	Medium important	Very important	Less important
Infrastructure	Less important	Mostly temporary	Very important
Agriculture	Very important	Less important	Less important



DFIs promote labour productivity

Jouanjean and te Velde (2013)

	Effects on labour intensity		
	Effect of the treatment (minus constructed counterfactual) after one year	Effect of the treatment (minus constructed counterfactual) after two years	Effect of the treatment (minus constructed counterfactual) after three years
	(1)	(2)	(3)
Treated	-0.033	-0.072*	-0.132**
	(0.221)	(0.062)	(0.013)
Constant	-0.017	-0.044	-0.053
	(0.490)	(0.232)	(0.290)
Observations	244	210	171

DFI has 13% effect on labour productivity:

Conclusions

-
- Keep up the attention to economic transformation issues in post-2015 AND follow up
 - Need to understand and measure economic transformation (collect available information sources and expand)
 - Putting SET into practice. This requires country / sector / firm specific attention. Empirical work, political economy, learning, iterative approach etc. Also encouraging global governance / policy coherence / finance.