The least developed countries in the post-COVID world: Learning from 50 years of experience
LDCs in the post-COVID world: learning from 50 years of experience
OVERVIEW

Setting the scene: 50 years of the LDC category

A landmark in LDC history

This year marks 50 years since the least developed countries (LDCs) category was established by a United Nations General Assembly resolution, following research, analysis and advocacy work by the United Nations Conference on Trade and Development (UNCTAD). This pivotal landmark comes as intergovernmental negotiations are taking shape for a new programme of action for the LDCs for the decade 2022–2031, and whose implementation period will broadly coincide with the final decade of the 2030 Agenda for Sustainable Development. These negotiations bring together LDCs and their development partners to devise innovative ways to tackle the major development challenges that bedevil LDC economies and societies. These include long-standing challenges, e.g. impediments to structural transformation and sustainable development, more recent ones (especially those created by the COVID-19 shock), as well as increasingly serious and risk-bearing future challenges, such as those deriving from climate change.

The outlook for LDCs is grim: mired in the health, economic and social crises brought about by the COVID-19 pandemic, in 2020 they recorded their worst growth performance in about three decades. More broadly, these crises have reversed the progress that had been painstakingly achieved on several dimensions of development, notably on the fronts of poverty, hunger, education and health. Reversing these gains will have lingering adverse consequences on the development of LDCs over the mid-term.

Although development progress has been made over the past 50 years, core challenges have persisted and become more complex and urgent. However, progress on some fronts has been disappointing, including with respect to: (i) the slow development of productive capacities and ensuing scant progress in growth-enhancing structural economic transformation; (ii) the persistence of several symptoms of underdevelopment, such as low levels of labour productivity, high poverty rates, low levels of human capital formation, and persistent under-performance in human well-being; (iii) a lingering vulnerability to external shocks and limited resilience due to restricted resources and policy space,
and weak institutional development; (iv) a widening income and development gap between most LDCs and other developing countries (ODCs); and (v) the small number of countries to have graduated from the LDC category up to now – in the 26 years since 1994, only six countries have graduated out of a total of 53 countries to have ever formed part of the LDC category.

It is therefore important to identify successful experiences, and to investigate what policies have contributed to their achievement. It is also important to interrogate the development policies pursued by the LDCs to discover where they have been lacking. The objective is to glean lessons from past experience in order to formulate innovative proposals for the future.

The origin of the LDC category

For most LDCs, the 1950s and early 1960s marked the end of the colonial era. Left with economies that could barely generate enough tax revenue and domestic savings to finance development, these countries relied on external resources to fill their respective development financing gaps. It subsequently became abundantly clear then that international trade offered the potential to provide resources to finance development. However, LDCs lacked a dimension of domestic economic structure that could afford them a measure of flexibility and capacity to compete at the global level.

The international development strategy of that time promoted international trade and economic cooperation, with the goal of increasing the flow of external resources to developing countries to accelerate their development. Export-promotion strategies were, however, not successful in turning comparative advantages in commodities into competitive, large-scale industrial prospects. When the 1960s were designated as the first United Nations Development Decade, the goal was to garner international support for “measures to accelerate self-sustaining growth and social progress in all countries” in the hope of closing the per capita income gap between developed and developing countries. The first United Nations Conference on Trade and Development in 1964 (UNCTAD I) was also convened to address specific development challenges of developing countries, including trade.

The United Nations issued several landmark decisions on LDCs in the late 1960s and the early 1970s, mostly relating to their development challenges. The period 1971 to 1982 marked the end of the post-war economic boom, and the onset of a period of global adjustments caused by major monetary and commodity
market events. When the United Nations established the LDC category in 1971, the defining theme was “underdevelopment” which incorporated common elements such as vulnerability to external shocks and domestic factors, e.g. limited resource endowments, institutions and policies, which further undermined the potential of LDCs to confront their development challenges. Out of these intergovernmental processes and contestations, UNCTAD emerged as a ‘flag-bearer’ on behalf of LDCs on development issues through its convening role on trade and development.

Whereas the main concerns in the 1960s were the worsening terms of trade of developing country exports, a sharp fall in net capital flows from developed countries, rising indebtedness and the oil price crises of 1973 and 1979, triggered further socioeconomic challenges globally, including among developing countries. The effect of the oil crises (1973, 1979) on developing countries lingered and combined with macroeconomic imbalances gave rise to, among others, the debt crisis of the mid-1980s to the late 1990s. The 1980s are associated with international financial institutions (IFIs) progressively introducing a suite of structural policies aimed mainly at assisting LDCs to manage: (i) their external obligations through the stabilization of their macroeconomy; (ii) the liberalization of their economies; (iii) their abandonment of Keynesian fiscal policies for monetarism; (iv) the privatization of public enterprises; and (v) the re-orientation of their economies with market policies. Concerned with a further deterioration of economic and social conditions in LDCs, the United Nations convened the first United Nations Conference on the Least Developed Countries in 1981. Since then, four United Nations Conferences on the Least Developed Countries have been held, with the next one scheduled to be held in Doha, Qatar, in 2022.

The special role of trade

Trade has traditionally been a major focus of thinking and policymaking for LDCs, which has been based on the following rationales: (i) the balance-of-payments-constrained growth model, which places trade performance as a central structural impediment to growth and development; (ii) the link between commodity dependence and poverty/underdevelopment; (iii) trade is the field where the most effective international support measures (ISMs) to LDCs have been put into operation; (iv) in the context of globalization, the impacts of international trade on development outcomes have intensified. However, the share of LDCs in world trade has remained exceedingly modest over the years. Primary commodities dominate LDCs exports, while manufactured products dominate exports of both developed countries and other developing countries.
(ODCs), with commodities still featuring strongly in the exports of many of the latter countries.

From the early 1960s, merchandise exports became important for a few LDCs. Services have since also become important exports for LDCs, particularly in recent years, averaging about 20 per cent of total exports. Diversification of the main products exported by LDCs remains a challenge, with most countries still relying on one or a handful of products, mainly commodities (whether fuels, minerals or agricultural products). Existing structural weaknesses point to the need to develop the productive capacities of LDCs, including the interlinkages within and across sectors, as well as to address other supply-side constraints, such as the: (i) quality of labour (human capital); (ii) deficiencies in physical infrastructure; (iii) the level of technological capabilities; (iv) low levels of private investment; and (v) low growth. These constraints are at the heart of a long-term development problem and cannot be addressed with piecemeal interventions or sectoral approaches.

When the General Assembly endorsed the initial list of “least developed among developing countries” in 1971, 25 countries were identified in recognition of their structural challenges and vulnerabilities. The criteria for inclusion into and graduation from the LDC category have evolved since then, reflecting the increased availability of quality data to assess the progress made by LDCs. Over the years, the number and diversity of countries in the category increased, peaking at 52 in 1991. Six countries have graduated from the category and since January 2021, the remaining LDCs number 46. While economic and social development indicators have greatly improved, they remain largely unsatisfactory and countries continue to struggle with a set of challenges similar to those that led to the establishment of the category.

The present critical juncture

The COVID-19 crisis has dramatically highlighted the institutional, economic and social shortcomings of the development path followed by most LDCs. Although the COVID-19 pandemic has affected all countries, the impact on LDCs has been particularly severe because of their reduced resilience and diminished capacity to react to the COVID-19 shock and its aftermath. Also, the pandemic emerged at a time when development progress was already slow and unsatisfactory. Their low resilience is reflected in the extremely low COVID vaccination rates that LDCs have achieved and, as of mid-2021, only 2 per cent of the population have been vaccinated, as compared to 41 per cent in developed countries.
Many LDCs risk being left behind as the economies of ODCs and developed countries recover from the COVID-19 pandemic; they may spend the coming years recovering from it and may eventually achieve little real progress on the Sustainable Development Goals during the 2020s. The present situation is therefore exceptional and requires decisive action by both the international community and LDCs themselves to counter the risks of hysteresis and a lost decade.

Achievements at 50: growth, transformation and sustainability?

Given the situation in which LDCs currently find themselves and the challenges they face in the coming decade, it is critical to reflect on what could be learnt from their past growth trajectory in order to provide key insights into how to best lay the foundations for an inclusive and sustainable recovery from the COVID-19 shock. The focus of the present analysis on economic growth is not meant to frame a discussion on LDC development as a purely growth-centric debate; rather, it is intended to recognize that a rebound of economic activity is critical at this stage, and that growth will likely continue to be a key driver in the sustainable development prospects of LDCs.

From a long-term perspective, the growth performance of LDCs over the past 50 years is mixed at best, and has generally been sluggish and uneven. Real gross domestic product (GDP) for the LDC group has increased five-fold since the creation of the category, climbing from roughly $200 billion in 1971 to $1,118 billion in 2019 (all figures in constant 2015 prices). This is equivalent to an average growth rate of 3.7 per cent per year, only slightly higher than the corresponding world average of 3.1 per cent. Meanwhile, due to rapid demographic growth, real GDP per capita has expanded at a much slower pace (1.3 per cent per annum), rising from roughly $600 to $1,082 over the same period.

LDCs would have needed to achieve a stronger performance to turn back or halt their marginalization in the global economy. Prior to the COVID-19 shock, the LDC group accounted for about one per cent of world GDP, roughly the same share as in the early 1970s. Even more worrying, GDP per capita for the LDC group represented 15 per cent of the world average in 1971, but by 2019 – prior to the COVID-19 crisis – this had declined to less than 10 per cent. This overall
trend reveals two distinct phases: in 1971–1995, LDCs experienced sluggish and erratic GDP growth, when not outright recessions. Conversely, from the mid-1990s LDCs experienced a marked and fairly generalized resumption in economic growth following strengthened macroeconomic fundamentals, and an improved international environment and less widespread conflicts. Considering period averages, the consequence was that the total GDP of LDCs rose somewhat from 0.8 per cent of the world average in 1971–1995 to 1.1 per cent in 1996–2019. However, strong demographic growth led to a relative decline of the per capita GDP of LDCs from 9.2 to 8.8 per cent, as compared to the world average.

Over the past 50 years, only a handful of today’s LDCs (namely, Bangladesh, Bhutan, Cambodia, Lao People’s Democratic Republic, Lesotho, Mali and Myanmar) have consistently outpaced the world average GDP per capita growth by more than one per cent. A dozen other LDCs have “muddled through”, and broadly matched the world average GDP per capita growth rate; however, about half of today’s 46 LDCs have actually fallen behind. As a result, despite some resumption in economic dynamism since the mid-1990s, meaningful convergence (understood as a consistent reduction of inequalities among countries) has been the exception rather than the rule for LDCs. On the contrary, a sizeable proportion of those countries were lagging behind prior to the COVID-19 shock, giving rise to widening global inequalities that are likely to translate into unequal opportunities.

What is more, as signs of a two-speed post-COVID recovery continue to materialize, global inequality is likely to worsen further. Early estimates for 2021 suggest that the global downturn may be less severe than previously anticipated. However, the staggered contamination waves and vaccine roll-out, coupled with wide asymmetries in the capacities of LDCs to respond to the crisis, as well as context-specific vulnerabilities and idiosyncratic factors, are likely to leave many LDCs marred in economic troubles over the medium term. Not only have many of them sizeable debt vulnerabilities looming large on their fundamentals, but – more generally – four factors threaten to undermine potential output in the medium term, namely:

(i) The postponement and cancellation of investment plans, which will inevitably dent medium-term growth potential;

(ii) Widespread disruptions to schooling and learning, which may well take a toll on human capital accumulation and exacerbate existing disparities, including in terms of gender inequalities;
(iii) The spread of bankruptcies, job destruction and related capability losses, which may leave long-term scars on an already precarious entrepreneurship landscape; and

(iv) The ongoing reconfigurations of value chains, which may affect competitiveness in sectors of key importance for many LDCs, especially tourism and garments.

To properly contextualize the situation currently faced by LDCs in the present uncertain phase, it is instructive to consider the medium-term deviations of different countries from their long-term growth trends, as growth accelerations and growth collapses. In general, these medium-term deviations have been rather common for LDCs, ODCs and developed countries alike, with accelerations being significantly more frequent than collapses. LDCs, however, stand out for having experienced more frequent instances of growth collapses than other groups of countries: between 1971 and 2019, collapses represented 16 per cent of the total country-year observations in the case of LDCs, as compared with 10 per cent for ODCs, and as little as 2 per cent for developed countries. Moreover, compared to other country groups, LDCs tended on average to enjoy slower growth during accelerations and suffer slightly more severe decelerations. Although these LDC specificities are largely driven by their erratic growth record during the period between 1971 and 1994, they persisted even in the subsequent “high-growth” period. This points to the heightened exposure of LDCs to boom-and-bust cycles resulting from both endogenous and exogenous conditions, which adds further relevance to the call for stronger international cooperation to foster an inclusive sustainable and resilient recovery in the LDCs.

Recovery is crucial in the context of the ambitious vision set out in the 2030 Agenda for Sustainable Development. While economic growth continues to represent a key potential driver of sustainable development in LDCs, the pattern of this growth plays a fundamental role in shaping distinct socioeconomic and environmental outcomes. In this respect, UNCTAD has long argued that growth sustainability hinges on the development of productive capacities and is subject to: (i) structural dynamics affecting capital accumulation; (ii) intersectoral reallocation of production factors; (iii) the gradual acquisition of productive capabilities; and (iv) the densification of production linkages. The Least Developed Countries Report 2021: LDCs in the post-COVID world: learning from 50 years of experience confirms this diagnostic.

Evidence from a development accounting exercise undertaken for LDCs reveals that a median share of about 40 per cent of the growth in GDP per worker is
due to capital deepening, with human capital accumulation accounting for another 10 per cent of the growth. The substantial nature of these figures does not capture the impact of natural capital and also that investment is heavily affected by institutional factors, with conflicts and political instability often leaving long-term adverse legacies. Moreover, the importance of capital accumulation in LDCs remains largely intact, even when considering recent technological waves and the ensuing scope for leapfrogging, as well as the emergence of servicification and digitalization which underscore immaterial elements of productive capacities. While these factors are set to play a growing role in the future, harnessing them requires much-needed skills, adequate infrastructural provision – with access to energy being a key driver of productive upgrading – but also of manufacturing capabilities and end-use capital, without which a meaningful engagement in advanced production technologies remains a chimera.

The pace and direction of structural change, i.e. the process of intersectoral reallocation of inputs and the corresponding changes in the composition of output, which typically accompany aggregate growth, has also proved to be a fundamental determinant of productivity dynamics. If structural change generally progressed at a sluggish pace over the past 50 years, some of the best performing LDCs experienced encouraging developments during the 1995–2018 period. Not only did labour productivity growth average 6 per cent per year, but labour reallocation from agriculture mainly to higher-productivity services (e.g. trade and business services) contributed to productivity dynamics. Manufacturing also played a conducive role in this process, but its contribution to job creation was somewhat more circumscribed and it has only played a role in selected LDCs.

Overall, two main conclusions can be drawn from this evidence to inform strategic efforts to “build forward to transform”. Structural transformation and factor reallocation from low productivity to higher productivity activities remain critical to total factor productivity (TFP) dynamics and hence to sustainable growth; this is even more pronounced in LDCs where sectoral productivity gaps are particularly wide and where a substantial pool of labour toils in semi-subsistence agriculture or is “underemployed”. This implies that an emphasis on productive capacities acquisition, leading to the intertwined processes of capital accumulation, structural change and productive capabilities acquisition, is as critical as ever for sustainable development. In addition, the report shows that if some LDCs managed to kick-start a long-term process of structural transformation during the period of relatively rapid GDP growth, this transformation has, at best, been incipient. Notwithstanding the sharp recession triggered by the COVID-19 crisis, it is unclear whether these emerging cases of nascent industrialization will continue
unabated, or if the downturn will thwart them. Moreover, structural transformation has remained relatively sluggish in about half of the LDCs, and countries have so far shown themselves unable to foster the emergence of a dense network of middle- and large-sized enterprises, connected through input-output linkages, both domestically and through their insertion in global and regional value chains.

This mixed picture is reflected in the inclusivity of growth, as well as on the progress towards environmental sustainability. With limited scope for redistributive policies, LDCs have to rely on growth and job creation as key drivers of poverty reduction. Hence, while acknowledging the importance of initial inequality (especially in terms of asset ownership) and other idiosyncratic factors, most of the countries having embarked on a process of structural transformation managed to achieve more inclusive growth patterns, with the poor also benefitting from economic dynamism. In the same vein, while rapid economic growth in the period between 1995 and 2018 generated greater total wealth, the heightened reliance on natural resources has often translated into unsustainable outcomes, except in cases where it was accompanied by productivity improvements, value addition, and more effective natural resource management.

Evaluating past and present strategies for furthering development

Many milestone events and processes have had profound impacts on the political economy of underdevelopment and on the policy options available to LDCs. Internationally negotiated development strategies crystallize contemporaneous economic thinking and the interpretation of the development challenges facing LDCs. Although it is intrinsically difficult to distinguish PoAs directly from their underlying processes and the environment in which they are being implemented, they do have an impact on national policies, domestic resource mobilization, and bilateral and multilateral partnerships for development.

The PoAs represent a long-standing international community tradition of setting goals to incentivize joint action on global development agenda. PoAs establish legitimacy and serve as a base for advocacy. However, they are not legally binding, neither do they embody an outright expectation of substituting national development policies, as they are the outcome of a multilateral approach to development involving negotiation and compromise. Rather, they generalize
factors within LDCs, both in the articulation of structural impediments to development and in the emphasis of areas of international action.

The four PoAs to have been implemented since 1981 have all covered various dimensions of development and identified outcomes that addressed the social, economic and environmental impediments to development in LDCs, as well as the role of development planning. Progressively, they have explicitly pinpointed the approach(es) through which expected outcomes could be achieved. All the PoAs recognized structural transformation of LDC economies as the unique vehicle to achieve sustainable development. However, there have been notable differences in focus and level of detail accorded to the priority areas relevant to advancing the process of the structural transformation in LDCs, with productive capacities and diversification partially targeted in the various PoAs.

Successive shifts in emphasis across the PoAs have served to amplify certain dimensions of development over others, and have attempted to “fix” problems/issues that arose during the implementation of previous PoAs. This represents a progression in the complexity and the number of policy measures, including related trade-offs and sequencing challenges. All the PoAs are heavily dependent on the capacity and leadership role of LDC governments, and each stress the primary responsibility of LDCs for their own development. However, the capacity of LDC states has eroded during the implementation of the successive PoAs, as evidenced by the adverse effects of structural adjustment programmes, and recent changes to official development assistance (ODA). Moreover, ODA commitments and measures have remained consistently unmet, hampering goals on aid effectiveness and the building of LDC state capacity to deliver on the PoAs and other development goals. Regrettably, none of the PoAs can be said to have fully achieved their objectives.

Forty years of international support measures in favour of LDCs

Apart from ODA and technical assistance, trade is the main area through which concrete LDC-specific ISMs have been pursued and operationalized, including outside of the PoAs. While the special needs of LDCs are widely recognized, major financial institutions, such as the World Bank and the International Monetary Fund (IMF), do not recognize or apply the LDC category in their operational work, although they are parties in the development cooperation partnership underpinning the PoAs. Relatively few small donor countries consistently reach
the upper-level target of 0.20 per cent of gross national income (GNI) disbursed as ODA to LDCs, while bigger and richer donor countries are not meeting even the lowest target of 0.15 per cent of GNI. In addition, the political context for the PoAs is as important as the targets themselves because donors inevitably respond to development goals according to their specific geopolitical and economic interests, and are often not guided by multilateral goals.

The timebound definition of development brings ambiguity and elusiveness in the different agendas held by national governments, donors and the diverse and increasing number of actors in development cooperation; this is further complicated by power imbalances that tend to negate the rhetoric within LDCs on the ownership and leadership decisions on this issue. Since the Monterrey Consensus (2012), the meaning of development is heavily weighted towards poverty alleviation and development perspectives which emphasize individual well-being versus a holistic view of the national economy as a system that also addresses societal well-being. This has disproportionately oriented sectoral allocation towards social sectors and humanitarian activities, leaving economic infrastructure and productive sectors relatively underfunded. In addition to the fall in the degree of ODA concessionality, a major concern is that under the new DAC reporting rules ODA ceases to be a reliable gauge of additional sustainable development finance, and thus negates the United Nations’ ODA targets, which were based on the 1969 DAC definition of ODA.

Trade preferences are an area where there is the greatest international momentum to provide special treatment for LDCs, both in the context of market access and in the implementation of the rules and disciplines of the World Trade Organization (WTO). Following the introduction of the Generalized System of Preferences (GSP) in 1971 under the aegis of UNCTAD, developing countries were granted trade preferences by most industrialized countries. The provision and utilization of trade preferences is a key goal of all the PoAs, and was further reaffirmed by Sustainable Development Goal 17. In addition, since the early 2000s more generous provisions exclusively for LDCs were introduced under the GSP. While some evaluations on the impact of trade preferences on LDCs suggest otherwise, evaluations by UNCTAD and others have generally found them to have generated limited results, especially in terms of fostering structural transformation.

**National strategies for furthering development**

Countries follow different development trajectories depending on initial conditions, national policy choices, and exogenous factors. At the centre of
development planning processes are: (i) governance structures that determine national visions; (ii) platforms that determine strategies and policies; (iii) coalitions or a lack of cohesion with the population; and (iv) trade-offs and the unintended consequences of policies. Recent LDC national development plans covering various overlapping periods between 2014–2036 highlight the importance of LDCs having the capacity to finance their own development. Priorities vary but critically, economic development, transformation and diversification, are the common concerns.

The trends in and composition of government expenditures reflect the policy priorities decided by national governments. These policy priorities are important for understanding the dynamic impact of domestic resource mobilization on economic growth, capital stock, structural change, social development and poverty reduction. Total government spending in LDCs was limited to 20 per cent of GDP in 1990–2020, due to a constant presence of budgetary constraints. Expenditure was also boosted by a push to meet goals that were missed during the implementation of the Millennium Development Goals (2000–2015), during fiscal readjustments as the 2008/2009 global economic crisis receded, and a growth spurt as commodity markets recovered. Between 2011 and 2019, government expenditure in LDCs was mainly geared towards sustaining economic growth and building resilience to exogenous shocks.

How the impact of government spending on productive sectors of the economy influences budgeting processes and periodic evaluations of the implementation of development plans remains unclear. The fundamental considerations for policymakers in developing countries are the trade-offs and complementarities and synergies across policy choices. For example, the development of the agriculture sector may have higher multiplier effects on poverty reduction in many LDCs. Similarly, targeted public spending on infrastructure and other public services could have significant effects on the efficiency and competitiveness of manufacturing and other industries. An empirical analysis of actual government spending data on key agricultural and industrial sectors show the different impacts of ODA and government expenditure on key sectors of the economy.

At the eve of the design of a new PoA for the decade 2022–2031, the search continues for practical and on sustainable paths to achieve development in the LDCs. Although some progress has been achieved by these countries since the inception of the decadal PoAs, transformational changes capable of redressing long-standing inequalities and marginalization have consistently fallen short of the anticipated development impact, as envisaged by the
PoAs. The scorecard on the implementation of the four PoAs is thus heavily weighted towards an unfinished agenda, both in terms of the efforts undertaken by LDC governments to advance structural transformation, accumulate and deploy productive capacities, and with respect to the fulfilment of pledges by the international community on extending international support to LDCs. The data on ODA disbursements and its sectoral impact clearly demonstrate weaknesses. The latter should support the intricate link between the national development planning framework and the fiscal policy instrument (national budget). More importantly, it will not be possible to maximize the potential from LDC investments in productive sectors if government spending and ODA fail to achieve maximum complementary and synergic alignment.

Despite this dispiriting picture of the impact of international and domestic policies to boost LDC development, some successful cases indicate that the paths to development can be differentiated. As of the 1970s, Bangladesh accelerated its development as it undertook trade liberalization and started developing an export-oriented garment industry. It also invested in other economic sectors, such as the pharmaceutical industry, by creating a conducive national innovation system. However, the structure of Bangladesh’s economy remains concentrated in a few sectors and products, which are likely to be adversely affected when it graduates from the LDC category, currently scheduled for 2026. Senegal, by contrast, has followed a different development strategy path, and has achieved a diversified economic structure between agriculture, industry and services. It also has a correspondingly more diversified export structure, which is less vulnerable to the consequences of graduation.

**Investment needs for the least developed countries to achieve the Sustainable Development Goals in the post-pandemic decade**

Accelerating the implementation of the 2030 Agenda for Sustainable Development is a priority for the LDCs. The COVID-19 pandemic has made the task even harder, as it has exposed some of these countries’ long-standing vulnerabilities. Recovering from the prolonged and deep shock the world economy has experienced is an urgent priority. In the context of the LDCs,
the imperative now is to recover from the pandemic, rebuild stronger, and concurrently accelerate the implementation of the Sustainable Development Goals. These Goals provide the framework based on which the financing needs to cover the required investment and spending can be estimated. The report provides a country-by-country costing of key structural Sustainable Development Goal targets which factor in the current context created by the COVID-19 pandemic.

The cost estimates outline different scenarios to achieve selected Sustainable Development Goal targets by 2030. The selected targets and the corresponding estimates are:

1. Investment requirements to achieve a 7 per cent annual GDP growth for the LDCs (Sustainable Development Goal 8.1);
2. Growth and investment requirements to eradicate extreme poverty (Sustainable Development Goal 1.1);
3. Growth and investment requirements to promote inclusive and sustainable industrialization – a major form of structural transformation – as reflected in the target of doubling the share of industry (manufacturing) in GDP in the LDCs (Sustainable Development Goal 9.2);
4. The spending requirement and financing gap of achieving universal health coverage (Sustainable Development Goal 3.8);
5. The spending requirement and financing gap of ensuring that all girls and boys complete free, equitable and quality primary and secondary education (Sustainable Development Goal 4.1);
6. The spending requirement and financing gap of implementing nationally appropriate social protection systems and measures for all (Sustainable Development Goal 1.3);
7. The spending requirement and financing gap of ensuring the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services (Sustainable Development Goal 15.1).

A building-block estimation strategy was adopted to avoid the risk of double-counting and other potential shortcomings. The initial building blocks use GDP and investment (gross fixed capital formation) as key variables – familiar indicators to policymakers and grounded in the economics literature. Countries should grow at a sustainable rate to achieve structural transformation and end poverty. To boost growth, it is necessary for countries to increase savings and investments from public and private, domestic, as well as international sources.
The annual GDP growth targets, especially the target of doubling the industry share of GDP by 2030, require massive investments. Massive spending requirements are also intrinsically linked to other Sustainable Development Goals, such as clean water and sanitation (Sustainable Development Goal 6), affordable and clean energy (Sustainable Development Goal 7), sustainable cities and communities (Sustainable Development Goal 11), and climate action (Sustainable Development Goal 13).

Results and implications of the estimated investment needs

The underlying assumption underpinning these estimates is that LDCs will prioritize structural transformation in the context of the Sustainable Development Goals. The scenario of doubling the share of manufacturing in GDP has been chosen because the Sustainable Development Goal target 9.2 of doubling industry’s share of total GDP may not accurately reflect the actual form of structural transformation that is occurring in LDCs. Industry includes extractives sectors, such as oil and hard rock mining, which are sources of vulnerability, and typically their growth does not reflect structural transformation. The investment growth scenarios are an aggregate measure and include the necessary expenditures to achieve the selected targets. Hence, expenditure and allocative efficiency should represent a source of concern for policymakers.

Sustaining an annual GDP growth rate of 7 per cent, ending extreme poverty or doubling the share of manufacturing in GDP call for investment growth rates of 7, 9 and 20 per cent, respectively. All three scenarios show that the needed investment push is ambitious, given the historical level of investment in the LDCs.

Apart from investment-driven estimates calculated using elasticities from the scenarios above, the report also undertook a forecast of financing requirements to increase social spending since the majority of the social and environmental services mentioned in targets 1.3, 3.8, 4.1 and 15.1 of the Sustainable Development Goals are not classified as investments but rather as current spending. A three-step estimation method was adopted to establish initial estimates of the total cost to reach universal coverage by 2030 by multiplying the unit costs of providing these services. The second step subtracted the current expenditure from the total cost to obtain the financing gap. Third, the intervention’s progress is linearly modelled for 2021–2030. The results show
that additional financing is required in the order of: (i) 4.3 per cent of GDP to achieve universal social protection; (ii) 8.5 per cent of GDP for universal healthcare; (iii) 5.2 per cent of GDP for universal education; and (iv) 0.3 per cent of GDP for ensuring the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services. This translates into 18.3 per cent of GDP in additional spending, as compared with current spending levels in these areas, which presently amount to 13.1 per cent of GDP. In other words, LDCs would need to nearly treble spending on social services to 31.4 per cent of GDP, almost reaching the OECD average of 32.4 per cent in 2021.

The results for both elasticities driven investment gaps and the unit cost forecast of financing costs are averages. The investment elasticities calculated for manufacturing, economic growth and eradication of poverty picked out a few outliers, particularly for poverty-growth elasticities. The difficulty in implementing pro-poor growth policies historically explains some of the inverted positive poverty-growth elasticities for resource-rich countries, e.g. Angola, or countries with a high proportion of its population living in extreme poverty, e.g. Guinea-Bissau, Madagascar and Zambia.

The enormous investment and spending needs of the LDCs are clear from these figures. Between 2021 and 2030 LDCs require investments of: (i) $462 billion annually to meet the growth target (Sustainable Development Goal 8.1); (ii) $485 billion annually to eradicate extreme poverty (Sustainable Development Goal 1.1); and (iii) $1,051 billion annually to double the manufacturing share of GDP (Sustainable Development Goal 9.2). This would translate into a GDP growth requirement of 9 per cent per annum to eradicate extreme poverty or, alternatively, a much higher 20 per cent annual growth rate to achieve structural transformation.

For the three scenarios, investments for the period 2021–2030 amount to about 27 per cent of GDP: 73 per cent of this total is estimated to be private; 26 per cent public and 1 per cent from public-private partnerships (PPPs). Country-specific investment needs vary widely, with some countries having extremely high investment needs compared to others. For instance, Yemen (76 per cent) and Ethiopia (46 per cent) are two countries with extremely high investment needs to sustain economic growth, while Mali (17 per cent) and Eritrea (4 per cent) are on the lower extreme. These results not only depict the current status of investment, but also the critical initial conditions needed to propel investment-driven growth, including prior economic performance. Eritrea’s
low requirement, for example, reflects its absorption capacity from a historical perspective, rather than what it actually needs to reduce poverty.

LDCs will have to mobilize an additional 10.4 per cent of GDP to finance social and environmental services. The level of expenditure will have to increase by 12.3 per cent from the current 2.9 per cent of GDP to reach targets 1.3, 3.8, 4.1 and 15.1 of the Sustainable Development Goals. As of 2021, financing gaps will increase progressively from 6.3 to 11.3 per cent of GDP by 2030 in health; from 4.2 to 6.6 per cent of GDP by 2030 in education; from 2 to 8.5 per cent of GDP by 2030 in social protection; likewise, financing gaps will rise from 0.1 to 0.5 per cent of GDP by 2030 to ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services. These financing gaps are highly correlated with under-five mortality rates, secondary school enrolment, social protection coverage, implying that higher commitment to these sectors would have better outcomes. It is, however, essential to highlight that individual countries will follow their own path to achieve their goals, and that the aggregate matches the reality on the ground in many LDCs but not in others. Island LDCs, e.g. Kiribati and Tuvalu, as well as countries experiencing large-scale conflicts, e.g. Yemen, are outliers and have larger needs, particularly in respect of social protection and education.

LDCs require huge amounts of resources to recover from the recessions caused by the COVID-19 shock, but especially to set themselves on the path to achieving the Sustainable Development Goals. Expenditures will have to be raised by multiples of the current level of available resources and spending. For this to happen, LDCs will need to: (i) strengthen their fiscal capacities; (ii) increase domestic resource mobilization; and (iii) improve the effectiveness of public expenditures. It is also evident that tax revenue alone will not be sufficient to cover all incremental investments and expenditures. The total average expenditure would have to increase by 59 per cent of GDP to meet the investment scenarios of: (i) sustaining a growth rate of at least 7 per cent per annum; (ii) doubling manufacturing’s share of GDP; (iii) eradicating poverty; and (iv) meeting social and environmental goals. Hence, the mobilization of additional finance will be essential for LDCs to achieve the Sustainable Development Goals by 2030. Taxes, contributions, charges, debt and bonds will remain important sources of additional funding. However, LDCs will have to continue relying on external financing, particularly ODA, to meet even the basic goals of sustainable development, including structural transformation. Hence, the international community has an essential role to play in finding a means to mobilize international financing for the sustainable development of LDCs which will not only meet their
financing requirements, but which would also critically allow them to pursue the structural transformation of their economies.

From lessons learnt to future development trajectories

The current framework of domestic and international policies has not helped the majority of LDCs overcome the major development challenges they face. The persistent existence of the LDC grouping, the apparent divergence within the grouping – such that a majority of LDCs are heading into the 2020s significantly below full strength – is compounded by the ongoing fallout from the COVID-19 global crisis and attendant risks of hysteresis. There is a fresh sense of urgency with respect to the LDC underdevelopment problem, and an opportunity now exists for a renewed and heightened focus on how to engineer a lasting transformation of development realities in LDCs.

The global community’s interest in LDC development and support for it

A renewed and strengthened partnership for development cannot be separated from the urgent need to reassert the importance of the development of LDCs and of international support for it, as global priorities. This is a prerequisite towards reinventing the notion of fair differentiation in the special treatment of LDCs within the group of developing countries. An authentic global partnership in support of LDCs goes well beyond the moral commitment to “leave no one behind”. Ultimately, in an interdependent global economy, international support for structural transformation in LDCs is an investment in systemic resilience, as any developmental successes achieved by LDCs would reflect global systemic resilience.

Advancing the structural transformation of LDCs through the building of productive capacities remains the single most viable route to inclusive and sustainable development. While it can be expected that the next PoA will be geared towards the post-COVID recovery and other development agendas – including climate change – these should not overshadow the long-term development goals of LDCs, which not only pre-dated the pandemic, but have also become even more pressing since its outbreak. The implementation of short-term emergency
measures should be undertaken with longer-term objectives in mind and form the impetus to achieve them.

**The new programme of action: objectives**

Structural transformation remains at the core of the quest by LDCs to achieve economic dynamism and resilience. The focus on building productive capacities and their corresponding capabilities is rooted in the need to steer a path to development that assures economic, social and environmental sustainability. It can best be pursued if corresponding policies are guided by the following principles:

- Build resilience to present and future shocks through the strengthening, upgrading, diversification and expansion of the domestic enterprise base in LDC economies.
- Achieve dynamic job-creating and inclusive growth underpinned by enhanced access to basic services, with the aim of addressing critical cross-cutting issues of poverty and equity in all its dimensions.
- Ensure appropriate orientation and coordination of domestic policies and international support measures directed at the economic, social and environmental dimensions.
- Operationalize internationally agreed principles of common but differentiated responsibility on climate change.

**Green growth and the call to “build forward and transform”**. If green growth is to become a catalyst for economy-wide structural transformation and poverty alleviation, it should support a virtuous transition towards more and better jobs, as well as be geared towards domestic value addition, and a qualitatively superior process of integrating regional and GVCs. LDCs and their development partners should consider the positive benefits to be realized through shorter GVCs, a stronger expansion of green sectors in which LDCs have comparative advantages, leapfrogging, etc.; LDCs and development partners should also assess any risks of further marginalization brought about by “green” measures which may come to the detriment of LDCs.

The following principles should guide the implementation of actions on climate change and green growth:

- The common recognition that LDCs are among the most vulnerable countries to the most deleterious or serious consequences of climate change, but the least well positioned to mitigate any damage. Consequently, they need
effective multilateral mechanisms to ensure their voice is considered and their participation is ensured in decision-making on climate change-related issues. The global pursuit of green growth strategies should consider the specificities and interests of LDCs.

- The “polluter pays” principle is pivotal to the success of international action on climate change and green growth and underpins a fair and just transition for all countries, as expressed in the principle of common but differentiated responsibilities. The low progress in structural transformation achieved by LDCs translates as very minor contributions to climate change, yet major spending requirements for adaptation as compared to their limited resources.
- The global pursuit of green growth requires disbursements of climate finance to match commitments, and achieving a greater balance between addressing adaptation and mitigation concerns in LDCs.
- To be realized, the pursuit of green growth is reliant on public regulation and public inducements (incentives), which are fundamentally elements of industrial policy.

National measures: new priority actions for consideration

The responsibility of countries themselves for their development is enshrined in numerous international policy documents. All successful development experiences have been characterized by the presence of a state whose capacities have co-evolved with those of the productive sphere. This lies at the core of the operationalization of a country’s right to development. It also involves striking the right balance between short- and long-term transformational policy measures and managing trade-offs between the different dimensions of development and related strategies. It also recognizes that successfully leveraging development opportunities is at the core of maintaining consistent progress on several dimension of development, as well as for weathering periodic shocks. State capacity assumes paramount importance, especially in the context of the growing complexity of the current environment of economic relations and international diplomacy. There is an ever-growing number of actors (whose interests can often be widely dissimilar) within the new international development cooperation architecture.

Some specific priority areas to be considered to strengthen domestic state capacity and agency include broad areas, such as:

- National capacity to undertake synchronic policy trade-offs involving choices between policy resource allocations (such as budget
resources/institutional capacities) between competing priorities, and
diachronic trade-offs involving time-based arbitrages, requiring the
sequencing of initiatives and the balancing of competing priorities.

- National capacity to mainstream industrial policy objectives, including
  the design and implementation of strategic FDI policy to facilitate the
  expansion of the local entrepreneurial base, and foster green growth
  across all sectors of the economy.

- Capacity on domestic resource mobilization, including tax policy design,
  enhanced efficiency of revenue collection, public financial management
  and financial planning, and strengthened capacity to combat illicit financial
  flows.

- Ramped up support to national development banks to boost the growth
  of the local entrepreneurial base and their productive capabilities.

**Expanding the local enterprise base.** The existence of a strong, diverse
and appropriately balanced national entrepreneurial class constitutes a critical
condition for sustainable development, including in the acquisition, accumulation
and upgrading of productive capacities, as well as in the achievement of the critical
goal of domestic resource mobilization. These are industrial policy objectives that
have been insufficiently addressed by past PoAs for the LDCs.

Developing the entrepreneurial base of LDC economies implies addressing the
systemic impediments that stand in the way of establishing and growing this
base, e.g. access to finance and the low levels of human capital endowment in
LDCs. Strengthening domestic entrepreneurship also calls for the strengthening
of the national innovation system, which allows domestic companies to build
technological capabilities and introduce products and processes that are
innovative in the national context.

This raises a wealth of opportunities for more targeted cooperation between
the national and international community on research, innovative design and
implementation of a development policy on various dimensions of entrepreneurship,
including on youth and micro, small and medium-sized enterprises (MSMEs) to
simultaneously address inequalities and industrial policy objectives.

**Strategic approach to human capital and labour policies.** One critical
cross-cutting issue to expand the enterprise base and accelerate inclusive
development is for LDCs to make the best use of all their existing human resources.
The transformative expansion of opportunities and raising the level and quality of
the contributions of hitherto vulnerable and marginalized groups (e.g. women,
youth and ethnic minorities) are critical factors for harnessing all available opportunities for growth and equity.

Human capital and labour policy underpin the expansion of the productive base and the creation of decent jobs in any economy. Structural transformation and sustainable development is the result of dynamic interaction between human capital, labour policies and productive capacities which permits a virtuous cycle of increases in productivity, specialization and continuous upgrading. Thus, LDCs cannot hope to operationalize their right to development and equity goals without adopting a more strategic view to investments in human capital.

Many LDC economies are potentially poised to reap the demographic dividend. However, reaping the rewards of this dividend is contingent on: (i) prior investments in the professional, intellectual and technological capabilities of their burgeoning young populations; (ii) investments aligned to an explicit lifelong learning framework that takes into account the interrelated nature of all education levels; and (iii) equipping labour market entrants with capabilities to meet current and future market requirements.

A new generation of international support measures

The development trajectories of LDCs and the options they have to pursue different development paths are strongly conditioned (but not pre-determined) by the international economic environment in which their economies are inserted, particularly in the light of the global production networks dictated by the process of globalization. In addition, the level of dependence that most LDCs have on international trade, international financing (including ODA, despite its declining trend) places ISMs at the heart of the rationale for the existence of the LDC category, and the logic of an international partnership to advance development in the LDCs.

A new generation of ISMs could consider alignment with the following principles:

- Coherence and synergy among ISMs in the fields of trade, finance, technology and capacity-building.
- Governance of ISMs by a specially designed overarching multilateral framework.
- Alignment with the overall objective of fostering the development of productive capacities to achieve structural transformation, as advocated in the report and by other LDC development stakeholders.
• ISMs in the area of financing for development and technology should: (i) seek to increase the flows of financial resources and technology; and (ii) widen the coverage and stabilising the availability of resources allocated to financing structural economic transformation in LDCs, including in the acquisition of technology and technological capabilities by their economic agents.

• Coherence with 21st century realities, including the lingering effects of the COVID-19 crisis, as well as the principle of common but differentiated responsibility on climate change crisis, and the accelerated digitalization of the world economy.

**Trade.** The possibility to expand special treatment in future agreements has been tabled at the WTO, but some developed countries are pushing for the review of the very notion of special and differential treatment (SDT). LDCs have an interest in preserving trade multilateralism, as this is one of the arenas in which the SDT formulated by the international community for LDCs has established unity on the recognition of the LDC category and the treatment of LDCs.

Possible goals and targets that could be considered for inclusion in the new PoA include:

• Adopting the various elements of the different proposals already tabled by the LDC Group at the WTO, including the commitments on joint action to safeguard SDT as a permanent feature of future WTO agreements.

• Actions that align the coverage and depth of tariff cuts, rules of origin and administrative procedures of duty-free and quota-free (DFQF) schemes with the productive and institutional capacities of LDCs. This would facilitate their full utilization by LDCs, and increase their ability to stimulate the growth of the local enterprise base and international investments.

• ISMs aimed at facilitating the leverage of (new) opportunities from regional and subregional integration, e.g. from the African Continental Free Trade Area (AfCFTA), South Asian Free Trade Area (SAFTA) and the Regional Comprehensive Economic Partnership (RCEP).

**External financing for development.** LDCs stand to lose the most from declining trust in multilateralism, especially in respect of external financing on which they are most dependent. Increased pressures on aid budgets in the aftermath of the COVID-19 crisis add yet more uncertainties relating to the future of external official flows. The aid spending target of 0.7 per cent of donors’ GNI shrank amid the economic fallout of the COVID-19 pandemic. Yet scaling-up financing will be key in reducing the risk of LDCs slipping further behind.
Another thorny issue in the blended finance debate is to ensure that the domestic private sector and foreign investors are treated on an equal footing, including investors from the country whose ODA is utilized in the blending. Moreover, it remains critical to assess the specific financial risks and contingent liabilities that certain blended finance projects may generate, for instance in the case of de-risking instruments. It is thus important to establish on a case-by-case basis whether blended forms of finance represent the most appropriate use of public development finance, considering the development rationale for the intervention, as well as related modalities, partnerships and broader relations with the domestic business ecosystem. LDCs need to be empowered to participate in the measurement of the effectiveness and alignment with LDC-determined national priorities, and on the impact of key new aid modalities and instruments, e.g. blended finance.

International support measures for LDCs need to include targeted debt relief to increase their policy space. Existing initiatives, such as the G20-led Debt Service Suspension Initiative (DSSI), do not adequately address the debt vulnerabilities of many LDCs. Public debt in the form of private sector loans and bonds has also introduced new vulnerabilities. The limited debt relief received from official sources risks being diverted into payments to private creditors in the absence of a mechanism to ensure equal treatment among creditors, thereby generating perverse incentives in the negotiations for debt rescheduling or write-offs. Development partners should give particular attention to innovative schemes of debt management.

LDCs need to align the design and implementation of country-owned financing frameworks, as envisaged by the Addis Ababa Action Agenda (AAAA) to the goal of structural transformation by further building its productive capacities. Country-owned financing frameworks help countries to: (i) manage a complex financial landscape; (ii) align financing with long-term priorities; (iii) increase the effectiveness of financing policies; and (iv) translate priorities into strategic action in line with their country capacities and priorities.

The international community has a unique opportunity to allocate Special Drawing Rights (SDRs) of the IMF to align the potential liquidity boost the capacity of LDCs to invest in productive capacities (rather than, for example, in debt repayment). However, the current allocation system benefits countries with large quotas. It is therefore crucial that LDCs are awarded a share of the new SDRs larger that their quotas currently in place, and that such re-allocation does not come as an alternative to already unsatisfactory levels of ODA disbursements.
In the field of finance, more concrete measures are needed to increase the total amount of climate finance available and achieve a greater balance between mitigation and adaptation. These measures would contribute to the acute adaptation needs and risks of LDCs, and would be in line with the principle of common but differentiated responsibilities.

**Technology transfer.** LDCs need a renewed partnership for the development and strengthening of their technological capabilities. Such a strengthened international partnership for technology transfer to LDCs would play a vital and complementary role to fostering sustainable development in contributing to the upgrading and expansion of the productive capacities of LDCs. The introduction of innovative products or processes will require foreign technologies, this in turn can be met by matching local needs with the international supply of technological solutions. This is where the international side of the partnership can intervene. Donors can support technology transfer centres involved in activities as: (i) identifying search and connecting agents (which connects demand for and supply of technological knowledge); and (ii) public-sector seed capital and SME support financing. Some of these centres already exist and have successfully managed to overcome major obstacles to technology transfer. Developed countries can comply with their obligations under article 66.2 of TRIPS through the further expansion and strengthening of the funding and operations of these centres.

LDCs will need to build climate-resilient infrastructure to respond to climate change. This will demand technological capabilities that are different from those available at present, given the need for novel technical specifications and characteristics of roads, energy plants, bridges, ports, buildings, etc. that enable them to be climate-resilient. As LDCs argue forcefully for an increase in climate finance, it is important that they seize the opportunity of greening their economies to build their technological capabilities. Regardless of the source of finance for these new infrastructure projects, they associate domestic agents (companies and technical specialists, e.g. engineers, technicians, etc.) to build and operate these works. This will allow LDCs to strengthen their knowledge base and skills in future-oriented technologies (e.g. renewable energies, thermic isolation, and earthquake resistance, etc.).