Expert group meeting Lessons learned in building productive capacity in graduated and graduating countries Geneva, 30 November and 1 December 2016

Analytical framework

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Overview

- 1. Framework from 2016 CDP Plenary
- Relationship building productive capacity and LDC graduation
- 3. Three possible pathways

CDP Framework

- Productive capacity
 - Productive resources (natural, human, physical, financial)
 - Entrepreneurial and institutional capabilities
 - Production linkages
- Expanding productive capacities for achieving sustainable development goals requires an integrated approach
 - Requires more than increasing components of productive capacity
 - Other SDGs need to be considered
 - ♦ Synergies and trade-offs
 - Expanding productive capacity is not a stand-alone goal
 - Integration needed at macro, micro and project level
- Policies in five areas necessary
 - Development governance
 - Social policies
 - Macroeconomic and financial policies
 - Industrial and sectoral policies
 - International support

Active state Leadership and vision

Strong planning institutions

Learning-based approach

Integrate social and environment

Development governance

Infrastructure R&D support

Trade policy **FDI**

Agriculture Mining Manufacturing Services

Market access Aid for trade

> Global governance Global economy

Industrial

and

Tax cooperation

Exchange rate Monetary policy

Expansionary and countercyclical fiscal policy Tax policy

Inclusive finance Financial regulation

Invest in health and education

Social protection Employment policies (women, youth)

sectoral < policies

Social policies

economic and financial policies

Macro-

International support

Expanding productive capacities and LDC graduation

- ◆ LDCs: Low income countries with most severe structural impediments to sustainable development
- Three criteria:
 - GNI per capita
 - Human asset index (HAI)
 - Economic (and environmental) vulnerability index (EVI)
- ◆ LDC must pass threshold in 2 of 3 criteria
 - 'Income only' exception for relatively rich countries
- Building productive capacity for sustainable development will ultimately lead to graduation
- Graduation not necessarily a sign of productive capacity for sustainable development

Indicators of the LDC criteria

LDCs are low-income countries suffering from the most severe structural impediments to **sustainable development**.

GNI per capita

Human Asset Index (HAI)

- Percentage of population undernourished
- · Under five mortality rate
- Gross secondary enrolment ratio
- · Adult literacy rate

Economic Vulnerability Index (EVI)

- Population
- Remoteness
- Merchandise export concentration
- Share of agriculture, forestry and fisheries in GDP
- Share of population in low elevated costal zones
- Victims of natural disasters
- Instability of agriculture production
- Instability of exports of goods and services

Expanding productive capacitiesand LDC graduation

GNI per capita

- Higher productive capacity →higher production → higher income
- Production can be increased from natural resource exploitation w/o building productive capacities for sustainable development
- Income can be increased w/o production (e.g. fish licenses)

HAI

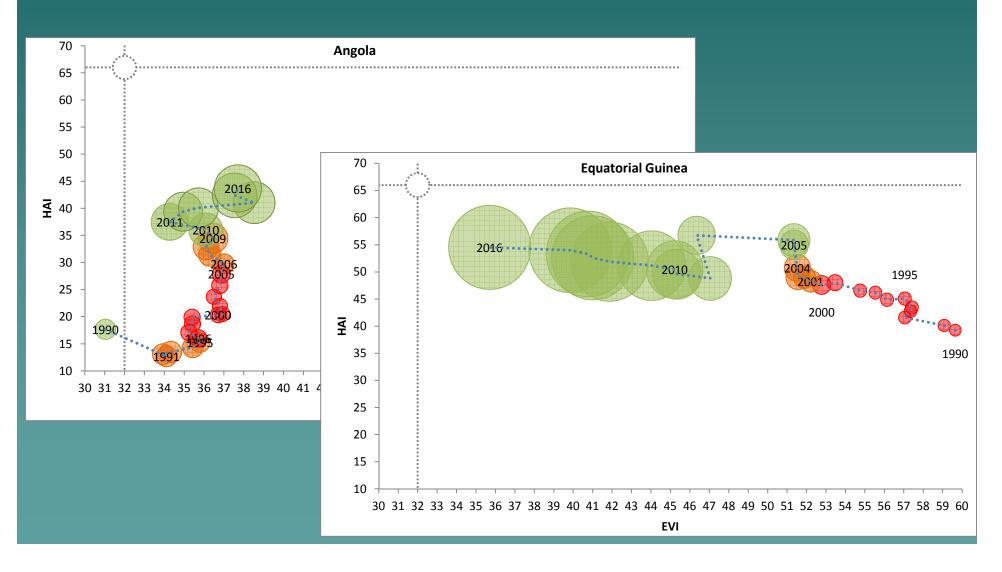
- Investing in quality health and education →HAI ↑
- Human assets may not be harnessed for production
- HAI does not consider inequalities and social protection

EVI

- Better integration in world economy and economic diversification \rightarrow export instability and concentration \downarrow \rightarrow EVI \downarrow
- Higher agricultural productivity→ agricultural instability ↓ → EVI↓
- 'Overshooting' possible, EVI might first rise before falling
- Role of policy invariant factors (population, remoteness, LECZ)
- Disaster risk reduction part of productive capacity?

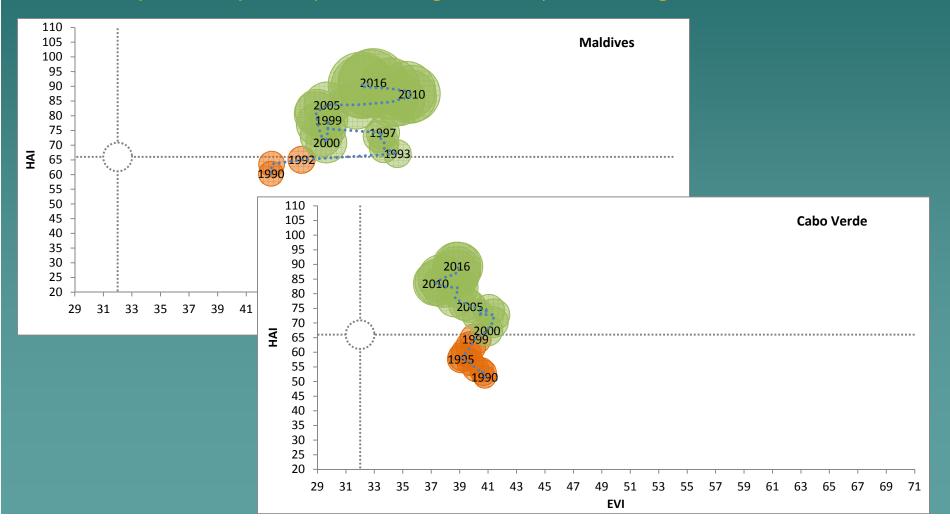
3 Pathways to graduation

- Rapid growth through natural resource exploitation
- ◆ GNI per capita ↑↑, HAI low and ↑, EVI high and ↑↓



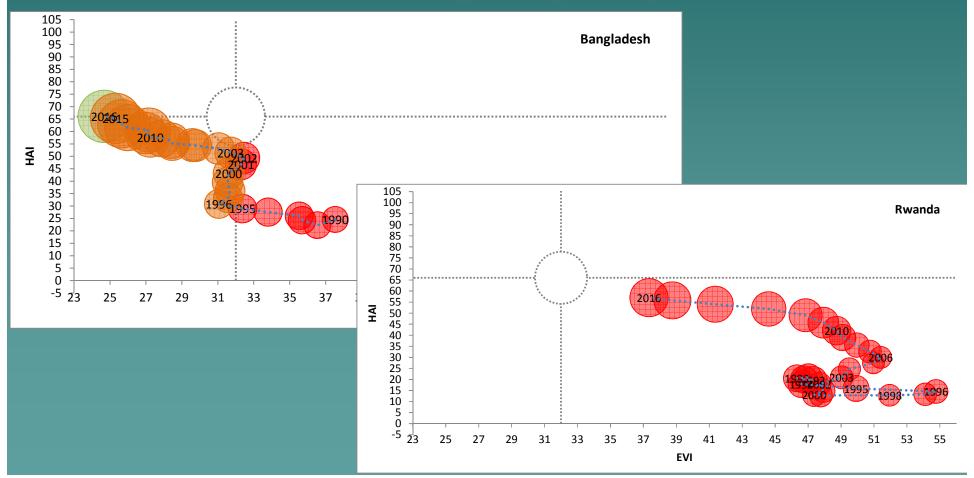
3 Pathways to graduation

- Economic specialization and investing in human capital
- ◆ GNI per capita ↑, HAI high and ↑, EVI high and ↑,



3 Pathways to graduation

- Investing in human capital and economic diversification
- Investment in agricultural productivity first priority
- ◆ GNI per capita low but ↑, HAI ↑, EVI ↓



Thank You

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http://www.un.org/en/development/desa/policy/cdp