Department of Economic & Social Affairs

CDP Background Paper No. 37
ST/ESA/2018/CDP/37

April 2018

Lessons Learned in Developing Productive Capacity: Fourteen Case Studies

Committee for Development Policy (CDP) secretariat[1]

ABSTRACT

Least developed countries (LDCs) are characterized by limited productive capacities, which constrains their efforts towards structural transformation and sustainable development. At the same time, the actual policy choices countries that have graduated or have made significant progress towards graduation from the LDC category provide a wide range of lessons other LDCs and the international community can learn from. Whereas countries can be on different pathways towards graduation, a diverse set of social, macroeconomic, financial, agricultural and industrial policies can be effective. However, good development governance is the key factor for successfully expanding productive capacity.

Keywords: Least developed countries, productive capacity, development governance, Angola, Bangladesh, Bhutan, Botswana, Cabo Verde, Equatorial Guinea, Ethiopia, Ghana, Maldives, Rwanda, Samoa, Solomon Islands, Vanuatu, Viet Nam

JEL Classification: F63, O1, O2, O57

1 This background paper has been prepared by the CDP Secretariat based on inputs by the CDP members Le Dang Doanh, Rashid Hassan, Tea Petrin, Onalenna Selolwane and Dzodzi Tsikata, the CDP Secretariat staff Matthias Bruckner, Daniel Gay and Marcia Tavares as well as Taffere Tesfachew, former Director at the United Nations Conference on Trade and Development. The paper does not necessarily reflect the views of the CDP. Comments should be addressed by e-mail to the authors at cdp@un.org.

CONTENTS

CDP Background Papers are available at https://www.un.org/development/desa/dpad/cdp-background-papers/. The views and opinions expressed herein are those of the author and do not necessarily reflect those of the United Nations Secretariat. The designations and terminology employed may not conform to United Nations practice and do not imply the expression of any opinion whatsoever on the part of the Organization.

Typesetter: *Nancy Settecasi*

UNITED NATIONS
Committee for Development Policy
UN Secretariat, 405 East 42nd Street
New York, N.Y. 10017, USA
e-mail: cdp@un.org
http://cdp.un.org

I Introduction

Developing productive capacities is key for least developed countries (LDCs), and developing countries in general, to overcome their development challenges. Productive capacity consists of the productive resources (natural, human, physical and financial), entrepreneurial and institutional capabilities, and production linkages. These elements jointly determine the capacity of a country to increase production and to diversify its economy into higher productivity sectors for faster growth and sustainable development.

Whereas the recognition of lack of productive capacity as binding development constraint for LDCs is an important finding, it does not directly answer the questions what and how this constraint can be overcome. The Committee for Development Policy (CDP) investigated these questions between 2015 and 2017. The work is published as CDP Policy Note "Expanding Productive Capacity: Lessons Learned from Graduating Least Developed Countries".[1] The CDP found that building productive capacity requires an integrated approach covering a wide range of sustainable development issues and policies. At the domestic level, key elements are building development governance capability, creating positive synergies between social outcomes and productive capacity, establishing conducive macro-economic and financial frameworks as well as industrial and sectoral policies promoting technological upgrading and structural transformation. Among sectors, the agricultural sector requires priority attention in many LDCs. Moreover, and in particular for LDCs, expanding productive capacities depends not only on domestic but also on international support.

For identifying concrete policies and strategies that helped LDC in building productive capacities, the CDP reviewed the experiences of fourteen countries in developing productive capacity and the implications for graduation and economic transformation. These include all five countries that have already graduated from the LDC category (Botswana, Cabo Verde, Equatorial Guinea, the Maldives and Samoa), the two countries that are already scheduled to graduate (Angola and Vanuatu), two countries that have already met the formal eligibility criteria for graduation (Bhutan and Solomon Islands), three countries that have made considerable progress towards graduation (Bangladesh, Ethiopia and Rwanda) and for comparative purposes two non-LDCs (Ghana and Vietnam). In this process, the CDP identified three alternative pathways to graduation from the LDC category. The first pathway is characterized by rapid economic growth based on natural resource exploitation, which ensures fast income growth but does not necessarily contribute to greater human assets and reduced vulnerabilities. The second pathway is characterized by economic specialization complemented by investments in human capital, which helps countries to increase income and human asset, although they may still face challenges in reducing vulnerabilities. The third pathway is characterized by a structural transformation that leads to more diversified economies and results in progress towards all three criteria used for identifying LDCs: increased per capita income, expanded human assets and reduced economic and environmental vulnerability.[2]

This background paper presents these fourteen case studies and should be read in conjunction with the Policy Note. The main chapter is organized around the classification of graduation pathways and the five broad policy areas noted above. In the course of reviewing country experiences, the chapter aim to decipher the lessons to be learnt for other LDCs that are still aspiring to make progress towards meeting the graduation criteria. The final chapter concludes.

1 CDP (2017 a). The main findings are also contained in CDP (2016) and CDP (2017 b).

2 For a detailed discussion on graduation criteria and process, see CDP and UN DESA (2015). For a brief overview, see the CDP website at https://www.un.org/development/desa/dpad/least-developed-country-category.html.

II Case Studies

A. Pathway I: Rapid growth through natural resource exploitation (Angola and Equatorial Guinea)

1. Introduction

Angola and Equatorial Guinea are two major oil exporting LDCs that have experienced massive and rapid increases in national income in recent years. While oil has been the main driver for economic growth in both countries, there are nevertheless important differences between the two. Whereas Equatorial Guinea is a small country with a population of less than a million, Angola is the seventh largest country in Africa with a population of more than 26 million. In terms of sectoral composition and economic diversity, Equatorial Guinea is largely an 'oil-only' economy, while Angola has a sizeable non-oil economy based on agriculture and other natural endowments. However, the oil and gas industry accounts for almost all of Angola's exports reaching as high as 97% of the total merchandise exports in 2014, although the share of the whole mining sector was only 30 per cent of total value added, which is less than most oil producing and exporting countries. Not surprisingly, the contribution of oil and mining to employment is estimated to be less than 1 per cent (AfDB, OECD and UNDP, 2014), further illustrating that oil exploitation by itself is not well suited for making progress towards attaining the sustainable development goals of full and productive employment and decent work for all.

Whereas the oil-dependency of exports in Equatorial Guinea is similar to Angola with oil accounting for 93 per cent of total exports in 2014, the share of mining in total domestic value added was much larger at 88 percent. The sector employs about 4 per cent of the labour force, which, while larger than in Angola, is not significant for a major driver of the economy. Furthermore, while understandable, GDP growth in both countries tends to be influenced heavily by the unpredictable volatility of international oil prices. In line with the much larger role of oil for GDP, the range of growth rates fluctuations tend to be more extreme in Equatorial Guinea than Angola. For example, Equatorial Guinea's growth rate has vacillated from 95 per cent (in 1997) to -7 per cent (in 2015).

Both Angola and Equatorial Guinea have been recommended for graduation under the 'income only' rule, which is a typical scenario for countries graduating under the first pathway based on rapid growth through natural resource exploitation. Typically also, both countries have not yet reached the human asset and economic vulnerability thresholds.

As explained in the analytical framework, the rationale behind the 'income-only' graduation rule is the belief that countries that have reached a relatively high-level of income per capita will have less financing constraints and will, therefore, be able to invest in human development as well as in sectors that contribute to the development of productive capacity. Until the recent decline in oil prices, the resource gap of oil-exporting LDCs such as Angola and Equatorial Guinea has been positive, implying that their savings rate has been higher than their investment rate. Thus, financing social services, developing adequate infrastructure through public investment, and expanding the knowledge-base and institutions needed to diversify the economy should have been relatively easy. And yet, the evidence on progress towards the other two LDC criteria of HAI and EVI by Angola and Equatorial Guinea indicate that improvements in these areas have been unbalanced and in some cases lacking. This suggests that having financing capacity may be necessary but it is not by itself a sufficient condition for registering meaningful progress towards the human asset development and the expansion of productive capacity, which are essential for structural transformation and creating a diversified economy. Policy matters and even more important is the strategic, pragmatic and targeted manner in which policies are designed and implemented.

Following independence in 1975, Angola suffered from a devastating civil war that lasted for nearly three decades. The impact of the civil war on infrastructure, social development and health care services has been severe. However, since 2002, Angola has enjoyed peace and stability, and concerted efforts have been made by the government to utilize the massive resources from oil revenue to kick-start both social and economic development. Notable progress has been made in reducing the prevalence of undernourishment, which is one of the indicators used to HAI. However, despite rapid growth and high income, Angola still has the highest under-five mortality rate in the world and its achievement in expanding education has been limited. Indeed, on the whole, it is still behind many other LDCs in meeting the HAI threshold for graduation. Similarly, progress in HAI in Equatorial Guinea has been conspicuously slow, despite the strong economic growth over two decades.

2. Development governance

As is typical for many oil exporters, governance structures in both Angola and Equatorial Guinea tend to be characterized by low transparency, which in turn contributes to low accountability in public expenditure, high inequality, and concentration of power and resources in a few individuals and groups. Interestingly, in terms of planning capacity, Angola has demonstrated its ability to develop coherent national development plans geared towards sustainable development of the country. Similarly, Equatorial Guinea has a comprehensive national development plan, although due to opacity of information, it is difficult to assess whether the national plan is consistent with sectoral plans. However, an indicator of the coherence and effectiveness of the planning system in these two countries is to compare the pattern of public investment and recurrent government expenditure with activities or sectors that are identified as priority areas in the respective national development plans. A mismatch in this respect indicates lack of coherence, low transparency and lack of good development governance as defined in the analytical framework for this report.

The national development planning documents in both Angola and Equatorial Guinea give high prominence to health and education[3], which is understandable given the poor status of human assets in both economies. Both countries also give priority to economic diversification and the need to reduce their excessive reliance on oil production and exports. Before the emergence of oil as the major driver of the economy, for example, Angola was a major exporter of agricultural products, including coffee. More importantly, it was a net exporter of food products. Now it has to rely on oil exports to import most of the processed items consumed in the country, including food,

It should be stressed, however, that for structurally weak economies like LDCs, economic diversification can be difficult and takes time, since it involves huge investments and the development of multiple and complex factors, including entrepreneurial capacity, skills, legal aspects of doing business and infrastructure development. But, with income from oil revenue, both Angola and Equatorial Guinea are in a more favourable position to finance both the social and economic diversification objectives and priority areas identified in their respective national development plans. However, the evidence indicates that public investment in both countries has been directed more towards mega infrastructure projects than the social sectors such as education and health. Although investment in infrastructure is a key element of efforts to promote diversification, the relative neglect of the planned investment in social sectors indicates the low-level of accountability and transparency in the governance system of the two countries.

For example, Angola has been successful in developing critical transport infrastructure such as the "Lobito Corridor", which connects the port of Lobito to Angola's interior and to the Democratic Republic of the Congo and Zambia, from its oil revenues as well as, to a much smaller extent, international assistance, particularly from China and Brazil. Whereas these significant investments in rehabilitating roads, railways and ports are a very positive sign, the challenge faced now is to put equivalent effort in running and maintaining this infrastructure, and avoiding the creation of white elephants (in parallel to addressing persisting deficits) (AfDB, OECD and UNDP, 2016; Duarte et al., 2015).

Equatorial Guinea is also implementing similarly ambitious spatial-development projects aimed at developing growth hubs throughout the country connected by major road networks. Generally, implementation of the first phase

3 Angola's Vision 2025 and its National Development Plan 2013-2017; Equatorial Guinea's National Economic and Social Development Plan (NESDP) 2008-2020.

of the NESDP (National Economic and Social Development Plan) enabled advances in the development of transport infrastructure, electricity networks, housing and public buildings, thanks to oil revenues. In 2013, however, investment slowed, partly in accordance with the investment calendar and also due to the fall in oil prices and contraction in oil revenue. To fulfil the financial requirements of ongoing projects, the country had to use accumulated reserves, presenting new challenges for operation and maintenance of the new infrastructure.

An important lesson from the experience of LDCs that are graduating through rapid income growth and resource exploitation is that while their infrastructure needs are undeniably large, there is a risk of overinvestment in infrastructure, which in turn can suppress necessary social spending in times of sudden revenue slumps caused by commodity price decreases or other factors.

3. Macroeconomic and financial policies

In view of the persistently low prices of oil, the Angolan economy has continued to slow down. Gross domestic product (GDP) plummeted to 3% in 2015 (after a consistent double-digit growth for nearly a decade) and is on a 1% trajectory in 2016. Annual inflation reached 35.3% in July 2016 and keeps accelerating, reflecting the 40% depreciation of the kwanza against the dollar since September 2014, and loose monetary conditions. Naturally, the public budget had to be adjusted to account for lower revenue and to sustain growth. In addition, to maintain the financing of some ongoing projects, investment spending was raised by 16%, resulting in an increase in the fiscal deficit by 6.8% of GDP, which amounted to an increase of 1.3% since last year. Not surprisingly, the budget revision is having a negative impact on social sector expenditure which has been reduced by about 8%.

Equatorial Guinea is also equally affected by the persistently low oil prices, although in contrast to Angola, Equatorial Guinea was able to cushion some of the negative effects of lower oil revenue by utilizing its reserves. However, for how long this can be sustained is not clear. Despite efforts to foster diversification in recent years, the economy remains heavily dependent on oil exports. In 2015, the country's GDP declined by 7.4 per cent, the current account deficit increased to 16.8 per cent of GDP and international reserve declined by 40 per cent since end-2014 (IMF, 2016). According to IMF projections, negative GDP growth rates might persist until 2021.

The immediate explanations for the difficulties in macroeconomic and financial policies encountered by these two countries lie in the decline and stagnation of oil prices. However, the root cause of their difficulties is their failure to follow the "sustainability rule" described in the analytical framework above. As already noted, the basic principle of the rule is that resource-rich countries should not only ensure that they recover the maximum from the resource rent, which incidentally Angola is doing as shown below, but also reinvest the rent in such a way that it generates alternative forms of capital that ensures sustainability by creating "non-declining income/consumption".

In resource-rich countries, a precondition with the utilization of natural resource revenues is that they are appropriated by the State, rather than flowing exclusively to foreign and domestic investors or other interested entities. In fact, an assessment of Angola's tax regime in the mid-2000s showed that relatively little of the oil revenue was appropriated by the state (IEA, 2006). However, reforms introduced in the mid-2000s have increased the share of revenues channelled to the state, in large part through a change in the nature of partnership between Sonangol, the state-owned company, and private operators. Through production sharing agreements, it now receives compensation in oil, which it commercializes directly. The share of that compensation rises as profits rise. In addition to the compensation scheme, there are also other forms of taxation and compensation. Angola's oil revenue regime is now considered among the most effective in channelling funds to the state (Bain & Company and Tozzini Freire Advogados, 2009; Pérez Niño and Le Billon, 2013).

Thus, Angola's production sharing agreements could be an arrangement of interest to other minerals exporting LDCs where the proceeds from resource exploitation largely accrue to foreign investors. The provision of resource rent to the State, however, does not make it automatically available to the central government to be used for public expenditure. As is the case in some countries, including Angola, the rent may be appropriated by specialized State agencies or groups that effectively control these entities. The fact that in Angola Sonangol acts simultaneously as producer and regulator and has quasi-fiscal attributions, coupled with a lack of transparency may, among other problems, have limited, or at least delayed, the volume of resources that effectively reached the public budget over time (IEA, 2006).[4] In Equatorial Guinea, the oil sector is partially excluded from the reach of the tax authorities, as tax and royalty provisions for production-sharing contracts with the government can be negotiated, and are not made public (Goldman, 2011).

A major macroeconomic policy concern of resource-rich countries is how to avoid Dutch disease effects and stabilize the economy in the presence of a highly volatile commodity market. Generally, the establishment of sovereign wealth funds and fiscal rules are effective policy responses to these challenges. However, although both Angola and Equatorial Guinea have formally established mechanisms for fiscal stabilisation and accumulation of reserves, these have not been effective so far.

In Angola, two stabilisation instruments exist. The Oil Price Differential Account (Fundo do Diferencial do Preço do Petróleo - FDPP) and The Strategic Financial Oil Reserve for Infrastructure (Reserva Estratégica Financeira Petrolífera para Infraestruturas – REFP). The former receives the difference between the actual oil revenues received and those that had been calculated by the Government for budgetary purposes and the latter receives funds from the selling of 100’000 barrels per day of crude oil. By 2014, the latter had accumulated funds equivalent to under 4% of the government budget. In addition, an Oil-for-Infrastructure Fund (Fundo Petrolífero de Angola) was created in 2011, but it was soon replaced by the Angola Sovereign Wealth Fund (FSDEA), which does not have stabilisation as a core function. Despite the laudable efforts to create stabilization funds, however, lack of clarity in their vocation, lack of transparency, lack of clear rules on deposits and withdrawals and other governance issues have limited their effectiveness and, on the whole, they remain insufficient to protect Angola’s fiscal capacity when oil revenue falls, for example, as it did in 2009 and more recently since 2013.

In the case of Equatorial Guinea, a Fund for Future Generations (Fonds de Reserves pour Generations Futures) was established in 2002. It was to receive 0.5% of oil revenues, but information on the fund’s rules, assets, transactions, investments and effective implementation is scarce. Moreover, it is structured for a savings, more than a stabilisation, function (Goldman, 2011). As a consequence of the failure to establish a credible fiscal stabilization programme and fiscal rules, neither Angolan nor Equatorial Guinean governments were adequately equipped to face the effects of a prolonged reduction in oil prices, including fiscal and current account deficits, which began in 2013 and had not been reversed since then.

In synthesis, current oil and gas revenues are still by far the largest source of revenue for the governments of both Angola and Equatorial Guinea, so that both countries are highly vulnerable to the volatility of international prices as well as to the consequences of short term slumps and long term declines in production. Late implementation and significant governance-related and other shortcomings made stabilisation mechanisms ineffective to address these challenges. One key lesson from the experiences of these two countries is that implementing generally valid recommendations (such as establishing wealth funds and fiscal rules) for ensuring fiscal stabilization requires effective governance systems, which in turn are difficult to develop in contexts of significant resource booms.

4. *Social policy*

As noted above, Angola, undertook severe budget cuts due to the decline of oil prices, curtailing much needed public expenditure in education and health (IMF, 2017). Given the poor status of human assets in both Angola and Equatorial Guinea, investments in social sectors remain an urgent priority area. As noted above, however, low transparency in budgetary processes contributed to misalignments between priorities and expenditures. Interestingly, the low social

4 However, Sonangol is recognized as a well-functioning company that has had a significant, and largely positive, role in Angola’s development, though issues of transparency and governance are often highlighted. See Stephens (2016).

spending in Equatorial Guinea discussed above can be explained not only by misaligning priorities with public spending caused by low transparency, but also by lack of effective social policies and a misguided application of commonly advocated fiscal rules. Equatorial Guinea aims to apply the so-called non-resource current balance rule, under which capital spending and resource revenues are excluded from fiscal targets (Baunsgaard et al, 2012). Such rules are in line with recommendations to use resource wealth to invest in physical assets with high yields in terms of non-resource productivity, thereby contributing to economic diversification (see, e.g., Collier 2011). However, in a case like Equatorial Guinea, where almost all fiscal revenue originate from resource rent, such rule automatically induces underinvestment in social sectors. In addition, it also reduces the transparency of the budget process (which, however, is in any case low in the country) and contributes to pro-cyclicity of fiscal policy. This reminds us that fiscal rules cannot simply be copied and implemented, but need to be assessed in light of the country specificity.

Overall, the experience of both countries indicates that low transparency is a key constraint to effectively harnessing natural resource revenues for building productive capacity for sustainable development. First, low transparency reduces the amount available, though a substantial amount of investments can still be undertaken. Second, low transparency skews the allocation away from social sector investments; this effect can get exacerbated by misplaced fiscal rules.

5. Industrial and sectoral policies

As noted above, despite the importance attached to economic diversification in the national plans of both Angola and Equatorial Guinea, the economies of both countries remain dependent on the production and export of hydrocarbon products. This dependence on a single industry has shaped and driven their macroeconomic, social, industrial and sectoral policies. Outside the oil industry, the only other sector that has shown rapid growth in recent years is the services sector, driven mainly by the rise of the hydrocarbon industry and the emergence of a large middle-class population generating demand for diverse range of services.

There are two important lessons emerging from the experiences of Angola and Equatorial Guinea in developing productive capacity. First, despite having less of a financial constraint than other LDCs, they have not taken advantage of the opportunities that the hydrocarbon industry provides for expanding productive capacity through investment in human asset development and the promotion of inter-sectoral linkages, especially between agriculture and industry. Both countries rely on imports of agricultural products, including food, while they have the potential, particularly Angola, to improve agricultural productivity, create food security and maintain competitiveness by making wage goods cheap. Lack of transparency in public investment decisions, along with lack of a clear development vision backed by effective institutions, prioritization in sectoral policies and consistency in implementation of planned investments are some of the factors that contributed to the mismatch between resource endowment and poor performance in productive capacity building.

Second, the experiences of Angola and Equatorial Guinea demonstrate that it is possible for an LDC to reach the income level necessary for graduation with limited progress in both human assets and reduction of economic vulnerability and without laying the foundations for expanding productive capacity and structural transformation. The important lesson for LDCs, where growth is based on an extractive sector that operates essentially as an enclave, is that graduation without effectively using resource rent to support a deeper and more broadly based development process may provide a very weak basis for post-graduation development.

6. International support measures

Given the diversity of LDCs, the relative importance of different ISMs in promoting progress towards graduation varies across countries. It is clear from the discussions above, for example, that trade-related ISMs played a limited role in the progress towards graduation of resource rich and single commodity producing and exporting LDCs such as Angola and Equatorial Guinea. In the absence of productive capacity to manufacture a more diversified range of products, the need for trade-related ISMs has remained redundant for these countries. The same also applies for ISMs through ODA, which was not provided to Angola and Equatorial Guinea for many years due to their less constrained financial situation. From these observations, one can conclude that the costs often associated with post-graduation loss of ISMs, in particular with regard to trade preferences and ODA, are less of a challenge to countries graduating due to rapid growth of income resulting from exploitation of natural resources.

B. Pathway II: Economic specialization and investment in human capital (Botswana, Bhutan, Cabo Verde, Maldives, Samoa, Vanuatu and Solomon Islands)

1. *Introduction*

Four countries have already graduated from the LDC category and a significant number have made progress towards graduation by specializing in a specific sector or a few economic activities, while at the same time investing in human capital. The seven countries considered in this section specialize in natural resource based activities (mining, hydropower generation or forestry) or in tourism. Notably, none of these countries has a sizeable manufacturing sector. Essentially all of them are small countries with less than 1 million inhabitants, with the exception of Botswana with a population of more than 2.2 million.

Regarding graduation from the LDC category, there is one important difference between these seven countries and those reviewed in the previous section under Pathway I. As already noted, Angola and Equatorial Guinea will be graduating not because of the progress they have made in expanding their productive capacity through strategic application of policies and economic planning, but purely on the strength of their rich resource endowment, which has enabled them to attain a high-level of growth and raise their GNI per-capita income beyond the graduation threshold within a short period. In contrast, the graduation and progress towards graduation of the seven countries considered in this section were to a large extent the results of deliberate and concrete actions taken by their Governments to lay the foundations for productive capacity building and structural transformation.

As explained below, they utilized, in varying degrees, policies, incentives and planning techniques to direct investment into the social sector, in particular education and health; maintain macroeconomic stability; leverage financial resources such as ODA, FDI, remittances and domestic capital and labour for productive investment; create the institutions and regulations necessary for good development governance and ensure that their natural endowment or comparative advantages contribute to a broad based and inclusive sustainable development. Nevertheless, economic vulnerability in all seven countries remains high and inequalities within their societies persist. Therefore, they still face development challenges. Nevertheless, they set good examples for other LDCs on how progress towards expanding productive capacity can be attained with prudent and strategic application of policies and improvements in development governance. Indeed, some of them have already began to transform their economies structurally as demonstrated by the shift from low-productivity primary sector such as agriculture and small-scale fishing to more dynamic sectors that generate higher income and well-paying jobs such as tourism and fish processing. This section has two objectives: first, to review the economic background and the policies and strategies pursued by these countries to expand productive capacity and meet the graduation threshold; and second, to identify the potential lessons for other LDCs and the challenges that still need to be address.

Botswana

Botswana was one of the 25 countries to qualify for LDCs status in 1971 on account of its structural constraints and overwhelming economic and social development challenges. Against these odds, including the disadvantages associated with being a landlocked country, Botswana was the first country to graduate from the list in 1994 due to significant economic growth and the development of human assets. In terms of economic structure, mining activities, in particular diamonds, had been the main driver, in particular in the late 1970s and 1980s, although services have also increased in importance since the 1990s. One of the inspiring achievements of Botswana since independence has been the impressive progress that the country has made in providing education, including at the secondary level. Although it had difficulties in improving child mortality, largely due to the impact of the HIV/AID epidemic, it is regarded as a success story in view of the Government's determined efforts to improve the living standards of citizens. Economic and environmental vulnerability, however, remains high, as 'fixed factors' such as small size and remoteness are particularly relevant and exports are concentrated due to the continued dominance of diamonds.

Bhutan

Like Botswana, Bhutan is also a small landlocked country. Its population is less than a million and it borders two of the fastest growing and dynamic Asian economies namely, India and China. Economically and politically, the country is closely aligned with India, which provides significant financial contributions to the Bhutanese budget. India is also Bhutan's main trading partner, accounting for more than 85 percent of Bhutan's merchandise exports and almost 80 per cent of imports. Trade between the countries is mainly governed by an extremely liberal bilateral trade agreement. The main driver of economic growth has been the production (and export) of electricity generated through hydropower. In addition, economic growth has benefited from tourism, mining and the manufacturing and exports of ferroalloys, alongside the commercialisation of some rural agricultural activities. The development of Bhutan has to be seen in the context of the Bhutanese vision of gross national happiness (GNH). As elaborated below, the happiness vision, along with the hydropower potential and strategic trade links with India, enabled Bhutan to meet the graduation criteria and will be considered by the CDP for graduation in 2018. Economic vulnerability, however, remains high.

Cabo Verde

Economic vulnerability is a common feature among all these countries, including the three island economies that have successfully graduated from the LDC category namely, Cabo Verde, Maldives and Samoa. Cabo Verde graduated in 2007 on account of having made significant progress in terms of human assets (in particular education) and GNI per capita income. It is a small island State in Western Africa with around half a million inhabitants and it is widely regarded as a 'development success story'[5], with effective development governance often seen as a major factor. The steady economic progress made by Cabo Verde since graduating from the LDC category is another indicator of the important contributions that the policy measures taken before graduation have made in laying the foundations for expanding productive capacity for sustainable development. The tourism sector, which was developed through deliberate and targeted sectoral and investment policies, has been the main driver of growth and productive investment in Cabo Verde. Equally important has been the remittances received by households in Cabo Verde, which have helped to supplement income and private investment in education and household expenditure on health. The transparent and predictable approach to public investment in social sectors has also contributed to shaping Cabo Verde's success story. However, as noted above, progress in reducing economic and environmental vulnerability has been limited, even though it is lower than in Pacific SIDS, because the quasi-fixed elements of the EVI (population, remoteness, population in LECZ) are less important.

Maldives

Another country that shares many of the development features of Cabo Verde is Maldives, which is a small island State in South Asia with around 360,000 inhabitants and consisting of more than 1,000 coral islands. Like in Cabo Verde, tourism-led growth was the main reason behind Maldives' remarkable progress in increasing GNI per capita and expanding human assets, in particular health and education. It had the third highest economic growth rate in the world over the last four decades (the GDP growth rate between 1974 and 2014 was 8.5 per cent on an annualized basis), lower only than Equatorial Guinea and China), even though economic growth has been highly volatile. The CDP first recommended Maldives for graduation in 2000, though graduation took place only in 2011 after discussions

5 As evidenced, e.g., in the title of a recent study of the African Development Bank on the country, see AfDB/AFD (2012).

about the treatment of vulnerability in the EVI and the setback created by the 2004 Tsunami. Due to the small size of the economy and its extreme exposure to climate and climate change impact such as sea level rise and storm surges, the country remains highly vulnerable to external shocks.

Samoa

Climate change-related challenges are also major concerns to Samoa, one of the four countries to graduate from the LDC category. Samoa is another small Island economy located in Polynesia with less than 200,000 inhabitants and whose population inhabit two main and several smaller islands. Agriculture and fishing are the traditional economic activities in Samoa, although like Cabo Verde and Maldives, Samoa's progress towards graduation and the country's notable achievement in social development was driven mainly by the country's success in promoting the tourism sector. However, compared to other LDCs Samoa had a better starting position with regard to GNI, but also with regard to human assets, which were already high in the 1970s. In this respect, therefore, Samoa's efforts in the last four decades have been one of maintaining rather than building human assets. Samoa graduated from the LDC category in 2014. As discussed below, Samoa has made noticeable progress towards building productive capacities, which have contributed, both directly and indirectly, towards the graduation of the country from the LDC category. As is typical for a small Island economy, however, Samoa's economic vulnerability remains high, largely due to the impact of the 'policy-invariant' factors such as population, remoteness and population in low elevated coastal areas.

Vanuatu & Solomon Islands

In the coming few years, other small Island LDCs from the Pacific region are expected graduate. These include Vanuatu and Solomon Islands, which are archipelagos in the Melanesian sub-region of the western Pacific. As explained below, despite many similarities, the two countries also differ with respect to governance experiences and progress towards productive capacity building, structural transformation and graduation from the LDC category. Interestingly, the experiences of both countries also provide valuable lessons for other LDCs on the types of policies and strategies that they should or should not follow in pursuing the objectives of expanding productive capacities for sustainable development.

Both Vanuatu and Solomon Islands experienced relatively low but volatile economic growth rates until the early 2000s. Whereas Vanuatu remained free of armed conflict, the Solomon Islands featured a civil war leading to the arguable failure of the state. A period from 1999 to 2002 known as "the Tensions" was partly linked to control of logging revenues and the gains from dwindling economic growth by a particular group perceived as having an ethnic identity. The military conflict ended through deploying an Australian-led Regional Assistance Mission to the Solomon Islands (RAMSI) assembled by regional neighbours and donors aimed at stabilising security and the political and economic situation. RAMSI still exists today, though it has recently been scaled down.

Vanuatu is now scheduled to graduate in 2020. In fact, the CDP recommended the county for graduation in 2012 due to its high income and high HAI scores, but the transition period was extended in 2015 after Vanuatu was hit by the devastating cyclone Pam. A main driver for higher income has been the tourism sector developed through concerted Government efforts, including the application of 'soft industrial policies' as discussed below. Economic vulnerability as measured by the EVI remains high, mainly on account of the country's vulnerability to natural shocks.

Despite timid economic performance and tight fiscal policies in recent years, Solomon Islands has been able to meet the graduation criteria for the first time in 2015 and will be considered for graduation by the CDP in 2018. The progress towards graduation is largely due to recent increase in GNI per capita and improvement in education, both arguably linked to the abatement of armed conflict. However, like for other island economies, economic vulnerability remains high and even much higher than in Vanuatu.

2. Development governance

By LDC standards, the group of countries falling within Pathway II graduation framework represents success stories. All have met two of the three graduation criteria and through economic specialization; they have laid down the basic foundations for expanding productive capacity. Investments in infrastructure and human development are critical for expanding productive capacity and initiating the process of structural transformation. It seems that practically all of the countries considered in this section have followed this pattern of development. A key factor in their success has been their ability to acquire, although in varying degrees and from different starting points, the type of 'governance' structure that the analytical framework in this report has described as essential for economic development.

The motivations, starting positions and the main drivers behind the development of 'good development governance' system differ among countries, in line with the discussion in chapter II. The central features, however, can be summarized as follows:

- In some cases, the need and exigency, in the immediate post-independence period, to fill the vacuum created by the end of colonial rule and to carry forward the mantle of State-building and economic development seems to have been the main factor instigating the emergence of a State whose priorities are shaped by developmental outcomes. In this situation, the challenge is how to sustain this process and upgrade it into one that is capable of adjusting to new development demands and challenges, while remaining focused on the central development objectives, which are lifting the living standards of all citizens and achieving prosperity for all. The experience of Botswana, which is regarded as exemplary for its effective development governance system comes nearer to this model.
- In other cases, countries could build upon existing governance structures during a smooth and peaceful transition from colonial rule and build a democratic, transparent and participatory political system after independence. The governance structure that evolved in post-independence Cabo Verde, for example, seems to fit this pattern.
- For Pacific countries, traditional and customary laws were important in shaping the governance structure often intermingled with modern political and democratic systems. In societies where ethnic diversity and/or regional identity have paramount importance, designing an inclusive and a common development objective was found to have a positive impact in solidifying the legitimacy of the State and advancing the nation-building process.
- Others have devised an inspiring national vision to help create a common national identity and to rally all citizens around a mutually accepted national development objectives and goals. This approach has the added advantage of making Governments focus on a set of development objectives or priorities as defined by the national vision. Having a common vision also enhances accountability and transparency in the governance structure and it also makes it easier to monitor the performance of Governments against the expected goals. As shown below in more detail, this approach seems to have generated the necessary 'development governance' system in Bhutan. Whether the unifying vision that helped Bhutan to create a more transparent and accountable governance system can be replicated in other LDCs is difficult to say. However, the lessons are clear as explained in this report and they are worth exploring in the hope that they inspire other countries.

Botswana

The success of the first country to graduate from the LDC category, Botswana is often attributed to the quality and nature of its governance. It would appear that in recognition of the myriad institutional, economic, human, environmental, financial, and infrastructural constraints that the country faced on the eve of independence, Botswana's leaders took a calculated decision to make the state the main driver of the nation building and socio-economic development. State building had to be done in its entirety, from establishing institutions and procedures to investment physical infrastructure, human resources, and financial resource mobilization. In addition, at time of independence Botswana had basically no modern economic activities and agriculture was affected by serious drought. In a predominantly hunter-gathering agro-pastoralist society, it fell to the state to drive the modernization agenda and map out how the transformation to modernity and higher levels of productivity would proceed under limited resources.

The governance model adopted by the state centred around a strategic five year social and economic development plan and annual budget allocation processes which depended on rapidly building key areas of state capacity to enhance planning, policy/law making, enforcement of rules and resource mobilization to create investible resources in key sectors that would give the country rapid and sustained growth. Development planning meant setting national priorities within which the donor community could select areas they wished to finance: thus ensuring that the projects remained largely owned by Botswana and not donor driven. To maintain the flow of such donor finance, Botswana sought to build a reputation for accountable management of these scarce resources and to ensure that implementation was strongly aligned to clearly identified projects and measurable expected outcomes that could be monitored.

A key element in building development governance was the rapid development of local expertise and competencies (Selolwane, 2004). Other elements that helped to strengthen the development governance were the actions taken by the Government to build state regulatory capacity and to develop negotiation skills within the bureaucracy to ensure that the proceeds of natural resources exploitation accrue to the State rather than foreign investors. The latter enabled Botswana to secure a favourable deal when negotiating with the giant diamond mining company - De Beers. That deal lead not only to double-digit growth, it also ensured sufficient revenue for the State to achieve its broad based developmental goals. It also allowed the State to use public expenditure as the single most important driver of growth through allocation of public resources to infrastructure development, the provision of basic services, education, subsidies to productive activities and the provision of credit. Botswana also managed to establish effective separation of powers, particularly between the executive and the judiciary, thereby implementing early a key element of modern and transparent governance systems.

Cabo Verde

Another former LDC, which from the very early days of independence has recognized the need to build the State machinery and both the trust of its own people and, equally important for a country of scarce domestic resources and productive capacity, the trust of its large diaspora, donors and foreign investors is Cabo Verde. The main factors that moulded Cabo Verde's development governance and political stability are: (i) a peaceful transition to independence and later to a consolidated multiparty democracy, and sound macroeconomic policy (including stable monetary policy and prudent fiscal policy); (ii) the introduction of governance solutions that ensured openness, opportunities for participation in strategy formulation and implementation, transparency, and effective institutions; and iii) development strategy that included an emphasis on inclusiveness, human capital development and poverty reduction, a pragmatic and realistic approach to the country's potential, making the most of partnerships (with donor countries, international organizations, the diaspora, and foreign investors), and forward-looking strategies to adapt to a changing global context.

Participation and representation contributed to formulating a shared vision of development that has been carried across changes in Government since independence in 1975. Open debate was encouraged in parliament and representation was ensured for each of the inhabited islands, an important lesson for other island LDCs with similar geographical landscape. While adjustments have been made to development strategies and the role of Government in the economy over time, consensus on core issues such as the importance of social investment have been consistently upheld and defended despite changes in Government between the two leading political parties (AfDB/AfDF, 2012).

Important elements in institutional development and public sector management have been the separation of legislative, executive and judiciary branches; the independence of the Central Bank; and the decentralization and autonomy for local Government (AfDB/AfDF, 2012). In 1993, an autonomous audit oversight body with the responsibility of ensuring accountability in the use of public resources was created (Delgado, 2010). Subsequently, corruption, especially by holders of public office was made a criminal offense. Cabo Verde is also leading in the use of electronic governance tools to ensure transparency and efficiency in public administration. In short, since independence, Cabo

Verde has built a transparent, accountable, participatory, democratic, stable and, above all, development-focused governance structure, which has enabled the country to acquire some of the elements essential for expanding productive capacity, graduate from the LDC category and set in motion an inclusive and sustainable development process. It comes as no surprise, therefore, that Cabo Verde is frequently referred to as "development success story". It is evident, from the brief discussion presented in this section, that there are ample lessons on 'development governance' that other LDCs can learn from the Cabo Verde's experience.

Samoa

Another country that has made significant progress in transforming its governance system into an effective development tool is Samoa. An important lesson from the Samoan experience is the manner in which the country has drawn from two different systems of governance and legitimacy to form a home-grown brand of governance structure. Since independence, it has successfully blended traditional and customary law-based governance system with modern constitutional democracy to create a governance structure that delivers on social and economic development.

Similar to other Pacific island States, Samoa's governance structure combines a national Government based on a written constitution and parliamentary democracy with traditional, village based governance system (fa'amatai in Samoa). The latter is based on a hierarchical system built on customary relationships, chiefly authority and social orders (Huffer and So'o, 2005). The contradictions between these two different sets of principles did not pose much of a problem at independence in 1962 because, at that time, most Samoans lived in villages and in a semi-subsistence economy, and migration and influences from the outside world had minimal impacts on the majority of the population. Over the years and with increasing modernization and integration of the country into the global economic system, however, the functionality and legitimacy of the governance structure based on two different systems has been strained, sometimes leading to open tensions. To reduce potential frictions, the central Government has engaged village chiefs in continuous dialogue, including on the formulation of national development objectives and the important role that local authorities can play in implementation. In addition, the rules and procedures governing the power and level of engagement of village authorities was incorporated in a formal Act agreed in 1990.

At present, there are clear demarcations in the roles and responsibilities of the two systems based on the Village Fono Act of 1990, which is a formal agreement between the central Government and autonomous villages and communities specifying formal laws assigning the right to adopt bylaws. For example, the village based governance is responsible for land use (given that 80 per cent of the land in Samoa is customary rather than individually held) and provides social protection.

In short, although the blending of the two governance systems has its challenges and sometimes conflicts are inevitable, the tensions appear to be smaller than in other Pacific countries. Samoa has also undertaken steps to strengthen village governance capacity and promote community development in line with priorities identified in the national development strategy (Agaiava, 2014).

Vanuatu and Solomon Islands

To some extent, the influence of traditional values in the crafting of a centralist and development-focused governance structure was also important for the other two island economies considered in this section namely, Vanuatu and Solomon Islands. Whereas local identities play an important role in both countries (as in other Pacific islands), Vanuatu, more than Solomon Islands, made relatively stronger progress towards developing national identity after independence. Following the failed late-1990s attempt at externally-led structural adjustment programme, this sense of national identity prompted government policymakers to attempt to mould policy to Vanuatu's specific social values, norms and institutions.[6] This included emphasis on the non-material goals that characterised traditional society, such as communalism, egalitarianism (among males) and mutuality. For instance, Vanuatu's second chamber

6 Gay, D. (2009), pp. 108-145.

of parliament is currently comprised of tribal chiefs, many of whom advocate a return to the old custom and pre-monetary economy. Whilst the ability to prioritise culture, custom and equality could be seen as an end of development in itself, the cultivation of a sense of self-belief seemed also to foster development by allowing policymakers to tailor policy to national ends. Therefore, in Vanuatu, the need to reinforce State legitimacy through values that generate a strong sense of national identity has been driver of the efforts to build an effective development governance system. Indeed, the way Vanuatu has moulded traditional customs, including, for example, the promotion of "Kastom" into a vision that aspires to create the happiest country in the world provides valuable lesson for other countries on the importance of nurturing State legitimacy and common national identity for creating a governance structure that delivers on sustainable development goals.

Compared with Vanuatu, the problems of state legitimation are more pervasive in the Solomon Islands. They are partly a result of the country's fragmentation and the separation of linguistic/cultural groups (known as wantoks in both countries), as well as a relatively weak sense of national identity, which was partly the reason for the political "tensions". Governance problems are exacerbated by the nature of the main activity driving the economy, logging. The business of logging, based on foreign investment and in different islands, often facilitates corruption and the decentralization of economic activity (logs are often exported directly from the island where they are cut), which in effect means that the various island communities – already traditionally very strong – do not see the central state as representing their interests or as a source of economic security. One of the main lessons from the experience of Solomon Islands, therefore, is that in small LDCs, particularly those which are geographically or culturally fragmented, more needs to be done to explicitly buttress the legitimacy of the state. Another lesson is the importance of peace and political stability as essential ingredients for progress towards sustainable development. These are not only important by themselves; they are also critical conditions for formulating a long-term vision.

Bhutan

In terms of harnessing an inspiring vision as a framework for national identity and transparent, accountable and result-oriented development governance, Bhutan's happiness concept offers a valuable lesson for other LDCs. The national vision of Bhutan, Gross National Happiness (GNH), aims to "maximize the happiness of all Bhutanese and to enable them to achieve their full and innate potential as human beings". The development strategy advocates "a harmonious balance between the material and non-material dimensions of development". The four main pillars of GNH are sustainable development; the preservation and promotion of cultural values; conservation of the natural environment; and good governance.

All Government policies are vetted by the GNH Commission, a powerful cross-ministerial body that reports directly to the prime minister and establishes each five-year plan. GNH has intrinsic benefits. Economic growth is seen as a means to an end rather than an end in itself, and growth is sacrificed if it harms the worst-off or damages the natural environment. This means that human development is in effect the highest priority rather than aggregate economic expansion, which is often a misleading indicator of development.

Although the GNH process can be time-consuming and bureaucratic, it means that policies are centralized and legitimized; and tailored to the national context with minimal potential dissent. The Bhutanese emphasis on GNH promotes a national vision around which much of the population can coalesce even if some may lose out in the short-run. This strong process of state legitimation plays an important role in facilitating active measures to promote productive capacity, such as the construction of infrastructure and investment in education and training.

3. Social policy

Ultimately, the primary purpose of economic development is to bring meaningful change in lives of citizens through social development involving food security; the creation of opportunities for education, skill formation and employment; the provision of health services and other essential services necessary for raising the living standard of citizens. But, as explained in the analytical framework, these social developments are by themselves essential requirements for building productive capacity and structural transformation. This inextricable link between human and economic development means that Governments should formulate and implement social policies that create positive synergies between social outcomes and the process of expanding productive capacity.

From available evidence, the graduated and graduating countries considered in this section have given priority attention to all aspects of social development from the early days of post-independence development. This is one feature that distinguished them from many other LDCs. As shown below, social policies aimed at ensuring food security, creating opportunities for education, including at the secondary level, easier access to health care services, and generally improving living standards by raising income were the policy areas that Governments gave priority in the post-independence nation-building process. This has enabled them to advance faster in human asset development as defined by the CDP and to generate the knowledge, skills and productive capacity necessary to initiate economic specialization. Their experiences in this respect, including, as shown below, the specific policies and measures used to advance human asset development, offer useful lessons for other LDCs.

Botswana

Botswana is a country that placed great emphasis on social policy from the start, rather than subordinating it to economic policy. For example, when Botswana received food aid following a bad harvest, its distribution was often tied to a condition where recipients are expected to contribute to community development projects by offering their labour. In fact, in Botswana, social policy had multiple interlocking objectives, beyond the overall goal of providing social protection. One of the important objectives was to build national cohesiveness, stability and peace by distributing wealth as evenly as possible across various ethnic and racial groups, while taking account of the historical legacies of racial and ethnic discrimination.

Another key objective of social policy was facilitating economic growth and employment. The 1966 Transitional Plan for national development stated clearly that the primary aim of social policy was at one level to develop the education system so that it would "create in the shortest possible time, within such financial means as possible, a stock of trained local manpower capable of servicing the country's economy" (Republic of Botswana, 1966: 33) and at another level that rural education would facilitate the "breakdown of local prejudices and prepare a favourable social climate for development" (Republic of Botswana, 1966: 40). Investments in education through both the school system and lifelong extension services was thus a critical component of transforming the attitudinal and skills base of the population to engineer higher levels of productivity in traditional and modern production sectors. The result of prioritizing investment on education has been spectacular as demonstrated by the fact that Botswana is now among the few African countries with the highest share of people with at least some secondary school education. To achieve this, Botswana used a number of strategies that included rapid provision of schools, increased number of secondary and tertiary education bursaries, and the introduction free education at primary school in 1980 and at secondary level in 1989. These were buttressed by an accelerated construction of schools as well as training institutions for teachers.

However, Botswana's success in broadening opportunities for education has generated unintended challenges. First, there are now more qualified and educated people than the labour market is able to absorb. This mismatch is an indicator of the gap between the Government's successful social policy, on the one hand, and the slow process of economic diversification on the other. The latter, along with productive capacity building and structural transformation, are essential for creating decent and well-paying jobs. Second, the impact of social policies on inequality has been mixed. Education clearly had an effect on reducing ethnic inequality, as can be seen from data compiled by Selolwane (2004) showing a progressively more equal ethnic composition of senior bureaucrats in Botswana. Inequality in income and quality of life, however, still remains high, suggesting that the citizens of Botswana are far from enjoying the quality of life that corresponds to the upper-middle income status of the country. A significant proportion of the population, especially in the rural areas, still live in low quality housing and have inadequate access to water, sanitation and clean and modern energy for cooking and heating.

In short, in addition to the focus on education, Botswana has extensive social policies covering a wide range of areas such as social insurance, labour regulations, targeted programs against hunger and malnutrition, employment schemes, input subsidies for small farmers and entrepreneurs and provision of basic social services. Together with a stable macroeconomic environment, these policies have served to reduce extreme poverty, achieve progress in human asset development and enabled Botswana to be the first country to graduate from the LDC category. However, in addition to the lesson of the benefits of integrated 'social first' policies, another main lesson for other LDCs is that when designing and implementing social policies, their synergy and compatibility with economic development should be anticipated and taken into consideration.

Cabo Verde

Like Botswana, Cabo Verde also made explicit political commitment to invest in the country's human capital, particularly education since its independence in 1975 (AfDB/AfDF, 2012). Whereas the initial focus was on primary and secondary education, Cabo Verde has since mid-1990s broadened the opportunities for education and knowledge into the tertiary level by establishing public sector tertiary education institutes, followed by private universities. However, the drop-out rate in secondary education and the quality of education continue to be an area of concern. In addition, although there is very little gender inequality in access to education, important geographic and income-based inequalities still persist. The country is now exploring the potential of distance learning, which can be particularly important given the country´s geographic characteristics (Ministério da Educação de Cabo Verde, 2015). One factor that has helped Cabo Verde to advance in education has been the relatively low population growth rate, which has led to a reduction of the number of school age children since the beginning of the 2000s. However, for future growth and structural transformation, Cabo Verde does not have to rely on its domestic-based skills only. The large Cabo Verdean diaspora presents a rich source of knowledge and skills, which could potentially give Cabo Verde a competitive edge in the development of certain service oriented skills such as IT development if the country is able to mobilize and attract the new generation of Cabo Verdeans in the diaspora.

Maldives

The Government of the Maldives has also dedicated considerable amount of efforts and resources to provide education to both children and adults. Over the last two decades, the country has not only achieved its objective to provide universal access to education, but it has also managed to elevate the quality of education at all levels, including at secondary and tertiary level. In this respect, therefore, there are similarities with Cabo Verde and Botswana in the social policies, especially the educational strategies followed by the Maldives. However, despite significant improvements in access to education, Maldives still faces challenges with regard to quality of education and "lacks focus on professional skills and work ethic necessary for the work environment" (Shiuna and Sodiq, 2013). From this perspective, the Maldives educational strategy displays similar weaknesses as those faced by Botswana.

Another social area where the Maldives have made rapid progress is the health sector. This has been achieved by implementing 'standard' recommendations, such as introducing and maintaining universal vaccination programs, Malaria eradication programmes and establishing primary healthcare services at the local (atoll) level (Rasheed, 2015). Since 2008, the Government has introduced national health insurance schemes to address affordability of social protection. These efforts have improved health care services significantly, as demonstrated, for example, by the reduction of child mortality from 48 per 1000 live birth to 13 per 1000 live birth between 1990 and 2010 (ADB, 2015).

Despite Maldives' notable success in promoting education, health care and structural transformation, however, spatial inequality remains a major issue in the country, and consequently the development has been occasionally characterised as unbalanced (Rasheed, 2015). Nevertheless, it should be noted that this challenge is fully recognized by the Government as demonstrated by the greater emphasis given to the development of outer atolls, including through moving towards a more decentralized governance system, in recent national development plans (the 7th National Development Plan 2006-2010 and the Strategic Action Plan 2009-2013. In addition, although the country has become less remote due to the shift in global trade towards Asia, the vulnerability caused by the small size and the extreme exposure to climate and climate change impact such as sea level rise and storm surges will remain extremely high.

Vanuatu

In Vanuatu, subsistence activities (facilitated by high land fertility) and traditional social organization provide the social safety net for large part of the country. Most gains of high GDP growth accrue to people living in the main towns or with some connection to the tourism economy. Urban drift and landlessness (in some cases caused by the sale of land for tourism development) are increasing, and several large slum areas have developed in the capital Port Vila. Formal joblessness is high, and many tourism enterprises remain foreign-owned enclaves with limited opportunities for employment or business prospects through linkages. Given limited domestic production of manufactured, processed or even agricultural products, most goods for the tourism sector are imported. This underscores the risks of services-based structural transformation, with its inevitably low levels of productivity and the associated difficulties of creating large-scale employment**.** Moreover, the lack of effective social policies or mechanisms for income transfers or redistribution has exacerbated inequalities.

4. Macroeconomic and financial policies

As noted in the analytical framework, sound and stable macroeconomic policy environment is a necessary condition for predictable and smooth functioning of the economy. However, the policies Governments use to achieve this desirable goal could differ from country to county, depending on the level of development of the economy; the degree of sophistication of the domestic market; the country's resource endowment; the scale of the financial needs; the depth and inclusiveness of the financial sector; the area of economic specialization, etc.

From the country experiences discussed below, it seems that fiscal policy tools are the most frequently used macroeconomic tools to mobilize resources; develop the social sectors, build infrastructure and create incentives to attract foreign investment. This should not be surprising, as the scope for using the exchange rate or other monetary policy instruments as policy tools is limited for small economies following pathway II. How Governments design and implement such policies – for example, the royalties or taxes negotiated with foreign investors that are engaged in the extractive sector, and how the revenue collected is reinvested could determine whether the country succeeds in its national development objectives or not. One important lesson emerging from the experiences of countries like Botswana and to some extent, Angola's production sharing scheme discussed above, is that negotiating smartly and strategically pays by enabling the country to retain more of the resource rent generated from the exploitation of its natural resources. Equally important and instructive, however, is also how the recovered resources is reinvested and whether it generates sustainability.

There are also important lessons from the fiscal and other policies followed by some countries to ensure that the financial resources mobilized from external savings such as FDI, ODA and remittances generate the maximum benefit for the country. For some countries with a large diaspora, such as Cabo Verde and Samoa, remittances play a critical role as sources of foreign exchange and in supplementing household income and financing children's education. In this respect, remittances contribute to the improvement to human asset and the expansion of productive capacity. However, the positive impact of remittances is not automatic. As shown from the country experiences, policies aimed at directing remittances, which by their nature are private capital financial flows, into the productive sector through incentives and appropriate financial sector reforms are essential. Fiscal policies could also determine how and in which sectors financial inflows through ODA and FDI are deployed and their contributions to the economy. It is evident from country experiences that some countries more than others have been able to utilize ODA to expand their productive capacity and develop economic specialization that generate employment opportunities and the potential for structural transformation. Lessons learned from such more productive utilization of ODA could be beneficial for other LDCs.

Botswana - Effective macroeconomic policy frameworks based on transparency

For ensuring macroeconomic stability, Botswana has relied on two main institutions: the Ministry of Finance and Development Planning and the central bank (Bank of Botswana). Jointly, they have been successful in ensuring that public expenditure remained fairly stable over time despite the ups and downs in national revenues and that the value of the national currency remained fairly steady and predictable. The success has been demonstrated during the 2008/9 global financial crisis, when diamond revenues dropped dramatically, but Botswana could draw on its accumulated reserves to cover its Government expenditures and maintaining relatively high ratings from international rating agencies (A2/A2 from Moody's and A-/A-2 from Standard and Poor).

The Ministry Finance and Development Planning, in particular the Development and Budget Division (DBD) and Economic and Financial Policy Division, have been able not only to formulate public expenditure and revenue strategies fully aligned with development objectives, but also to implement them. It also manages the vast range of public enterprises, taxes and levies (including recently a VAT) and aid inflows. Again, transparency has been an important element in ensuring effectiveness. This again demonstrates, as already noted above, the importance of development governance and effective bureaucracy.

The introduction of a national currency and the establishment of an independent central bank in 1975 benefited the country, showing that with appropriate governance structures, independent monetary policy can be successful even for small economies. The central bank has grown in institutional capacity over time, enabling it to replace administrative measures to control interest rates with modern instruments such as central bank certificates (as well as overnight lending rates) and assuming additional responsibility for financial regulation. This indicates that Botswana has developed a relatively more sophisticated financial market due to, no doubt, its large reserves, which give the country the creditworthiness needed to gain confidence among investors. Again, transparency appears to have been a contributor to the success. In this case, following orthodox macroeconomic policy recommendation such as liberalizing capital account has worked.

Botswana's policy towards mineral revenue collection and expenditure is another example of how transparency and accountability have enabled the country to translate earnings from natural resources into long-term benefits through human asset development. The approach adopted broadly follows the Solow-Hartwick sustainability rule where the depletion of natural resources is compensated by reinvestment of the recovered revenue in other forms of capital that generate income well after the mineral income has declined. In Botswana, the implementation of this asset-preservation principle has been monitored through the Sustainable Budget Index (SBI), defined as the ratio of non-investment spending to non-mineral revenues.[7] The SBI allows the Government to monitor the extent to which the revenues from liquidating mineral resources are used to fund current government expenditure. In this respect, therefore, the SBI represents a transparent fiscal policy practice for prudent management of the resource rent.

One important factor for the success of Botswana's budget policy that provides useful lessons for other LDCs has been that health and education spending has been treated as investment (and hence could be financed from natural resource revenues) rather than as consumption, in contrast to more orthodox approaches of the Solow-Hartwick rule and national accounts conventions. The flexible interpretation of the SBI (i.e., that it was not applied in case of exceptional large shocks) may also have been an important element. However, flexibility in budget rules is arguably only successful if it is embedded in a transparent and accountable policy framework such as Botswana's, as otherwise there is a risk that the rules are not even applied in the absence of extraordinary shocks. A third factor has been that

7 See, AfDB (2016). According to this report, "an SBI value of more than 1 means that non-investment spending is being financed in part from mineral (non-recurrent) revenues. A value of less than 1 means that mineral revenue is either being saved or spent on public investment while recurrent spending is being financed from non-mineral (recurrent) sources, which is interpreted as being sustainable. In calculating the SBI, the normal budget classification of expenditure is adjusted so that recurrent spending on education and health is classified as investment in human capital", p.11.

excess revenues caused by high diamond prices or sudden increases in production could be absorbed by the sovereign wealth fund (Pula fund) established in 1994, reducing incentives to overinvest in times of positive revenue shocks. Generally, the Pula fund shows that sovereign wealth funds can indeed play an important role in macroeconomic stabilization in resource-dependent developing countries, as long as they are backed by effective development governance structures.

Bhutan - Avoiding instabilities caused by extreme but predictable volatility

The experience of Bhutan shows that the very close integration with one large neighbour and trading partner combined with the nature of the dominant hydropower sector causes challenges for macroeconomic stability. The good news is that the country appears not be affected by Dutch disease effect, as the local currency is irrevocably pegged to the Indian Rupee and inputs (capital and labour) to the sector are mostly imported and do not significantly affect domestic prices. Moreover, as noted above, the development governance structure limits other negative impacts of massive natural resource exploitation such as conflicts over rents or weakened incentives to develop alternative sectors. However, Bhutan faces challenges in maintaining monetary stability. The hydropower investments require massive imports from India and high demand for Indian rupees that generate export revenues (and hence inflows of rupees) once they the plants start operating. Consequently, the current account exhibits large swings, whereas the capital account is generally more stable and positive due to development aid in particular from India. In 2011/2012, for example, Bhutan faced a massive shortage of Rupees, forcing the Central Bank to liquidate reserves, to resort to short-term commercial borrowing and ultimately to impose additional capital control measures to maintain the peg. The current account deficit has actually widened further in recent years, but has been balanced by loans and higher capital transfers (both hydropower related) rather than by depleting reserves.

The experience provides useful lessons for many countries with non-synchronized import and export flows, particularly if swings are to a large extent predictable as in Bhutan. Maintaining high levels of international reserves remains a standard tool for many developing countries. Bhutan actually had ample reserves, with international reserves covering more than nine months of input even in the 2011/2012 financial year of the Rupee shortfall. However, less than 4 per cent of reserves were in Rupee, the currency (which is not fully convertible) actually needed for most transactions. After the crisis, the share of Rupees in reserves has increased and stood at 18 per cent in 2014/15. However, this ratio is still regarded as too low, so that the mismatch of reserve composition could become a problem again (IMF, 2016). This underscores that not only the amount of international reserves but also the composition matters.

The experience also shows the potential benefits of a stabilization fund that can serve as effective ex-ante sterilization mechanism of time-varying natural resource related flows (Rashid, 2012). Such fund could receive Rupee inflows of the Government of Bhutan and pay for necessary imports and interest on hydropower loans, without channelling these flows through the domestic banking system. Such a mechanism would also stabilize credit and money supply, though this might also reduce seigniorage as source of government revenue.

Cabo Verde - Remittances as part of the macroeconomic and financial policy framework

For Cabo Verde, which has a very large diaspora, remittances have been a stable and sizeable source of external financing (AfDB/AfDF, 2012). While remittances are mainly used for consumption, much of it goes actually into education and health of family members and could be considered investment in human capital. Moreover, there has been a slow trend towards investment, the main recipient sector being the construction and acquisition of homes and agricultural properties, restaurants, hotels and transportation (Tolentino et al., 2008).

Initially, remittances to Cabo Verde were driven exclusively by family connections. However, from the early days of independence, the Government of Cabo Verde has recognized that the mobilization of remittances for expanding productive capacity requires policy and institutional improvements, aimed at reinforcing both the "investment channel" and the impact of remittances on financial deepening. Consequently, gradually remittance inflows into Cabo Verde begun to be influenced by specific policy measures designed to engage the diaspora. In this respect, there are important lessons on the policies for mobilizing remittances and engaging the diaspora as source of investment, trade and knowledge that other LDCs, especially those with large diaspora population, can learn from Cabo Verde's experience.

Cabo Verde was, in fact, among the very few countries to act upon the potential of remittances and the diaspora, including through the establishment of a Ministry of Diaspora Affairs (AfDB/AfDF, 2012). The elevation of Diaspora-related affairs to the Ministerial level was an indication of the importance that the Government attached to the role of the Diaspora.in the country's economic development. More importantly, it helped the Government to establish a formal engagement with the Diaspora and also involve them in national policy making process. In subsequent years, a number of measures were introduced to encourage the flow of remittances through formal channels and to create the confidence and trust necessary for the Diaspora to have accounts, including saving accounts with competitive rate, in local banks (Rocha, 2013). Starting in the early 1980s, for example, the Government established a series of specific measures aimed at attracting remittances. These include Central Bank legislation that enable emigrants to have accounts in escudos or foreign currency, and benefit from favourable interest rates for savings accounts dedicated to construction, acquisition of real estate for housing or productive activities, or the establishment of industrial activities. Special accounts have also been implemented for returning retirees and physical presence in Cabo Verde is not required in order to open a bank account (Banco de Cabo Verde, 2011). All these measures enabled Cabo Verde to increase the size of foreign exchange available to the country, prevent balance of payment crisis and it allowed trade deficits to be financed. More importantly, it created an appropriate policy conditions for some of the diaspora investment to be directed to activities that facilitated the expansion of productive capacity. The Cabo Verde experiences in this respect provide valuable lessons for other LDCs with a large diaspora population but, still do not have elaborate diaspora and remittance-related policies.

Maldives - Attracting FDI

Not all LDCs, however, are in a position to tap Diaspora knowledge or supplement their foreign exchange and investment gaps from remittances. Countries like Maldives, another former LDC like Cabo Verde, had to rely on proactive fiscal and financial policies to mobilize external financing. As a small island economy with limited agricultural output and a small manufacturing base, Maldives capacity for merchandise exports is limited, but it relies heavily on imports for a wide range of both consumption goods and manufactured products, including the intermediate and capital goods needed for construction and infrastructure development. Therefore, fiscal consolidation by controlling the size of current account deficit and creating a macroeconomic policy framework, which is attractive to green-field FDI[8], especially to the two sectors where the country has comparative advantages, tourism and the fishery sectors, has been the main thrust of the Maldives' macroeconomic and financial policy agenda (Kundur, 2012). Its management of fiscal consolidation, including when the economy faced serious economic challenges following the 2004 Tsunami, and its success in graduating from the LDC category through economic specialization, including its management of post-graduation challenges, provide useful lessons for other LDCs, especially small economies that share similar structural impediments.

The economic growth that enabled Maldives to increase its income and accelerate its social development was largely achieved by a rapid and policy-driven structural transformation away from traditional and low productivity primary activities, such as fishery, to services, in particular tourism. Whereas economic policy initially was characterized by free market approach with only limited involvement of the Government, the State took a more active role since the late 1970s by adopting specific laws, institutions such as the national planning agency, regulations and sectoral plans. During the 1980s and 1990s, the Government spearheaded the development of the tourism sector by taking the following carefully sequenced policy measures. First, it invested heavily in tourism-related construction, transport

8 The Maldives provide attractive investment incentives, which include tax deductions on imports aimed at hotel construction; the right to own 100% for FDI higher than $5 million; permission to use foreign management, technical and even unskilled labour ; no restrictions on repatriation of earnings or profits, etc. See, "Why Invest in Maldives", an information note issues by the Government of Maldives on the range of incentives offered to foreign investors, http://www.maldiveshighcommission.org/business-maldives/why-invest-in-the-maldives.

and communications capacity. Public sector investments in these areas were financed partly from domestic resources but largely through mobilization of ODA and concessional loans. Second, in 1983, the Government issued the First Tourism Master Plan, which laid down in detail the Government's plans for sustainable and higher-quality tourism aimed at tourists from higher income countries, thereby targeting tourism-related services with higher value added. Accordingly, the Master Plan included regulations governing the quality of services and the facilities provided to tourists. In addition, the Plan set out a road map for integrating the tourism industry into the social and economic development of the country. This justified the State-led and strategic approach to tourism development strategy adopted by the Government. Third, very generous tax incentives and less cumbersome investment regulations were introduced aimed at attracting investment into the tourism sector, especially the development of special resorts by foreign investors with brand names, well-established marketing capacity and global knowledge of the industry. Fourth, despite the Government's stated objective of creating employment opportunities for locals, in recognition of the importance of the tourism industry, during the third phase of tourism development plan (1989-1997), flexible rules were introduced allowing skilled foreign workers to be hired in the tourism industry. The Government's intention was to keep immigration of foreign workers into tourism-related activities to less than 50% of the total employment. By the end of 2006, however, it was estimated that 11,095 of the 22,000 jobs in the industry were filled by foreign workers (Kundur, 2012).

In short, despite the persisting inequality, as noted above, the Maldives have demonstrated that its State-led and proactive macroeconomic and fiscal policy framework was critical for the emergence of the tourism sector as the main driver of the economy. Indeed, by 1985, tourism overtook fisheries as the largest economic sector and by 2013 its contribution had reached nearly 65 per cent of GDP. In short, Maldives' specialization in the tourism sector and its application of success in raising the contributions of the sector to the country's social and economic development through prudent macroeconomic and fiscal policies and State-driven, planned and pragmatic investment strategy could be exemplary for other small economies with similar sectoral comparative advantage.

Vanuatu - Mitigating lack of resources through proactive fiscal policies

Vanuatu is another country that has expanded its productive capacity and met the graduation criteria by pursuing a similar State-led but prudent macroeconomic and fiscal policy focused primarily on the development of the service sector, in particular tourism. In Vanuatu, like in Maldives, economic transformation was underpinned by a high rate of investment, particularly in tourism – in the form of FDI, aid and domestic public and private financing. The mobilisation of financial resources by the Government through proactive fiscal and financial policies has been an outstanding feature of Vanuatu's economic transformation; something which would otherwise be particularly difficult in such a tiny economy. It has been the attraction and usage of capital that has proved the lynchpin of economic development, not exposure to international prices or the liberalisation of the domestic economic environment, or following externally driven restrictive macroeconomic and fiscal policy.

Thus, as domestic savings are relatively low, FDI played a major role in transforming the Vanuatu economy. Of approximately $800 million of proposed FDI projects submitted from 2007 to 2012, some 85 per cent by value were in the services sector, notably in tourism services, retail, finance and construction. This compares with 8 per cent of proposed FDI flowing to manufacturing projects, and less than 5 per cent to agricultural projects. FDI in the tourism ector has brought with it associated entrepreneurial know-how, although it seems so far linkages with other sectors remain low.

Public investment has also contributed strongly to the development of productive capacity and economic transformation.[9] Tax revenues rose steadily from 2003 onwards, around the start of the economic upturn, reaching 27 per

9 Thus confirming Nicholas Kaldor's well-known 1963 statement that: "It is shortage of resources, and not inadequate incentives, which limits the pace of economic development. Indeed the importance of public revenue from the point of view of accelerated economic development could hardly be exaggerated."

cent of GDP in 2008 before falling for the next five years then increasing rapidly to over 31 per cent of GDP in 2015 following cyclone Pam. This is a high rate for an LDC, particularly one reliant on trade and consumer tax revenues. A total of seven major debt-financed infrastructure projects are planned from 2016-21, worth US$397 million, or around half of 2014 GDP (IMF, 2015).

Solomon Islands - Pitfalls of austerity

In this connection, the contrast between Vanuatu and Solomon Islands, another small Island economy in the Melanesian sub-region, is striking. The latter followed restrictive macroeconomic and fiscal policies, which slowed down the rate of economic growth and blocked the opportunities for expanding productive capacity and diversifying the economy away from dependence on logging. In fact, despite a higher saving rate, Solomon Islands experienced a lower and for many years declining investment share. In this respect, therefore, the passive, and at times restrictive, macroeconomic and fiscal policy framework pursued by Solomon Islands represent lessons that other LDCs should in most situations avoid.

Indeed, over the years, fiscal policy in Solomon Islands has progressively tightened. The Government budget was in surplus from 2009 onwards, recording large surpluses of 8.3 percent of GDP in 2010 and 6.4 percent of GDP in 2011. Public debt had declined to the very low level of 13.6 percent of GDP by 2015 according to the International Monetary Fund (IMF), one of the lowest rates in the world. This underscores that overly restrictive fiscal policy can be an important constraint to expanding productive capacity.

Vanuatu and Solomon Islands - Competition in the financial sector

In Vanuatu, although the savings rate is relatively low, financial intermediation has been high due partly to the relatively large size of the financial system. Vanuatu's status as tax heaven and off-shore financial centre helped to broaden the financial system leading to the establishment of four banks, three of which are foreign-owned branches and subsidiaries, and four insurance companies, two of which are local. Lending to indigenous borrowers, however, has tended to significantly lag that of expatriates, underscoring the point that improved financial intermediation does not necessarily improve financial inclusion. Interestingly, due to OECD transparency initiatives, the importance of the financial sector for economic output has declined over time, having shrunk from approximately 20 per cent of GDP at its height to around 5 per cent. However, the country appears to be benefiting now from infrastructure, human capital and networks and knowledge developed during its time as financial offshore center, as they facilitate now channeling financial resources into productive activities.

Solomon Islands, on the other hand, have a relatively poor financial services development with very limited competition. Overall, liquidity in Solomon Islands has been as high as or even higher than in Vanuatu, but in the Solomon Islands savings are not being converted into productive private investment.

5. Industrial and sectoral policies

The evidence from countries that have graduated and graduating through investments in human assets and economic specialization suggest that while all of them have applied some form of industrial and sectoral policies to kick-start the growth and transformation process, the thrust, scope and depth of the policies utilized vary between countries and areas of specialization. For example, economic diversification to reduce the excessive dependence on primary products, in particular diamonds, has been the main thrust of industrial policy in Botswana; while for other countries like Maldives, Cabo Verde, Vanuatu and Samoa, the industrial policy focus has been on intensive exploitation of the sector where their current comparative advantage lies, which is tourism. Similarly, for countries where the role of the diaspora is considered critical for the development of home country, for example, Cabo Verde, more emphasis is given in the design of the industrial policy framework to incentives and regulations aimed specifically at attracting diaspora investment and their direct engagement in knowledge-transfer.

The nature and method of implementation of industrial policies seem also to vary depending on the institutional capacity of the country and the degree of importance attached to the role of the State. For example, Vanuatu's tourism-driven growth and transformation was achieved largely through 'soft industrial policies', consisting of market-based policy reforms, creating a liberal regulatory environment, the provision of basic infrastructure necessary for tourism-related investment, generous incentives aimed at attracting foreign investment into the sector and the mobilization of donor support, including for the development of the tourism sector. On the other hand, other countries like Maldives and Cabo Verde have opted to apply bold and direct policies involving active state engagement through strategic planning, public investment in tourism-related construction and infrastructure development and the formulation of sector-specific industrial policy.

In short, the country experiences of graduated and graduating countries reconfirm that there is no 'one-size-fits-all' approach to the industrial and sectoral policies applied to promote growth and economic specialization. The country experiences discussed below presents the different policy approach and the lessons thereof for other LDCs.

Botswana

Economic diversification is generally an arduous and long-term process, in particular small, structurally weak, primary sector-dependent and landlocked economies like Botswana. Ever since independence, Botswana has struggled with economic diversification, including through industrial policies designed to stimulate diversification into the manufacturing sector. Unfortunately, progress has been limited, although from the evidence, it is clear that it was not due to policy neglect. Since the 1980s, there have been concerted efforts to induce economic diversification through a variety of policy measures, including reducing the role of the State in production, stimulating private sector investment and targeting non-mining economic growth.

In 2001, Botswana established a privatization agency to reduce the dominance of the state sector and drive the reform and privatization of parastatal enterprises, which accounted for 5% of GDP at the time. However, progress has been slow. From seven enterprises identified as being ready for privatization in 2005, only the telecom company has been partially privatized. It seems, therefore, in Botswana the State is still dominant and directly involved in production processes. After eighteen years of public discussions with the private sector and a clear awareness of its stifling role as a monopolistic entrepreneur across practically all areas of production and service delivery, the state continues to retain a huge number of parastatals whose inefficiencies would have been more apparent had it not been for the support provided by the state using the generous rents from diamond revenues. In this regard, the blessing of high Government revenues may have reduced the incentive to privatise in cases of political resistance, which in Botswana typically originates within the Government.

The outsourcing of the pension fund from the regular budget to the private Botswana Public Officers Pension Fund was a policy decision which had some positive impact on structural transformation, as it led to the rapid development of the non-banking financial sector. However, the sector itself remains small and while shifting employment away from the Government, it has not made any significant dent on overall employment and further diversification of the economy into other sectors. An exception has been the property development sector, mainly focusing on upmarket office buildings and medium to large shopping malls. Generally, the private sector has managed to provide higher quality infrastructure than the public sector before privatization, mainly due to better planning and management practices (Gubago, 2011).

By and large Botswana's economic diversification strategy was premised on overcoming the constraints of the small domestic market by focusing on an export led manufacturing capacity. Unfortunately, this plan has not materialized either despite special incentives in the form of tax concessions and subsidies (Jefferis and Nemaorani, 2014). A key constraint appears to be, as already noted, the mismatch in the labour market. Despite the enormous success in education, businesses are persistently constrained by lack of skilled labour. Hence, Botswana appears to be faced with the contradiction of having an educated but unskilled workforce. Therefore, the country often relies on neighbouring countries like Zimbabwe to provide its industry with requisite skills while young Batswana endure high rates of unemployment.

Like most African countries, Botswana's economy is overwhelmingly dependent on its natural resources and like many of them, the natural environment, in particular scarcity of water and poor quality of soils, is a real threat to overcome through national and sectoral industrial policies and other mitigation-related measures. Since the 1980s, Botswana has developed and implemented a series of national policies and strategies on environmental issues.[10] However, Botswana's initial efforts assigned the responsibility for environmental issues to a single ministry, and it was obvious that it lacked an integrative approach, which is needed for effective implementation of policies towards sustainable development. Consequently, and in recognition of the need for integrated approach, Botswana prepared a new draft on national sustainable development framework in 2015, building on past experience and to change the direction of policies towards a more inclusive and integrated sustainable development pathway (Selolwane et al, 2015; UNDP 2016).

Whereas it is apparent that Botswana has pursued industrial policies to promote economic diversification, the evidence indicates that to date these efforts did not have much impact on the diversification of the economy. There is no doubt, however, that the policy efforts along with large investment in human asset development have contributed to the expansion of productive capacity, which, in the long-term, would enable the country to diversify its economy and achieve sustainable development. Moreover, the diversification into then non-bank financial sectors as well as into property development showed that policy measures did have positive effects, though they had only limited impact on employment. Overall, the challenges to economic diversification for a small landlocked economy such as Botswana that is located in an economically less dynamic region in the World and relatively abundant with rent providing natural resources need to be acknowledged.

Cabo Verde

Cabo Verde is another small economy, which found entry into the manufacturing sector difficult. There had been some garment and footwear sector activities, but the sector ceased to be competitive after the Multi Fibre Arrangement with its quota system was phased out in 2004, despite being eligible for duty free quota free treatment in major markets. In recent years, the growth of the small manufacturing sector has decelerated, which is typically explained with the economic slowdown in the European Union, the main export market of Cabo Verde, and other major economies (Cortez et al. 2014). Instead, the focus of industrial and sectoral policies in Cabo Verde has been on attracting investment, including diaspora investment, into the tourism sector. In addition to the financial and fiscal policies applied to facilitate financial inflows through remittances (discussed in section 3 above), Cabo Verde also introduced a number of industrial policy measures to encourage Diaspora investment in productive capacity, to tap competencies, skills and knowledge of the international market by the diaspora and to entice skilled diasporas with external savings to return and engage in the transformation and sustainable development of the country.

During the 2000s, for example, some concrete policy measures were introduced in stages to tap into competencies and knowledge within the diaspora. These include, in the first stage, the introduction of two programs, DIAS de Cabo Verde and Diaspora Contributo, which were financed by Portugal, Spain and the EU and executed in partnership with local institutions and the International Organization for Migration. The former mapped competency development needs and identified competencies within the diaspora, and the latter financed travel for members of the diaspora to conduct short capacity building activities in sectors such as health, education, infrastructure and tourism to individuals and institutions.[11]

---

10 These include the Wildlife Conservation Policy (1986), the National Conservation Strategy (1990), Botswana National Water Master Plan (1992), National Policy on Disaster Management (1996), Botswana Waste Management Strategy (1998), the Community Based Natural Resource Management Policy (2007), Botswana Energy Master Plan (2008), and the Environmental Assessment Act of 2011.

11 http://www.diasporacontributo.com.cv/index.php?paginas=37

Building on these programmes, greater efforts were made to attract diaspora investment into Cabo Verde and facilitate the permanent return of emigrants. Customs tax exemptions and other concrete support were given to returnees, through the Agency for Entrepreneurial Development and Innovation (ADEI), to enable returnees to develop business plans, acquire relevant skills before returning, facilitate contacts with banks in order to obtain credit and obtain access to tax exemptions for investment. In addition, the 2013 law reforms revised the incentive structure for private investment and eliminated many restrictions against foreign investors. Access to treasury bonds has also been facilitated (Léonard and Rodrigues, 2015). Other measures that have helped maintain attachment of the diaspora to the home country include access to bureaucratic procedures and issuance of documents through an online system and the right for residents abroad to vote in Presidential and legislative elections. In 2014, the government proposed a National Strategy on Emigration and Development (ENED) that includes measures to prepare for emigration, strengthen and foster integration into Cabo Verdean communities abroad, enhance knowledge on migration patterns, strengthen links to and dialogues with the diaspora, facilitate remittances, encourage investment, mobilize diaspora competencies and assist in return and reintegration (Ministério das Cidades de Cabo Verde, 2014).

These are all horizontal and vertical (or targeted) industrial policy measures aimed at facilitating the involvement of the diaspora, both through physical presence and through investment, in productive capacity building and, technological development of the country. The important lesson for other LDCs is that the benefits that the diaspora generates for the home country is not confined to financial flows through remittances only, as often assumed, but also the potential of the diaspora as sources of knowledge, skills, management know-how, trade network and reliable source of investment in productive sectors.

Maldives

Industrial and sectoral policies were also critical for the rapid development of the tourism sector in Maldives, which is now the main driver of growth and structural transformation. As already discussed in section 3 above, strategic and carefully planned macroeconomic and fiscal policies set the stage for the emergence of the tourism sector as key economic activity. In addition, however, Maldives also designed industrial policies aimed at the tourism sector, including targeted import tariff reductions, loan guarantees, developing training facilities and public investment into transportation infrastructure (Government of the Maldives, 2016). But, another sector where intervention through industrial policies has resulted in some success, though not to the same extent as tourism, is the fishing industry. Indeed, the potential impact of graduation on the fishing industry (mainly tuna) has been a major concern for the Maldives. Having developed into an important and potentially dynamic industry in the pre-graduation period, the share of in total value added has been shrinking, although it still remains important in terms of employment, accounting for 11 per cent of total employment in 2009 (FAO, 2009).

Fisheries are particularly important in outer atoll regions, where an estimated 65 per cent of the population depends on fisheries. As the margin of preference for fisheries is high and Maldives is not a beneficiary of other trading arrangements in major markets (with the exception in South Asia), there were fears of significant negative impacts of graduation (see, e.g., UNCTAD, 2003, and Campling, 2015). After a three-year transition period, the country lost duty-free quota-free access on 1 January 2014 in the European Union as well as in China, after having lost preferences in Japan already in 2011. Moreover, in 2015 the Maldives lost access to the General System of Preference tariff rates in the EU due to its upper middle income status, further increasing the tariffs.[12] Despite the initial fears, production and exports to Japan and the European Union have been relatively stable, indicating that negative impacts have been limited (CDP 2014, 2015; Government of Maldives, 2016).

According to the Government, the continuing strength of the fishing industry even after the loss of duty free market access is attributed to industrial policies, in particular export promotion activities by the Government and the private sector that enabled the country to enter new markets and to position Maldives fish as a niche premium product (for

12 Tariffs for fresh-chilled fish fillets increased further from 14.5 to 15 per cent, for frozen fillets from 14.5 to 18 per cent, and for prepared (loined or canned) from 20.5 to 24 per cent (Campling, 2015).

example through Marine Stewardship Council certification). The Maldives experience reveals an important policy lesson. It implies that loss of preferences after graduation may not necessarily have a negative effect, which is often the fear of graduating countries, provided the country continues with the strategic intervention based on industrial policies. To the contrary, and according to the Maldives' experience with the fishing industry, it might even have a positive effect on product innovation and moving towards higher value-added activities.

Bhutan

This is encouraging news for a graduating country like Bhutan, which has embarked on economic diversification programme through targeted industrial and sectoral policies in the hope that it reduces the country's excessive dependence on a single sector, energy and export of a single product, electricity. Hydropower is very capital intensive industry, which is the main reason for Bhutan's very high and volatile share of investment in GDP. In 2011 and 2012, its share of investment in GDP was the highest in the World and in 2014 it is still the sixth largest. The massive investments also explain the high and volatile share of construction in GDP. Hydropower projects also have only limited employment effects. For example, three of the currently operating five plants employ together only 1400 persons. While almost 95 per cent of the employees are Bhutanese, very few are from affected communities (Vasudha-Foundation, 2016). Whereas construction generates huge employment, most construction is undertaken by Indian companies with Indian workers. This shows the limited upstream linkages of hydropower projects in Bhutan.

Bhutan, however, has been more successful in harnessing downstream linkages. The country has an established sector of basic manufacturing of ferroalloys, which is electricity intensive and requires locally available ores. Ferroalloys, ferrous-silicone, calcium carbide, manganese and silicon carbide together have in recent years comprised half of exports (the destination being India) and over a tenth of GDP, although the contribution is declining as a result of a fall in world prices. Industrial activities are concentrated in two industrial estates, Pasakha and Phuentsholing on the Indian border.

ICT service is another nascent sector that the Government of Bhutan has targeted as a potential area for economic diversification. At present, ICT services constitute a small but growing part of economic activity. Thimphu Techpark, launched in 2012, and located near the capital Thimphu, houses 11 foreign companies specializing in telecoms, business process outsourcing and online data.

Bhutan is also benefiting from tourism, taking advantage of its history, landscape and largely unspoiled nature. Again, a notable characteristic of tourism development in Bhutan is the alignment with its natural vision. To minimize negative environmental and cultural impacts associated with mass tourism, the country decided to limit tourism by imposing charges ($200 per day. $250 in the high season), that offset the potential risk to the environment. This sectoral policy for sustainable development of tourism did not limit or discouraged the number of tourists. In fact, tourism arrivals rose to 155,121 in 2015, with total spending estimated at $71 million, approximately 4 per cent of GDP. The important lesson from Bhutan's approach to tourism sector development is that 'soft industrial policies' can be as effective as the traditional 'hard' policies that countries typically use to promote sectoral development or to kick-start investment in productive activities.

Vanuatu

The 'soft' industrial policy option was also effective in the development of the tourism sector in Vanuatu. When the 'hard' import-substitution industrial policy implemented during the 1980s and 1990s fell short of its objectives, the Government began to mobilize donor support and foreign investment to develop the institutional and infrastructure-related conditions necessary to attract further investment into the tourism sector. In effect, the lack of domestic resources and institutional capacity did not prevent Vanuatu from promoting economic specialization. In the face of resource constraints, the State opted for the next best policy option, which is to act as a facilitator and mobilizer of investment and external support into a priority sector in the economy. This contrasts with the passive approach to industrial and sectoral policies following by Vanuatu's neighbour, Solomon Islands, which has a large and profitable supply of natural tropical hardwood and a great potential for economic diversification through backward and forward linkages but has so far failed to exploit its comparative advantage to the full.

Solomon Islands

Lessons from the Solomon Islands largely point to the risks of the resource curse and reinforce the message that resource endowment by itself is not a sufficient condition for promoting growth and structural transformation. Policies matter but planned and targeted industrial and sectoral policies, be it 'soft' or 'hard', matter even more for promoting economic specialization. Logging comprises 60 percent of Solomon Island exports, 15 percent of government revenue and 32 percent of foreign exchange earnings, and employs more people than any other industry. Solomon Islands are also mineral- and fisheries-rich, unlike Vanuatu. During the 2000s, when Vanuatu was experiencing a tourism boom, trade in Solomon Islands became even less diversified both by sector and destination, signalling high and increasing export concentration, largely a result of China's increasing demand for wood.

Taxes on log exports (currently 2.5 percent) remain reliable fiscal revenue for the Government, independent of direct and indirect taxes on citizens. Rather than reform and diversify, it was easier for the Government to persist with a readily available fiscal revenue stream. In addition, allegations of a lack of transparency, illegality, abuse and a lack of environmental controls have long surrounded the industry. As already alluded, backward and forward linkages remain minimal, and most logs are exported unprocessed. Weak political accountability meant that government funds were often misspent or misappropriated rather than used to build infrastructure or to invest in the productive sectors. These observations indicate that the impact of natural resource revenues on governance may be more detrimental than the impact of logging on competitiveness of alternative sectors transmitted through prices. Moreover, there have been reports of the exploitation of women and girls on logging camps. According to the Pacific Islands Millennium Development Goals (MDG) progress report: "Environmental degradation [is a] very significant problem due to rapidly accelerating land use, logging and the effects of global environmental change on seascapes and terrestrial landscapes. Logging activities [are] unsustainable, [and] cause siltation problems for reefs in coastal areas downstream of them." In effect, natural forest resources are now close to exhaustion after being logged almost unchecked since independence. Some estimates suggest that logging will cease entirely within the next 5-10 years. This highlights that unsustainable resource use undermines not only the environment, but ultimately also economic growth.

6. International support measures

In general, ODA has played an indispensable role in the development process of the four graduated countries and those that have made progress towards graduation through economic specialization and investment in human assets, even though it is doubtful whether the amount of ODA received by these countries was because of their LDC status. Trade-related ISMs have also benefited some them, although the scale and rate of utilization has been significantly less than countries that are making progress towards graduation through economic diversification and sustainable structural transformation (pathway III). Among the graduated countries, Maldives has benefited greatly from trade-related ISMs in developing the fisheries sector, including through effective use of preferential access to the European Union and Japanese markets. Indeed, interestingly, even after graduation and the end of smooth transition period, the country has been able to sustain exports in fishery products. Solomon Islands also utilizes trade preferences for canned tuna as well as for vegetable oils.

However, given their small size and limited resources, the role of ODA, which is a non-debt creating development finance, has been critical in spearheading the initial investment needed to kick-start growth and development process. In fact, one can even argue that it would have been difficult for many of the graduated and graduating countries to achieve progress towards graduation if it was not for the consistent development financing provided through ODA. All four graduated countries had relatively large ODA receipts per capita, averaging $163 in Maldives, $181 in Botswana, $387 in Cabo Verde and $437 in Samoa (at 2013 prices) in the decade prior to their graduation. What is interesting, however, is not the size of ODA received but the policies that these countries applied to manage ODA and to ensure that it contributes towards productive capacity abuilding and the process of economic specialization and structural transformation.

An important lesson for other LDCs is the manner in which the Governments of all graduated countries have managed donor support and how ODA has been utilized within the respective countries. They all adopted proactive policies towards ODA, highlighting country ownership in the coordination of donor support and ensuring that the development finance provided through ODA is in line with the country's national development objectives and planning process. In Botswana, for example, donor support was integrated into the national planning and budgetary cycle, so that donor supported projects could not be initiated unless provision has been made for their recurrent cost and they are targeted at priority areas (Mogae, 2016). Samoa, likewise, had a reputation for effective coordination and ODA. The Government takes the lead in identifying priority areas and the need for projects and then seeks donor assistance accordingly. The Government is known to reject donor support if the proposed projects do not match the national priorities. This instilled a much stronger sense of ownership of aid-funded activities (Delay, 2005).

In Cabo Verde, too, ODA played a major role in the development of the tourism sector, at least up to graduation. It also helped to finance major investments in economic and social infrastructure. Before graduation, thanks to support through ODA, Cabo Verde's infrastructure spending was among the highest in Africa at around 15 per cent of gross domestic product (GDP) (Briceño-Garmendia et al., 2011).

Vanuatu and the Solomon Islands provide an insightful contrast with regard to the use of official development assistance. Both countries receive high amounts of ODA compared to their size, with Vanuatu receiving $380 per capita in 2014 and Solomon Islands $ 347. However, in Solomon Islands ODA was not used primarily for investment purposes or for the development of productive capacity. Tourism, one of the most promising areas for economic development, has received only a negligible share of Aid for Trade, and less than mining, which tends to receive large sums of incoming foreign investment. Energy appears to have received limited investment despite the continued problem of black-outs and high electricity prices. Of the A$2.6 billion in expenditure under the Regional Assistance to the Solomon Islands (RAMSI) in the decade following the Tensions, A$2.2 billion was spent on law and order, ten times the outlays on economic development. In fact, the RAMSI expenditures could have met every Solomon Islanders' basic needs during the decade (officially calculated as 5900 Solomon dollars per capita per year, or approximately $760).

To the contrary, grant-funded infrastructure investments have proven particularly successful in Vanuatu, including the $65 million US Millennium Challenge Corporation completed in 2011 which financed the rehabilitation and sealing of the two most important roads in the country as well as supporting the Department of Public Works. These infrastructure projects have not only facilitated a variety of economic activities but in themselves supported demand during economic volatility, such as during the global financial crisis from 2008 onwards.

In international trade policy, the trade-off between the resources and time spent negotiating for market access and the actual long-term benefit from trade needs to considered carefully. This point is illustrated by Vanuatu's trade policy and the resources and efforts that the country has devoted to trade negotiations. Vanuatu has been urged to liberalize its trade policy regime since the late 1990s, which ultimately led to Vanuatu joining the World Trade Organisation in 2011. Crucially, however, neither external nor internal market access for either goods or services were the primary obstacles to Vanuatu's trade growth. The main challenges lay on the side of supply rather than demand, including the many well-document barriers to business – smallness, fragmentation, access and security of land tenure, the high domestic cost structure, standards, infrastructure and financing. Access to the major markets, Australia and New Zealand for the principal goods and services exports other than labour has long been very open. Inward access for other imports is often generally unregulated and liberal, as might be expected in a small, relatively young economy. The large number of bilateral and regional agreements in existence or under negotiation has thus proved of relatively lesser consequence alongside bigger structural changes at the global and domestic level. This suggests that for other countries of a similar size and with similar characteristics, comparatively more emphasis might be placed on fostering the ingredients of sustainable productive capacity – human assets, physical assets and linkages – than on domestic or international liberalisation; or at least that trade liberalisation should be assessed in part on the basis of its impact on productive capacity. An important lesson is that given the limited pool of human resources, the considerable time that negotiations take, the and travel costs, it is essential that the emphasis devoted to trade negotiations do not detract from efforts to raise productive capacity.

C. Pathway III: Graduation through economic diversification, structural transformation and the development of human capital (Bangladesh, Ethiopia and Rwanda)

1. Introduction

The three countries considered in this section are among the twenty-six developing countries that the United Nations General Assembly identified as least developed when the LDC category was established in 1971. There are at least five features that distinguish them from those considered under graduation Pathways I and II above.

First, they are not resource-rich countries like Angola and Equatorial Guinea and, therefore, the potential for rapid income growth through exploitation of natural resources is limited.

Second, they are not as small as the countries that have already graduated or are graduating through economic specialization and investment in human assets. The population of the latter group of countries range from 250,000 to 3 million, while Bangladesh is the largest LDC with a population of 140 million, Ethiopia 90 million and Rwanda 12 million.

Third, as will be discussed below, the experience of all three countries include periods of armed conflict, whereas in Pathway II only one country (Solomon Islands) was affected by armed conflict, not coincidentally the country farthest away from graduation among those considered in the previous sub-section.

Fourth and strongly influenced by the three previous features, none of the three countries considered here has yet met the graduation criteria, even though Bangladesh appears on track to meet the criteria for the first time in 2018. Moreover, whereas all countries even after graduation maintained elevated vulnerability to economic and environmental shocks, Bangladesh and Ethiopia have a relatively low EVI score.

Finally, the three countries considered in this Section are agrarian-based economies with a significant proportion of their population (in the case of Ethiopia nearly 80%, Rwanda 71% and Bangladesh 65.7%) living in rural areas, often working and earning income from subsistence agriculture and other related economic activities. The predominance of rural economy and dependence on economic growth driven by subsistence-based agriculture means that the process of expanding productive capacity and registering rapid progress towards graduation will be more challenging for these countries than for more urbanized LDCs. This is because in LDCs the shortfalls in human and economic development are much greater in rural than urban areas. According to a recent study of rural economic transformation in LDCs, for example, "Typically, rural people in LDCs are 50 per cent more likely than their urban counterparts not to have access to sanitation or to attend secondary school, twice as likely not to have access to electricity or to attend primary school, and more than four times as likely not to have access to clean water. Achieving the SDGs would […] require a quantum leap in infrastructure investment in rural areas of LDCs" (UNCTAD, 2015, p.23).

Understandably, and in line with CDP framework for building productive capacity, the starting point for expanding productive capacity, boosting investment and promoting economic diversification in the case of Bangladesh, Ethiopia and Rwanda has been agriculture and the transformation of the rural economy. Upon independence in 1971, for example, Bangladesh was an agriculture-based economy and was seen as a "test case of development" (Faaland and Parkinson, 1976). At the time, the civil war that led to its independence, its widespread poverty and illiteracy as well as overcrowding and high population growth were seen as almost intractable development constraints. Against these odds, however, Bangladesh can be seen as a development success. Over the last three decades, the country has experienced increasing rates of growth and a gradual transformation from agriculture to manufacturing and services. Whereas growth was initially driven by an increase in agricultural productivity associated with the Green Revolution, since the 1990s, remittances and production of garments have become the main drivers of economic growth (Cornia and Scognomilla, 2016.)

In the last decade, a similar pattern of development has also been observed in the most populous but land-locked LDC in Africa, Ethiopia. Despite a history of nearly two decades of civil war that ended in the early 1990s and episodes of drought, Ethiopia has achieved remarkable GDP growth rates of more than 10 per cent per year for over a decade, the fourth highest in the world (behind three oil and gas exporting countries) and the highest among LDCs. Moreover, economic growth has been remarkably inclusive.[13] Ethiopia's growth was driven largely by a development vision that focused on rapid improvement in agricultural productivity, substantial public investment in infrastructure and the development of productive capacity. A remarkable characteristic of Ethiopia's' development experience has been its ownership of the process of development, its distinctive blend of State-led planning with a market-based economic system, and its success in making growth as inclusive as possible. (Zhu, 2006)

Another country that has followed a similar pattern of development is Rwanda, and once more despite a recent history of a civil war and genocide in 1994 which eliminated a significant proportion of its population. Rwanda's economy has been growing strongly with relatively low volatility, surpassing the target of seven per cent GDP growth in 15 out of 20 years since 1995. Like Ethiopia, Rwanda has chosen to follow the structural transformation pathway to expanding productive capacity focusing on agriculture as the engine for economic growth and supported by a number of complementary industrial and human capital development policy measures. Agriculture also continues to be the major employer absorbing more than 70% of the total workforce and supporting incomes, consumption and livelihoods of more than half of all households, and even higher shares among the poor (NISR 2013).

2. Development governance

Bangladesh

It is evident that the political turmoil that dominated the recent history of these three countries had a profound impact on the type of governance structure that evolved in these countries over the last two to three decades. In Bangladesh, for example, the liberation war that led to the creation of an independent Bangladeshi State in the early 1970s was fought to remove an 'administrative regional State' that brought very little progress to the region in terms of poverty reduction, employment generation, rural development and economic diversification (Islam, 1984). The new generation Bengalis who waged the civil war against the central Government sought to create an independent State that would transform Bangladesh into a modern and industrialized economy. What emerged after independence, according to one author, was an "intermediate State" controlled by "political elites" consisting of middle-class professionals, intellectuals and business people, closely allied with rich farmers who "dominate rural politics". The vision of this new political class was to pursue a state-led and "socially desirable" development strategy that promoted private sector investment while maintaining the role of the State in the development of productive capacity and the implementation of policies for enhancing positive synergy between economic progress and social outcomes (Islam, 1985).

In rural areas, the government recognized from the start that rural sector development was constrained by "limited physical access to markets" and "processing", which are also critical factors for the development of broader inter-sectoral linkages. It also recognized that the market system in Bangladesh was not developed enough to serve as an effective channel for the agricultural surplus into productive investment. Therefore, the State had to "step in" through

13 As per World Bank estimates, the Gini coefficient of consumption expenditures was 33.2 in 2010 and has risen only slightly (from 30) since 1999.

measures such as setting "a suitable price for agricultural produce, a price policy for principal inputs, and a policy of direct taxation on agriculture which does not destroy farmers' incentives to produce, as well as fiscal and monetary policies that are conducive to private investment" (UNCTAD, 2010, p.117). This led to a rapid growth of both agricultural productivity and food production. The latter was essential for food security and maintaining competitiveness by keeping the price of wage goods low. More importantly, however, improvement in agricultural productivity had the ripple effect of expanding the non-farm rural economic activities. This demonstrates that in Bangladesh the state led rural development policy has been effective in expanding productive capacity and kick starting the process of rural economic transformation.

Similarly, when the Government of Bangladesh decided to diversify into the manufacturing sector, particularly the production of ready-made garments, the approach taken by the Government to solve some of the initial constraints faced by firms in the sector was similar to those often described as typical strategies pursued by 'developmental States' in East Asia. The first act of the government was to conduct an in-depth dialogue with entrepreneurs in the sector to understand their basic constraints and also to identify market failures in the allocation of resources. Then specific measures were introduced to address the most important constraints, in particular investment funds, skills, land, trade rules, energy supply and transport network. In short, therefore, although there are fundamental differences between the developmental States of East Asian economies and the State in Bangladesh, from the available evidence it is clear that the country's development-focused governance structure has been a major factor in the transforming the country into the third largest exporter of ready-made garments in the world. Obviously, as shown below, the trade-related ISMs were instrumental in this success but the fact that a large proportion of Bangladesh's export in garments goes to countries where Bangladesh has no trade preference privilege also signals the country's success in developing international competitiveness.

There are indeed many concrete lessons for many other LDCs from Bangladesh's accomplishment in rural development and diversification into the manufacturing sector. In fact, Ethiopia and Rwanda are two of the many agrarian-based LDCs where the Bangladesh experience is directly relevant.

Ethiopia

Like Bangladesh, Ethiopia emerged from political strife and civil war, determined to pursue a development vision that reflected the distinctive history and characteristics of the country, in particular the dominance of agriculture, low-level of urbanization, high poverty and low levels of education. In many ways, this characterization of the Ethiopian situation in 1991 is not different from the economic and social predicament that Rwanda was facing soon after the genocide in 1994. Like Ethiopia, agriculture was the dominant sector and the country suffered from high levels of poverty, low levels of education and serious shortage of skilled manpower. Like Ethiopia, Rwanda adopted a development vision that emphasized the primary importance of improvements in agricultural productivity and food production, and the need to diversify to other more dynamic sectors such as services and manufacturing. In fact, the system of development governance developed by both Ethiopia and Rwanda since the early 1990s have so many similar features that for the purposes of identifying lessons, a description of the governance structure in one country will be sufficient.

The development vision of shared growth and reduction of poverty formulated by Ethiopia since the early 1990s concentrated on increases in productivity in agriculture, the development of physical infrastructure and investments in resource-based manufacturing. Rising productivity was expected to increase the demand for industrial investment in the production of goods suitable for the country's level of per capita income. This in turn was expected to pave the way for reallocation of labour from agriculture to industry and services. It was understood that to be successful, both processes required significant investment in education and health.

To materialize this vision, in 1993 the Government formulated a long-term economic development strategy focused on the promotion of agricultural-led industrialization (ADLI) aimed primarily at "bringing about a structural transformation in the productivity of the peasant agriculture and to streamline and reconstruct the manufacturing sector, so that it makes extensive use of the country's natural resources and manpower" (Yusful, 2014, p. 9). ADLI emphasizes small farm[14] agricultural growth to stimulate growth in other sectors of the economy, most notably industry. In a second phase, and in order to accelerate structural transformation, the government adopted in 2010/11 a five-year Growth and Transformation Plan (GTP1) that contained massive industrial and infrastructure projects, improvements in social and human development, and improvement in national governance and democracy. The subsequent five-year Growth and Transformation Plan from 2015 (GTP2) aimed at improving the productive and competitive capacity in the manufacturing sector and providing support to new and emerging sectors.

Ethiopia's governance approach can clearly be described as State led and developmental. Given the country's impressive growth performance in recent years and its success in reducing poverty and diversifying its economic and export structure, it is important to identify some of the central features of the Ethiopian 'developmental State' model as they are likely to provide lessons for other LDCs that wish to follow a similar pattern of growth and structural transformation.

An important feature of the Ethiopian development governance model has been the emphasis given to integrated and coordinated participation of the public at large in the formulation of the national development strategy and the pivotal contributions of the private sector (Vaughan and Gebremichael). Public consultations featured prominently in the preparation of the two GTPs, based on the belief that successful implementation of economic development strategy needs the support of citizens[15]. Strong political leadership is provided by the Ethiopian People's Revolutionary Democratic Front (EPRDF), which has governed the country since the fall of the military regime in 1991.[16] Since then, Ethiopia has developed a strong bureaucracy, by putting strong emphasis on the development of human capital and competent governance capabilities[17] (National Planning Commission, 2016). Another interesting feature of development governance in Ethiopia has been the emphasis given to continuous policy learning and refinement of policies based on what worked and what did not (for example, the preparation of GTP2 involved nearly one year of consultations across the country and with key players in the economy, in particular farmers and other producers from the rural sector, the formal private sector, labour representatives and academics). Consistent with this approach, over the last 25 years, institutional arrangements in Ethiopia have also been adapted to changes in the national and global economic environment. For example, whereas institutions relevant for building manufacturing capacities were not a priority in GTP1,

14 Christiansen, et al (2010, p.17) report that "sectoral variations in the poverty-reducing effects of growth are likely to arise from differences in asset inequality, particularly the distribution of land". Bourguignon and Morrison (1998) find that the larger the share of land cultivated by small and medium farmers, the lower the observed income inequality and thus the greater the impact of growth on poverty. Emerging evidence from country studies supports this, see, e.g., Ravallion and Chen (2007), Ravallion and Datt 1996) and Dorosh, Niaza and Nazli (2003).

15 As stated by the Planning Commission (2016): »The determining actors and forces of executing the GTPs are also the citizens. Hence in addition to building the implementation capacity of the government sector, extensive capacity building programs of the public at large were conducted during the planning period. Accordingly, wide ranging public consultations were conducted continuously throughout the planning period on themes related to the country's long and medium-term vision, government policies and strategies, and other agendas with the objective of nurturing and consolidating motivation and commitment among all section of the public for long-term development and transformation of Ethiopia".

16 Since the mid-1990s, there have been at least five national elections and all of them have been won by EPRDF giving the country political stability and continuity in national development vision and strategy.

17 During the GTP1 period, as part of strengthening the implementation capacity of the civil service and justice sector, 3,955 (2,890 males and 1065 females) in BA degree, 4,885 (4,171 males and 714 females) in MA degree, and 24 civil servants in PhD degree were trained and graduated from the Ethiopian Civil Service University. In addition, more than 800 professionals graduated with master's degrees in urban planning, tax administration, federalism, leadership and good governance and were deployed to strengthen some key civil service institutions. To build the capacity of the federal, regional and local level parliamentarians in all regional states and municipal management bodies, a series of training programs were conducted to enhance the overall competence, knowledge and skills. In addition, in order to strengthen the civil services' organizational structure with young professionals, new university graduates were recruited and short induction trainings were conducted for those professionals (National Planning Commission, 2016).

the GTP2 envisages the deepening of the existing institutional setup to accelerate industrial development in line with the focus of the GTP2 objectives. Sector specific institutions have been established to provide financial and technical support and extension services to firms in respective sectors. In this respect, therefore, institutional arrangements in Ethiopia have been the result of development not the cause of development, another useful lesson for other LDCs.

3. Social policy

Bangladesh

As already mentioned above, Bangladesh has made impressive progress in expanding its human assets. Indeed, the bulk of the rapid improvement in human assets occurred before the acceleration in economic growth, which suggests that rising national income was not the main factor behind the notable progress in HAI. In this regard, the Bangladesh experience confirms the view that 'social policies' come first, rather than taken as objectives to be addressed after income growth and structural transformation. However, a remarkable feature in Bangladesh is that neither external aid nor budget prioritization appear to be the crucial factors in the development of the country's human assets. (Asadullah et al., 2014). In fact, Bangladesh made more progress than other South Asian countries, despite spending fewer resources. The explanation for Bangladesh's progress in social outcomes is the specific institutional setup under which the public provision of health and education services has been engineered by non-government service providers, combining low-cost solutions with public awareness campaigns (Mahmud, 2008). Hence, the pursuit of an inclusive development strategy involving non-governmental actors appears to be a key lesson from Bangladesh.

A number of plausible explanations are given to explain why NGO-led programs were successful in Bangladesh. One is the dominance of community based approaches (such as investing in community health workers), experimentation with informal partnerships and rapid adoption of technologies (El Arifeen et al, 2013). Another equally plausible explanation is the widespread use of female agency (Chowdhury et al, 2013) to deliver social services as delivery by women changed gender and mobility norms. The NGO-led approach also benefited from positive contextual factors such as high population density and social homogeneity, as they facilitated the rapid diffusion of interventions (Asadullah et al. 2014)

In education, the rapid rise in female school enrolment, in particular in secondary schools, has been impressive. In fact, enrolment increases were higher than in most other LDCs and the increase was much stronger for female students. Once again, NGOs played a significant role in providing education in marginalized communities, although the government- and donor led gender-targeted cash-transfer programme (FSSSP), which scaled up by partnering with pre-exiting Islamic schools, also played a central role (Asadullah et al, 2014). There are some concerns on the quality of the education provided by non-government schools (Asadullah et al, 2007). Nevertheless, there is no doubt that NGO-led programmes have contributed greatly to improving access to education and that with increased monitoring to ensure quality, this model could serve as a complementary education delivery system in other LDCs.

Ethiopia

For example, Ethiopia could benefit from the Bangladesh model of NGO-led and government supported education programmes. The involvement of NGO will increase and widen access to education, including at community level, thereby complementing the tremendous effort by the Government to eliminate adult illiteracy and increase the number of children at all levels of the educational system. That said, however, Ethiopia's exclusively public sector approach to education has done quite well in terms of meeting the universal primary education targets over the last decade and is on track to achieve this goal. The Net Enrolment Ratio for primary education (Grade 1–8) increased from 77.5% in 2005/06 to 85.4% in 2011/12. There has also been progress in enrolment ratio at secondary school level which is now around 40% (UNESCO, 2015).[18] The ratio between female and male students has reached 0.9:1

18 "@Ethiopia : Education for All National Review, 2015", UNESCO, 2015.

by 2010. This had important co-benefits, as increased educational level of women resulted in lower probability of teenage pregnancy and teenage marriages.

The Government's drive to improve the social conditions necessary to expand productive capacity includes focusing on the health sector, which may explain the relatively low inequality over the decade of rapid growth. As discussed in NPC (2016) and World Bank (2016), several important policy initiatives in this regard include the establishment of health posts and health centres in all areas providing essential health services accessible to all citizens, as well as the deployment of 38,000 "health-extension workers" (both mid-level and highly qualified health professionals) all over the country, ensuring that 98 per cent of the population is covered by public health programs.

It should also be underscored that rising education (in particular for girls; facilitated by the provision of free schooling and free school lunches in rural areas) as well as a participative governance stimulated community engagement and particularly the participation of (governmental) women's groups, contributing to changing traditional habits leading to health improvements, disease prevention, primary treatment, and socio-economic changes. This demonstrates how important it is that a country mobilizes its citizens in the implementation of development goals.

Rwanda

Ethiopia's efforts to improve human asset development may be impressive but Rwanda's achievement in HAI has been even more spectacular. Over the last 15 years, the country registered the largest absolute increase in HAI scores in the world. Initially, progress has been strongest in reducing child mortality and undernutrition. However, in recent years, greater emphasis has been given to universal education, including at secondary and tertiary levels, which have also expanded significantly. The Government made substantial investments in human capital, with public expenditures for health and education as a share of GDP rising from 5.8 per cent in 2000 to 7.9 per cent in 2013 (World Bank, WDI).

It is not surprising, therefore, that Rwanda has the highest primary school enrolment rates in Africa. For both boys and girls, it was on track to achieve universal access to primary education by 2016. Rwanda also sets a good example and lessons for others on gender parity at primary level, which has already been achieved, with girl's net enrolment rate at 98%, which is higher than the boys (95%). The secondary school net enrolment rate now stands at 28 per cent (30% for girls), up from 26 per cent (27% for girls) in 2011. Girls now make up 52 per cent of students in secondary education. The key to improving gender parity lies not only on the amount of resources devoted to education but also how the gender issue is addressed at macroeconomic policy level, including establishing equal ownership rights of land, which is an important source of capital and economic livelihood in agriculture-dependent economies. As shown below, Rwanda provides important lessons in this fundamental macroeconomic issue.

4. Macroeconomic and financial policies

Bangladesh

Among LDCs, Bangladesh represents a success story of economic diversification and structural transformation through reallocation of resources (labour and capital) to more dynamic sectors and activities. This is reflected in the country's expanding productive capacity and changes in the structure and composition of its exports. The structural shift in the export sector was underscored by the rapid growth of exports in ready-made garments (RMG). In less than two decades, the country has transformed itself from an exporter of raw jute and jute goods, frozen food and other agricultural products, which earned the country a fraction of its current export income, to one of the three top producers and exports of RMG in the world. By the end 2016, Bangladesh was expected to earn over $28 billion from exports of RMG alone, accounting for almost 90% of the country's total exports (UNCTAD, 2013).

Bangladesh's diversification was partly triggered by external factors such as the introduction of the multi-fiber agreement (MFA) and trade-related support measures for LDCs. More importantly, however, the development of the RMG sector was spurred by the fiscal and financial incentives provided to producers and the strengthening of institutional support services, which helped to remove anti-export bias and provided a conducive environment for the growth of export-oriented industries. Some of the macro-policy measures used to stimulate investment in the RMG sector included providing regressive energy subsidies, including by aligning domestic fuel prices with international prices; reducing inefficiencies in rules and procedures to establish manufacturing enterprises; supporting enterprises with skill formation; and strengthening the banking sector to ease access to credit by firms engaged in RMG-related activities. State-owned banks were also reformed to ensure that they were guided by good corporate governance practices and supported by modern financial management systems. To support the competitiveness of enterprises engaged in the production and exports of RMGs, continuous efforts were made by the Government to remove infrastructure bottlenecks, particularly in power and transportation, improve the business climate, and guarantee better labor rights and safer working conditions. In this connection, the role of remittances as a source of foreign exchange has been critical. By the end of 2015, Bangladesh received just over $15 billion (accounting for 13% of GDP) from Bangladeshis living abroad (UNCTAD, 2013).

Ethiopia

The success of the export-oriented RMG-sector in Bangladesh offers valuable lessons for other LDCs such as Ethiopia, which has recently embarked on a new economic diversification drive aimed at developing the country's capacity to produce and export light manufactured goods, including RMGs. To attract investment, Ethiopia plans to construct at least five large industrial parks across the country each specializing in products where the county is able to exploit its comparative advantage as an agriculture-based economy. The range of policy areas that Bangladesh adopted to boost its productive capacity and to manufacture and export RMGs are directly relevant for Ethiopia. In turn, however, the macroeconomic and fiscal policies adopted by Ethiopia to expand its productive capacity, improve infrastructure, develop energy supply capacity, which is critical for industrialization, and sustain public investment are worth exploring since they offer valuable lessons.

The Government of Ethiopia recognizes that the ability of the 'developmental state' to deliver on its development objectives depends on at least three factors. First, a development vision backed by pragmatic policies and regular consultations with key stakeholders in the economy is an essential requirement. Second, building the institutional capacity needed to formulate and deliver on the core objectives of the development vision is critical. The ongoing efforts in Ethiopia to create a credible and effective institutional capacity have already been addressed above. Finally, to be effective, a 'developmental state' requires both the policy and fiscal spaces necessary to achieve the desired development objectives. Ownership of the development process will be meaningless without the fiscal space necessary for Governments to direct public investment into priority productive sectors, infrastructure development, improvements in health and education, and institutional building.

Indeed, an important lesson from Ethiopia's recent development experience is its success in mobilizing the large amount of financing needed to achieve rapid growth and development. Boosting Government revenue is necessary to maintain fiscal sustainability and build fiscal space for public investment. Although Ethiopia was successful in mobilizing external sources of financing such as ODA and FDI, a key factor in the Government's ability to conduct an independent development strategy has been its ability to design macroeconomic policies (including some that are regarded 'unorthodox') to mobilize domestic resources for investment at an increasing rate, despite the county's low income base and lack of natural resources.

In this respect, a critical element has been the Government's control over financial institutions, which enabled it to ensure that long term finance is available for productive investment through the Development Bank of Ethiopia, and through endowment-owned businesses and substantial regional development organizations. Government control over financial resources (and embedded in the overall development governance) has enabled the country to finance public investments despite low domestic savings and taxes. The specific policies adopted include low government consumption, keeping interest rates low, directing credit towards public infrastructure, and monetary expansion through the Central Bank (including through direct monetary financing of the budget). Even though these financing policies are clearly "unorthodox", the country has been able to implement them with efficiency and without creating a crowding-out effect on private sector investment.

Rwanda

For Rwanda, the most important macro-policy issue that preoccupied the Government's economic policy reform agenda since the early 1990s has been the issue of access to land and ownership, which, for an agriculture-based economy, are critical for reducing poverty, improving agricultural productivity, mobilizing resources and kick-starting the process of productive capacity building. A brief review of the reforms introduced is important as they offer useful lessons for other LDCs. There is no doubt that the civil war and the 1994 genocide led to serious disruptions of existing settlement patterns and worsened disputes over ownership and access to land. Addressing the land rights of the millions of widowed women, orphans and displaced citizens left behind, and resolving land claims of returnees presented a huge macro-policy challenge for the post-war administration (Andre and Plateau 1998, Global IDP Project 2005, Musahara and Huggins 2005, Boudreaux 2009). Several legislations and policies have accordingly been introduced to establish definitive rights and security of land tenure in general (including formalization of customary rights), and to improve rights of disadvantaged groups (particularly women). These regulations provided an enabling legal framework for the establishment of a nationwide Land Tenure Regularization (LTR) program. A main goal has been to replace the dual customary and formal tenure regimes with a single statutory land tenure system. The LTR program is aimed at creating complete public registry of titles to all landholdings, with state ownership and long-term (up to 99 years depending on the type of land use) usufruct rights to landholders that can be sold, leased, mortgaged or passed on to heirs (Republic of Rwanda 2009).

Guaranteeing ownership rights and land tenure security is expected to increase land productivity by stimulating investments on land, increasing access to credit, promoting market transactions for efficient allocation of land to more productive uses, and reducing disputes over land and risk of expropriation (and hence the costs of protecting property). Countrywide implementation of the LTR programme began in 2009 after extensive nationwide piloting and the necessary fine-tuning. The success of Rwanda's LTR programme has made it an ideal model for other countries to follow. A recent assessment of Rwanda's LTR model found that it had an impact on a number of areas, including: a) evidence of significant positive short-run impacts of the LTR program on investment in soil conservation and stronger land rights of legally married women; b) increased investment on land, but so far little impact on land market transactions of land; and c) confirmation that title certificates had a decisive influence on resolving land disputes. Formal credit providers also find them to be a sufficient security for acquiring a loan (Ali et al. 2014, Biraro et al 2015).

Nevertheless, the assessment also shows that the programme faces challenges. Whereas the fear of farmers of losing land rights has been largely addressed by the programs to regularize land rights, there are concerns on the sustainability of financing modern inputs, the availability of the extension support services needed to improve productivity, the need for expanding investment in complementary rural infrastructures (transport, storage, processing, etc.), and access to non-farm employment, finance and basic services (clean water, sanitation, energy, health) (WB 2011; Republic of Rwanda 2012; Kathiresan 2013; Mushara et al. 2014; Republic of Rwanda 2014). In other words, completeness of land registry requires complementary policy measures. Public investment in better road and public transport infrastructure and greater decentralization of land administration services are needed for improving access to and increasing the probability that people will formally use the system to register their land transactions (Biraro et al 2015). These complementary measures are addressed through targeted industrial and sectoral policies as discussed below.

5. Industrial and sectoral policies

Bangladesh

In pursuing economic diversification through reallocation of resources to the manufacturing sector, Bangladesh had the advantage of benefiting from existing capabilities in the sector, as Bangladesh already had an established clothing and textile industry from the colonial times. For the recent boom in the sector, the abundance of female labour was a key element, as these workers had the sufficient experience and dexterity necessary to acquire the basic skills required and were willing to work for the low wages offered in the sector. More critical, however, were the domestic industrial and sectoral policy measures that consecutive Governments followed in the last three decades.

For example, from the earlier days of the development of the RMG sector, bonded warehouse facilities were established so that producers did not have to pay tariffs on imported fabrics. Moreover, enterprises in the sector were allowed and are still allowed to use the so called back-to-back letters of credit, which basically allows producers to use orders from their buyers to finance fabrics. This has the advantage of minimizing capital requirements. In addition, Bangladesh also provided subsidies to domestic fabric manufacturers, thereby enabling them to remain competitive vis-à-vis imported fabrics. This policy was instrumental in the development of domestic supply capacity through domestic backward linkages. Hence, Bangladesh's experience shows that targeted support to selected industries can indeed contribute to building productive capacities. However, it needs to be acknowledged that similar policies were also available to other industries, although they didn't seem to have had the same impact as the RMG sector. Some observers have argued that the failure may be related to difficulties in policy coordination and in providing incentives and sector specific government support, as the list of sectors benefiting from cash incentives does not fully match the high priority sector identified in Bangladesh's export policy (Chowdhury, 2013). Thus, a key lesson from Bangladesh's strategy to target multiple sectors as priority areas is that, while targeted industrial policies can be successful, the strategy of 'picking winners' may not always work, especially if the country has not yet developed the capacity for inter-sectoral policy coordination and does not have adequate resources to provide sufficient support to all targeted sectors.

Ethiopia

In fact, the issue of policy coordination is also a major challenge to Ethiopia, although like Bangladesh, when a single sector is selected for Government support through public investment, targeted industrial and sectoral policies seems to have the desired impact. As already mentioned, agriculture has been a main driver of economic growth in Ethiopia. Over the past decade, the sector grew more than 8 per cent on an annual basis, the third highest in the world (after Chad and Burundi). The main contributing factor to rapid agricultural growth in Ethiopia has been the country's targeted industrial and sectoral policies, which resulted in the development of the world's largest extension system. The extension system performed the following important and multiple roles: Development Agents (DA), trained by Farmer-Training Centres (FTC) and Agricultural Technical and Vocational Training (ATVET) institutions, in turn provided on-site training to farmers on how to diversify into more valuable and exportable agricultural products, and how to increase quality and how to adopt modern technology. By 2008 and 2009, around 8,500 FTCs had been built and around 60.000 DAs trained (WB, 2016, p. 67). With one DA for every 376 farms or 21 DAs per 10,000 farmers in Ethiopia, extension services are more accessible than in China, Indonesia and Tanzania, where the ratios are 17 and 4 respectively (Davis et al., 2010).

Support institutes were also established, such as the Research-Extension-Farmer Linkage Councils, the National Agricultural Research System, the Ethiopian Institute for Agricultural Research, the Regional Research Institutes and the Agricultural Transformation Agency. Each of them have their own tasks ranging from disseminating best practices and introducing new technologies to increase the quality and crop yield to strengthening value chains and introducing new technologies to cope with weather and climate change - all contributing to rising agricultural productivity (Yusful, p. 20-21). To bring agricultural products to the market, the Government invested heavily in the expansion of physical infrastructure and in the provision of rural public services to ensure more efficient utilization of land and labour resources in rural areas. For example, as reported by Shiferaw (2015, p.5), massive public investment in road construction, at a cost of more than $7 billion during 1997-2010, was carried out through a series of Road Sector Development Programs.

Other achievements include investment in the energy sector, including the construction of the Grand Ethiopian Renaissance Dam at a cost of around $4 billion, and the broadening of the customer base of Ethiopian Telecom (26 million customers in 2011-2014 compared to 7 million in 2002). Public investment is also used to accommodate rural-urban migration and facilitate the process of structural transformation. For example, during the first GTP, 174,190 housing units were constructed in the capital city, Addis Ababa, to cope with the influx of people from rural area, with impressive results in terms of job creation (845,900) (NPC, 2016, p.46). These examples are only a small number of the public-investment driven infrastructural, institutional and other support measures that the Government implemented during the early 2000 and the first Growth and Transformation plan to improve agricultural productivity, stimulate agricultural-led industrialization with a focus on the manufacturing sector, and promote structural transformation.

Rwanda

Interestingly, like Ethiopia, Rwanda's primary focus in designing its industrial and sectoral policies since the early 1990s has been to accelerate growth in the agricultural sector and make rural development the cornerstone of its strategy to develop productive capacity and promote industrialization and structural transformation. Obviously, Rwanda's approach to agricultural development and the lessons thereof have to be seen in light of the country's specific challenges. Rwanda is the most densely populated country in Africa (416 people /km2); and scarcity of land is further aggravated by the fact that most of the 1.5 million hectares of Rwanda's arable land is on hillside terrain. Substantial encroachment of extensive cultivation on fragile steep hilly slopes has therefore been inevitable with severe soil erosion consequences.

Agricultural production in Rwanda is practiced predominantly under the smallholder subsistence system. The average size of landholding is only 0.33 ha, with more than 70% of farmers cultivating less than 0.9 ha of land. Land fragmentation is a major productivity constraint, given that 0.7 ha is considered to be the minimum farm size needed to sustain a family (Republic of Rwanda 2004). Another feature of Rwandan agriculture is the domination of food crops within the agricultural sector. These structural features are behind the reasons for giving priority to investments that generate productivity gains through intensified food crop production systems. Accordingly, in 2007, the Government of Rwanda launched a crop intensification program (CIP) to enhance productivity of key food crops in pursuit of achieving the country's strategic vision of eliminating poverty, achieving food security and attaining middle-income status by 2020 (Republic of Rwanda 2009 and 2013; World Bank, 2013).

Some of the key policies that enabled Rwanda to transform the agricultural sector into a major driver of economic growth and structural transformation, and the potential lessons for other LDCs can be summarized as follows: a) channeling a substantial share of public expenditure/investment into productivity enhancing inputs and practices (e.g. improved seeds, fertilizers, irrigation, etc.) by smallholder farmers; b) assisting small farmers to establish soil conservation and other hillside terracing and marshland development infrastructures; c) introducing a voluntary scheme but with appropriate incentives to promote consolidation of land use by joining small plots of several owners to be planted as one large unit to realize productivity gains from scale economies in acquisition and use of modern inputs and provision of extension advice and post-harvest processing and marketing services (Organic Land Law 2005; New Land Law 2013)[19].

19 Every rural family in Rwanda cultivates four very small land parcels on average, each of between 0.13 ha and 0.37 ha (Republic of Rwanda 2004). Thus, in 2008, the Government introduced Land Use Consolidation (LUC) scheme as an important component of the Crop Intensification Program (CIP) to address the nationwide problem of the small holding size constraint on productivity.

Generally, these agricultural support programs have been a huge success in achieving productivity expansion, food security, poverty reduction and linkages with other sectors (World Bank 2011; MINAGRI 2012; Kathiresan 2013; Mushara et al. 2014; WB 2014). Recent studies, including by the World Bank and others, report the astonishing and historical growth record achieved by 2012 averaging 5.6% of GDP, a reduction in rural poverty by 49%, growth in agricultural exports (44%), GDP share investment in agriculture of 22.2%, and off-farm share in total employment (26.6%), among others (Republic of Rwanda 2014). In the longer-run, these achievements will enable Rwanda to benefit from trade-related international support measures that many important trading partners have offered the LDCs.

6. International support measures

While ODA has played a significant role in all countries considered in this section, the most notable impact of ISMs has been Bangladesh's utilization of trade-related support measures provided in favour of the LDCs. With diversification into the manufacturing sector and increasing investment in textile and leather products, Ethiopia, and to a lesser extent, Rwanda are beginning to make effective use of trade-related support measures, especially the duty-free-and-quota free market access in major economies. Bangladesh's experience shows that the usefulness of trade preferences depends both on external market conditions and on complementary domestic policies to increase productive capacities. Another remarkable feature of Bangladesh is that information gaps on ISMs are far less pervasive in Bangladesh than in other LDCs, for which the leadership role of Bangladesh in global LDC processes as well as the prominent role of domestic think tanks in the international and national policy dialogues are important factors.

As already noted, Bangladesh is one of the few LDCs that has developed a sizeable manufacturing sector, in particular clothing. In fact, in 2014 the country was the second largest exporter of garments after China, with a market share of over seven per cent.[20] Hence, Bangladesh can be seen as example of a country that has successfully used trade-related support measures to expand its productive capacity, diversify its economy away from dependence on agriculture and promote structural transformation by shifting resources from low-productivity to higher-productivity sectors and activities. The benefits are tangible and multidimensional. Overall, for example, the export oriented garment sector consists of around 4,000 production facilities and employs around 2.8 million workers, corresponding to 40 per cent of total manufacturing employment (Rahman, 2014). Taking into account backward and forward linkages, the sector accounted for 7 per cent of GDP (Center for Policy Dialogue, 2003). As 70 per cent of the employees are women, the sector had been significant in terms of women's status and decision-making within families, higher domestic savings rate (in Bangladesh poor women have higher savings rates than poor men), reduced fertility, and higher demand for education and health services as well as for public transportation, communication and safety (Rahman, 2014).

The success is partly attributed to domestic policy reforms as discussed above and Bangladesh's success in expanding its productive capacity. Equally important, however, have been, international support measures (in particular duty-free quota-free access to most developed country markets) and a capacity to take advantage of global market opportunities.[21] Bangladesh entered the global clothing market in the 1990s under the Multi Fibre Arrangements, under which Bangladesh was unaffected by quotas in the EU and less binding quota in the US. Before the MFA dismantled, most expert analysis predicted a decline in clothing exports. Interestingly though, Bangladesh actually benefited from the dismantling of the MFA, as it contributed to the fast growth of the global market and rendered a number of countries with unfavourable cost structure uncompetitive. A major factor for Bangladesh growth has been the duty free access to major developed markets, as non-LDC developing countries face average tariffs between 6 and 11 per cent in the EU, Japan, Canada, Australia, or Republic of Korea.[22] The country has also benefited from a relaxation of rules of origin in Canada (in 2003), Japan and the European Union (in 2011).

20 Data is from United Nations Comtrade, downloaded 20/11/2016. Clothing is understood as covering HS codes 61 and 62.

21 Most of the following observations are also based on Rahman (2014).

22 The notable exception is the US, where garments are excluded from LDC preferences and where many non-LDCs have access to other preferential rates.

Another important factor that contributed to Bangladesh's export success and a potential lesson for other LDCs aspiring to diversify into the RMGs sector, is the buyer-driven market structure, which facilitated easy entry into the global market by eliminating the need for producers to invest in marketing and distribution.[23] This market feature also allowed domestic producers to flourish. Whereas the sector was initially dominated by joint ventures between domestic and foreign firms (starting in the 1980s with a joint venture between the Bangladeshi company Desh Garments and the conglomerate Daewoo from the Republic of Korea), nowadays 95 of garment exports are produced by Bangladeshi entrepreneurs. After the dismantling of the MFA, Bangladesh also benefited from the "China plus one" strategy of many major buyers, which did not want to rely on one country as sole supplier.

D. Productive Capacity Building and Structural Transformation in Non-LDC Developing Countries (Vietnam and Ghana): Potential Lessons for LDCs

1. Introduction

To identify best practices in developing productive capacity and promoting structural transformation as lessons for LDCs, it is useful to look beyond the LDCs themselves to other developing countries that have diversified their economies and undergone through a process economic transformation in recent decades. This Section considers what lessons may be drawn from domestic policies adopted by two such countries: Vietnam and Ghana. For purposes of identifying potential lessons, these countries are considered suitable because of the similarities to LDCs (for example, in terms of GNI per capita income, and reliance on agriculture for production and exports) when they began their respective economic reforms over two decades ago. Interestingly, both Vietnam and Ghana have never been an LDC, despite the earlier parallels in structural challenges and level of income.[24] In fact, Vietnam is now considered as a successful example of economic diversification and rapid economic transformation and Ghana has reached middle-income level without needing the types of international support measures that are provided for LDCs. Given the fact that the aspiration of LDCs is to graduate to middle-income level, it would be instructive and beneficial to explore some of the policy lessons, be they positive or negative, that graduating LDCs can learn from Vietnam and Ghana.

In Vietnam, the trigger for the decision to change policy direction from Soviet-style planning system to a market-driven economic growth and transformation came when the former Soviet-bloc began to experience grave economic crisis in the mid-1980s, which soon led to the collapse of the Soviet Union. At the beginning of the crisis, it became apparent to the Government of Vietnam that the generous and dependable economic support that it previously received from the Soviet Union, including the supply of essential goods such as oil, steel, fertilizer, crops and other goods, would be unsustainable in both the medium and longer-term. This compelled the Government to rethink the viability of the existing Soviet-style planning system and its sustainability in a rapidly changing regional and global economic environment. Thus, in 1986, the Government introduced sweeping policy reforms starting with the most important sector, agriculture, and subsequently moving across key sectors in the economy. Although the reform agenda was bold, it didn't follow a "big-bang" economic reform approach. Instead, following the Chinese model, Vietnam pursued a "dual-track" economic reform where the role of the state was maintained in certain sectors or economic spheres while opening up others.

The reforms had the immediate impact of improving agricultural productivity, expanding productive capacity, deregulating the price and banking systems, attracting foreign direct investment (FDI), and enabling the private sector (both foreign and local) to become an important driver of the economy, although state-owned companies still

23 However, this feature also contributes to the fact that producer appropriate only a small amount of the value added, which together with the low bargaining position of workers contributes to the low wages in the sector. Unsafe working conditions area arguably an even larger concern in the sector, in particular in Bangladesh.

24 However, in 1994, Ghana was recommended by the CDP for inclusion into the LDC category, but refused to join.

remained dominant. The reforms also opened Vietnam to the rest of the world making it an important trading partner both regionally and beyond. As shown below, however, despite Vietnam's outstanding achievement in economic growth and structural transformation and its success in improving the social wellbeing of its citizens, which are both exemplary lessons for LDCs, the country still falls short in the area of 'good-governance', especially on transparency and accountability, and also faces serious challenges in moving-up the value chain and producing more sophisticated products. The latter is typically a manifestation of the so-called the "middle-income trap" syndrome and will require Vietnam to continue to develop further its productive capacity, improve on 'good' governance, and upgrade its technological and skills base so that it remains competitive by producing increasingly more sophisticated goods and services.

Like Vietnam, Ghana also undertook major policy and structural reforms in the 1980s, although the Ghanaian reform was imposed from outside with conditionalities, while the Vietnamese reform was self-imposed as a reaction to the changing international environment. The Ghanaian stabilization and Structural Adjustment Programme (SAP), which began in 1983 and ran until the end of the decade, was a requirement by the International Monetary Fund (IMF), the World Bank (WB) and major donors as a condition for the financial assistance that Ghana needed to recover from deep economic crisis involving: huge accumulation of unsustainable debt; worsening balance of payment deficit caused partly by an overvalued currency; inefficient State enterprises; escalating public deficit; and excessive price and market regulations. Although, at the time, the orthodox and market-driven policy reforms introduced brought suffering to many Ghanaians, especially the poor, they enabled Ghana to pull back from an uncontrolled downward spiral in economic trends and achieve growth and economic transformation, in particular during second half of the 1990s and the 2000s.

After a decade of strong economic growth (with a peak of 15 per cent in 2011), Ghana has reached a middle-income level. The main driving forces of growth were the extractive sector (in particular gold and more recently crude oil) and the rapid expansion of the services sector. Like many other African countries, however, the growth period was associated with a decline in the contributions of agriculture and the manufacturing sector to GDP. Generally, however, Ghana is still largely agrarian and the sector remains a major source of employment accounting for nearly 40% of total employment in 2013 compared with over 60 per cent in 1984. In contrast, employment in the services sector has grown from 25 per cent to 40.9 per cent, with industry (mining and manufacturing) experiencing only a marginal increase of about 1 percentage point over the same period. As the bulk of the employment opportunities in the services sector consist of low-value and low-productivity informal sector service activities, the shift in employment does not really represent structural transformation towards high-productivity sectors and activities.

2. Development Governance

The brief introduction above points to two broad but important lessons from Vietnam's recent development experiences: The first concerns the role played by agriculture as the major driver of the momentum for market-based policy reforms, food security, economic growth and structural transformation through linkages to agro-processing and manufacturing activities. It highlights that for countries where the majority of the population lives and works in rural areas, the transformation of the rural sector is an essential precondition for expanding productive capacity and instigating a process of structural transformation. The second important lesson from Vietnam is that while bold policy reforms – even those based on an 'unorthodox' approach - can liberate the economy from unnecessary constraints and initiate rapid growth, economic diversification and structural transformation, the sustainability of the growth and development momentum depends on whether the policy reforms are also supported by complementary institutional reforms and 'good' development governance.

It is evident that while Viet Nam was able to implement wide ranging economic reform on the basis of strong political leadership, progress in political and institutional reform is clearly lagging behind. There is no counter-balance to State power at any level; civil society is officially not allowed yet and only mass organizations that are loyal to the Government are authorized to operate. Transparency and accountability are generally low, partly reflected in the strict control and surveillance of the press by the State. Whereas the Constitution issue in 2013 has promulgated fundamental human rights such as freedom of expression, freedom of press, and freedom of association, these rights have yet to be translated into laws and implemented. This highlights that implementation of rights-based approaches can be more challenging than their propagation.

Low transparency and accountability have also enabled vested interest groups to influence public investment decisions on key areas such as the construction of highways and seaports, public procurement, land use, mineral exploitation and the privatization (equitization) of State-Owned Enterprises (SOEs).

Coordination of Government institutions is also limited and insufficient, both between various mainline ministries and between the central Government and local authorities which rely on transfers from the central Government for their budget. These shortcomings in governance structure are likely to become major obstacles in the longer-term. The existence of transparent and accountable public institutions will become an essential requirement for sustaining growth and maintaining competitiveness, especially as the economy advances and needs to operate in an open and interdependent regional and global economic system.

3. Social Policy

When Ghana gained its independence in 1957, it was considered to have greater potential for economic take-off and economic diversification on account of its resource endowment and export income than other independent developing countries such as Vietnam, Malaysia or even Republic of Korea. Soon after independence, Ghana's development vision included rapid improvement in the social sector, in particular education and health. The vision aimed at providing free universal education at all levels and publically funded public health services for all. This vision influenced the human asset development policies of all subsequent Governments until the introduction of economic reforms in 1983 under the IMF-led Structural adjustment programme. Whereas the public investments in social sectors according to the vision lead to notable improvements in health and education during the period, the social sectors were negatively impacted by the structural adjustment period. In a sense, the experience illustrates that publically-funded human asset development requires a concomitant expansion in productive capacity, economic growth and economic diversification so that it can be sustainably financed from domestic resources.

However, despite notable improvements in human asset development and significant progress in reducing the levels of poverty since the re-emergence of economic growth in the 2000s, Ghana still faces formidable social sector challenges. Some indications of the remaining challenges come from a multi-indicator cluster survey (MICS) conducted in 2011 which found that in spite of the improvements attributed to falling levels of poverty, 22.7% of Ghanaian children under the age of 5 were stunted and 13.4% were underweight. Malnutrition and stunting are very grave and have serious long-term effects because the negative consequences of undernourishment follow a child for his or her entire life, with dire consequences for the economies in which such a child lives, learns and works. In general, there are strong indications that inequality is increasing in Ghana. Cooke et al. (2016) have reported increasing inequality, drawing attention to north-south and rural-urban dynamics. They also found that the wealthiest 10 per cent consume nearly 7 times more than the poorest 10 per cent.

4. Macroeconomic and Financial Policies

From a macro-policy perspective, Vietnam's approach to macroeconomic policy reform agenda, which purposefully started from the transformation of the rural sector, is an important lesson for LDCs. Like many LDCs, Vietnam is an agrarian economy and when it decided to change its policy direction, agricultural reform has been a priority in the major economic reform program that it initiated in the late 1980s. While maintaining quasi state ownership of all agricultural land and existing collectivization of agriculture, the Government of Vietnam assigned farmers five specific rights in 1989 which completely transformed agricultural productivity, the variety of crops produced and farmers' income. These rights include: to cultivate the land, to earn the harvest, to mortgage the land for bank credit, to transfer the land right to another farmer, and to pass the land-using right to children as inheritance. In addition, the Government cancelled the system of state procurement on rice and pig meat at fixed (and below production cost) prices and allowed farmers to sell their products freely at market price. Moreover, the state subsidized the costs of irrigation.

The impact of these reforms has been impressive. The income of farmers immediately increased threefold and agricultural production fourfold, turning Vietnam from an importer to a major rice exporter while ensuring food security. Rice production increased from 15.8 million ton in 1985 to 19.22 million ton in 1990 and 40 million ton in 2010. The integration of Vietnam into the global economy also turned the country into an important exporter of black pepper (exporting 98 per cent of its production), coffee (exporting 92 per cent of its production), cashew nut, shrimp and catfish.

Obviously, the existing land ownership system in many LDCs may be different from Vietnam's and, therefore, some of the specific policy measures applied by Vietnam may not be directly relevant for LDCs. What are applicable and relevant for LDCs, however, are the market-based reforms that transformed farmer's ability to mobilize capital, produce goods that are demanded in the market, and sell their produce without any barriers to internal and external trade in agricultural goods, which had the effect of stimulating rural-based agro-processing activities. More importantly, Vietnam's approach to policy reform also illustrates the importance of rural-industrial sequencing, i.e., the success of increasing productivity, market-driven production and household responsibility system in agriculture, paving the way for the implementation of similar policies in other sectors, mainly manufacturing.

Vietnam can also offer important lessons on the long-term risks associated with unfinished reform agenda and the failure to extend reforms beyond economic and social sectors to include the governance system and to establish institutions that implement policies in a transparent and accountable manner. After decades of high growth rate and successful forward and backward linkages with the manufacturing sector, Vietnam's agriculture is now at a crossroads (World Bank, 2016). The agricultural growth rate has been declining and is expected to continue to do so unless the sector is modernized. Furthermore, in addition to drought and salination problems in the Mekong River Delta due to climate change and various dams built by China, Lao PDR and Thailand in the upstream of the river, Vietnam continue to face basic structural problems such as the small size of per capita arable land, leading to sub-optimal sizes of farms. Finally, the quasi state ownership of land has over time turned into a constraining factor, indicating the importance as well as difficulty in adapting reforms to changing external conditions. Smart agriculture, including aquaculture, and generally harnessing information and other technologies for agriculture production may enable Viet Nam to revitalize the agricultural sector. However, as in the general case of adapting industrialization strategies by better adapting and utilizing information technologies, developing commensurate human capacities, this requires good development governance.

5. Industrial and Sectoral Policies

Policy lessons are often derived from successful cases but important lessons can also be learned from policy reforms that are sound but require further refining. The reform programme in Ghana in the 1980s and the country's subsequent development process fall into the latter category. While there is no doubt that the reforms undertaken were necessary and helped Ghana to reverse its declining trend, achieve growth and reach middle-income level, Ghana still remains with structural impediments that will continue to hinder prospects in moving up the middle-income development ladder. In this respect, there are lessons for those LDCs that aspire to graduate from the LDC category and face development challenges as lower-income economies.

On the positive side, the Financial Sector Adjustment Programme (FINSAP) introduced by the Government of Ghana and World Bank in 1987 was a timely reform measure needed to salvage the financial sector from total collapse (Antwi-Asare and Addison 2000). The programme had the immediate impact of "removing the bad and doubtful debts of state-owned enterprises from bank balance sheets" and "liberalizing interest rates". Similarly, through liberalization and privatization, reforms in the ICT sub-sector enhanced private sector participation in the provision of mobile and telephone services to the Ghanaian population (Frempong 2002). Another important element of the reform was the establishment of the National Communications Authority which is responsible for issuing licenses, regulating tariffs of service providers, and protecting consumers amongst other things (Government of Ghana, 2004; Frempong, 2002). These reforms led to remarkable growth in the ICT sub-sector in Ghana.

This shows that Ghana's impressive growth performance was driven partly by the growth of the services sector, which was supported by targeted policy measures and attractive incentive policies. After three decades of growth, however, the sector has generated limited opportunities for creating 'decent jobs', which are critical for reducing poverty and promoting structural transformation. Consequently, over 80 percent of the Ghanaian urban labour force now works in the informal sector which is known for its low earnings, job insecurity and inadequate social protection. This shows that in designing industrial and sectoral policies, it is important to note that the balance between sectors and activities within sectors has important implications for the types of jobs created and the long-term growth potential.

In addition to the services sector, the major driver of growth in the Ghanaian economy has been the exploitation of natural resources which provide livelihoods for the majority of the population. The concern here is that in Ghana natural resources are not used sustainably and they are being depleted before replacement income-earning opportunities are available (Boakye et al., 2012). In Ghana, mineral depletion has risen sharply from 1.9 percent of GDP in 2006 to 9.2 percent in 2011. This rise in depletion coincided with Ghana's recent impressive performance in economic growth. Moreover, because simultaneous increases in investments have not been commensurate with the depletion of mineral resources, Ghana has had to depend on external funding sources, particularly borrowing (Boakye et al., 2012, p3). In addition to mineral resources, another important primary export commodity that has depleted sharply over the decades is timber. According to the Bank of Ghana (2004) "Ghana's total forest cover" declined from 8.2 million hectares in 1900 to 1.6 million hectares in 2000. Forest depletion in Ghana is largely attributable to gold extraction, settlement expansion and timber extraction (Tuffour 2004, p.23). Timber extraction has been carried out in an unsustainable manner and it is estimated that for the period 1990-1998, at the height of the Structural Adjustment Programme in Ghana, the rate of timber extraction exceeded the recommended rate by more than 46 percent (Agyarko n.d, p.9). For forest, energy and mineral resources combined, resource depletion increased from 8 percent of GNI in 2000 to 15 percent in 2012 (Twerefou et al., 2015, p. 15). This experience demonstrates again that natural–resource induced economic growth can provide misleading impression of economic progress if recovered rent is not re-invested in areas that generate alternative source of income and contribute to sustainable development.

A third lesson for LDCs from Ghana is the critical role of the energy sector. Although the economically important mining sector is energy intensive, and the expansion of urban-based services sector also requires reliable and affordable energy, the country's achievement in the development of energy supply capacity has been poor. Indeed, energy supply, especially electricity, is an essential condition for expanding productive capacity and promoting industrial development and structural transformation. With the completion of the Akosombo Dam in 1965, hydroelectric power[25] became and is still the major source of energy for households and industries in Ghana. The major outstanding issue is, however, how to avert the periodic shortfalls in energy supply (mainly caused by droughts and low water levels of the Akosombo Dam) that has been costly and disruptive to industrial activities, small business and households. Unreliable energy supply is an impediment to economic growth (VRA 2015, p.2)[26] and it is estimated that Ghana "loses between 2 and 6 per cent of gross domestic product (GDP) annually due to inadequate and unreliable power supply" (Eshun and Amoako-Tuffour 2016, p.1).

25 Hydroelectric power is classified as renewable energy.

26 In the 2013 World Bank Enterprise Survey in Africa, the widespread, poor electricity supply was identified as one of the biggest barriers to economic growth in Ghana and Nigeria, and a hindrance to many multi-national investors.

III Conclusion

Structural challenges and the weak economic and social performance of LDCs are often ascribed to the limited development of their productive capacity. Hence, expanding productive capacity is critical to LDCs' efforts to meet the graduation criteria, to attain the development momentum necessary to manage graduation and to continue to grow and achieve sustainable development following graduation. This background paper summarized the experiences in expanding their productive capacities of twelve countries that have graduated or are graduating from the LDC category as well as two non-LDCs for comparison purposes. The development trajectories of graduated and graduating countries are grouped into three different pathways. The pathways are strongly influenced by resource endowments and size, but most importantly they depend on policy choices in a broad range of policies. This includes social policies, macroeconomic and financial policies, industrial and sectoral polices as well as international support. Good development governance, i.e. a governance structure that implements a development-oriented vision through participatory and accountable mechanisms and institutions, is the key factor that influences whether the choice of policies in these domains moves countries not only towards graduation, but also towards achieving sustainable development objectives.

Angola's and Equatorial Guinea's pathway to graduation is characterized by rapid and volatile income growth from natural resource exploitation. As income is only insufficiently channelled into social sectors and economic diversification, these countries remain economically vulnerable and have low human assets. Weak development governance is the key reason that prevent these countries to move towards a more sustainable development path.

Seven countries, all with relatively small population, have been on a graduation path combining income growth through economic specialization with investments into human assets. Bhutan, Botswana and Solomon Islands specialized in natural resource exploitation, whereas tourism has been the main driver for Cabo Verde, Maldives, Samoa and Vanuatu. Good and home-grown development governance systems enabled these countries to channel resources from economic growth into social sectors. At the same time, in many of these countries economic specialization in sectors with low employment and limited linkages to other sectors have exacerbated inequalities and economic vulnerabilities, which are reinforced by the high vulnerability to climate change and natural disasters.

Bangladesh, Ethiopia and Rwanda are all on a pathway of graduation through economic diversification, structural transformation and the development of human capital. In all three countries, rural development is or has been the launching pad of economic development and the State plays an active role in creating a development-focused governance structures. While actual policies vary significantly by country, social and macroeconomic policies are often unorthodox.

The experiences of Ghana and Viet Nam, the two non-LDCS considered for comparison purposes, show that expanding productive capacities remains challenging for non-LDCs as well. This serves as a reminder that graduation from the LDC category should be regarded as a milestone in a country's long-term development rather than as an ultimate policy goal in itself. Their experiences also show the need to adapt development governance in line with overall development progress. There is no 'one-size fits all' to expanding productive capacity for sustainable development, neither across countries nor across time.

References

Asian Development Bank (ADB) (2015). "Maldives – Overcoming the challenges of a small island state Country Diagnostic Study". Manila: Asian Development Bank.

African Development Bank (AfDB) (2016) "Botswana's Mineral resources, Expenditure and Savings Policy: A Case Study". Abidjan: African Development Bank.

African Development Bank (AfDB)/ African Development Fund (ADF) (2012). "Cape Verde: A Success Story". Abidjan: African Development Bank.

African Development Bank (AfDB), Organization for Economic Cooperation and Development (OECD) and United Nations Development Programme (UNDP) (2016). *African Economic Outlook 2016*.

Agaiava, Nanai (2014). "Finding Connections between Traditional Governance and Formal Law in Samoa". Theory in Practice: A Practitioner's Journal on Development, Conflict Management and Political Transition'. 25 August 2014.

Agyarko, T. (not dated). "Forestry Outlook Study for Africa (FOSA). 2nd Draft". Accra: Ministry of Lands and Forestry, Ghana.

Ali, Daniel, Deininger, Klaus, and Goldstein, Markus (2014). "Environmental and gender impacts of land tenure regularization in Africa: Pilot evidence from Rwanda". *Journal of Development Economics* 110: 262-275

Antwi-Asare, T. O., & Addison, E. K. Y. (2000). *Financial sector reforms and bank performance in Ghana*. London: Overseas Development Institute.

Asadullah, M. N., Chaudhury, N., & Dar, A. (2007). "Student achievement conditioned upon school selection: Religious and secular secondary school quality in Bangladesh". *Economics of Education Review*, 26(6), 648-659.

Asadullah, M. Niaz, Antonio Savoia and Wahiddin Mahmud (2014). "Paths to Development: Is there a Bangladesh Surprise". *World Development* 61, 138-154.

Bain & Company and Tozzini Freire Advogados (2009). "Estudos das alternativasa regulatórias, institucionais e financeiras para a exploração e produção de petróleo e gás natural e para o desenvolvimento industrial da cadeia produtiva de petróleo e gás natural no Brasil". *BNDES/FEP* No.01/2008).

Banco de Cabo Verde (2011) "Abertura e Movimentação de Conta de Depósito à Ordem".

Baunsgaard, Thomas, Mauricio Villafuerte, Marcos Poplawski-Ribeiro, and Christine Richmond (2012). "Fiscal Frameworks for Resource Rich Developing Countries". *IMF Staff Discussion Note*, SDN/12/04.

Biraro, M., Khan, S., Konguka, G., Ngabo, V., Kanyiginya, V., Tumusherure, W., and Jossam, P. (2015). "Final Report of Study on the access to the land tenure administration system in Rwanda and the outcomes of the system on ordinary citizens". Kigali: USAID | LAND Project.

Boakye, D., Dessus, S., Foday, Y., & Oppong, F. (2012). "Investing mineral wealth in development assets: Ghana, Liberia and Sierra Leone". *World Bank Policy Research Working Paper*, No. 6089.

Campling, Liam (2015). "Tariff Escalation and Preferences in International Fish Production and Trade". E15 Expert Group on Oceans, Fisheries and the Trade System. Think Piece. Geneva: International Centre for Trade and Development and World Economic Forum.

Chowdhury, A. M. R., Bhuiya, A., Chowdhury, M. E., Rasheed, S., Hussain, Z., and Chen, L. (2013). "The Bangladesh paradox: Exceptional health achievement despite economic poverty". *Lancet*, S0140-6736(13)62148-0.

Chowdhury, T. T. (2013). "Graduation of Bangladesh as Least Developed Country". Case study for the Asia-Pacific workshop on Graduation Strategies from the Least Developed Country Category.

Collier, Paul (2011). "Savings and Investment Decisions in Low-Income Resource-Rich Countries". Oxford: Centre for the Study of African Economies.

Committee for Development Policy (2010). Report on the 12th Session (22-26 March 2010). *Official Records of the Economic and Social Council*, 2010, Supplement 13 (E/2010/33).

Committee for Development Policy (2014). Report on the 16th Session (24-28 March 2014). *Official Records of the Economic and Social Council*, 2014, Supplement 13 (E/2014/33).

Committee for Development Policy (2015). Report on the 17th Session (23-27 March 2015). *Official Records of the Economic and Social Council*, 2015, Supplement 13 (E/2015/33).

Committee for Development Policy (2016). Report on the 18th Session (14-18 March 2016). *Official Records of the Economic and Social Council*, 2016, Supplement 13 (E/2016/33).

Committee for Development Policy and UN DESA (2015). *Handbook on the Least Developed Country Category: Inclusion, Graduation and Special Support Measures. Second Edition.* New York: United Nations.

Cornia, Giovanni Andrea and Antonio Scognamillo (2016). "Clusters of Least Developed Countries, their evolution between 1993 and 2013, and policies to expand their productive capacity". *CDP Background Paper* No. 33.

Cortez, Ana, Ian Kinniburgh, and Roland Mollerus (2014). "Accelerating Development in the Least Developed Countries through International Support Measures: Findings from Country Case Studies". *CDP Background Paper* No.22.

Delgado, José Pedro. "Controlo e responsabilidad financeira dos bens públicos – o papel do Tribunal de Contas de Cabo Verde", Sub-Saharan Africa Accountability Integrity Workshop, Johannesburg, South Africa, 7-9 April.

Duarte, Ana, Fernando Pacheco, Regina Santos, Elling N. Tjønneland (2015), "Diversification and Development or "White Elephants"? Transport in Angola's Lobito Corridor". *CMI Report* 2015:07. Christian Michelsen Institute.

El Arifeen, S., Christou, A., Reichenbach, L. (2013). "Community based approaches and partnerships: Innovations in health-service delivery in Bangladesh". *Lancet*, S0140-6736(13), 62149-2.

Economic and Social Commission for Asia and the Pacific (ESCAP) (2015). *Asia Pacific Countries with Special Needs Development Report 2015. Building productive capacities to overcome structural challenges.* Bangkok: United Nations.

Faaland, Just and John Richard Parkinson (1976). *Bangladesh: The Test Case for Development. London: Hurst Publishers.*

Food and Agricultural Organization of the United Nations (FAO) (2009). "The Republic of Maldives". Fishery and Aquaculture Country Profiles.

Frempong, G. (2002). "Telecommunication Reforms: Ghana's Experience*." Berichte aus dem Wltwirtschaftlichen Colloquium der Universität Bremen*, No. 78.

Gay, Daniel (2009). *Reflexivity and Development Economics*. London: Palgrave Macmillan.

Goldman, Antony (2011). "Poverty and Poor Governance in the Land of Plenty: Assessing an Oil Dividend in Equatorial Guinea". Oil-to-Cash Initiative Background Paper. Center for Global Development.

Government of Ghana (2004). "National Telecommunication Policy".

Government of the Maldives (2016). Trade Policy Review. Report by Maldives. World Trade Organization WT/TPR/G/332.

Hartwick, John M. (1977). "Intergenerational Equity and the Investment of Rents from Exhaustible Resources". *American Economic Review* 67, 972-74.

Huffer, Elise and Asofou So'o (2005). "Beyond Governance in Samoa: Understanding Samoan Political Thought". *The Contemporary Pacific* 17, 331-333.

International Energy Agency (IEA) (2006). "Angola – Towards an energy strategy". Paris: OECD.

International Labour Organization (ILO) (2016). "Growth, employment and decent work in the Least Developed Countries, 2000-2015: No LDC left behind" (2016), a report prepared by the ILO for the Mid-term Review of the Istanbul programme of Action for the LDCs, Antalya, Turkey.

International Monetary Fund (IMF) (2015). “Vanuatu: 2015 Article IV Consultation – Staff report”. Washington: International Monetary Fund.

International Monetary Fund (IMF) (2016). “Bhutan: 2016 Article IV Consultation – Staff report”. Washington: International Monetary Fund.

International Monetary Fund (IMF) (2017). “Angola: 2016 Article IV Consultation – Staff report”. Washington: International Monetary Fund.

Islam, Syed S (1984). “The State in Bangladesh under Zia”, *Asian Survey* 24, No.5.

Islam, Syed S (1985). “The Role of the State in the Economic Development of Bangladesh during the Mujib Regime (1972-1975)”. *The Journal of Developing Areas* 19, 185-208.

Kathiresan, A. (2012). “Farm land use consolidation in Rwanda: Assessment from the perspective of agriculture sector”. Kigali: Ministry of Agriculture and Animal Resources, Republic of Rwanda.

Kundur SK (2012). “Development of tourism in Maldives“. *International Journal of Scientific and Reseach Publications* 2(4), 1-5.

Leonard, Pauline and Frederica Rodrigues (2015). “Manual de Reintegração Socioprofissional para os Cabo-Verdianos de França”. Projecto “Reforço das Capacidades de Cabo Verde na Gestão das Migrações”.

Mahmud, Wahiddun (2008). “Social Development in Bangladesh: Pathways, surprises and challenges”. *Indian Journal of Human Development* 2, 79-92.

Ministério da Educação de Cabo Verde (2015). “Cabo Verde e a Educacao, 40 anos de percurso, ganhos e desafios”. Government of Cabo Verde.

Musahara, H., Nyamulinda, B., Bizimana, C., Niyonzima, T. (2014). “Land use consolidation and poverty reduction in Rwanda”. Presentation at the World Bank Conference on Land and Poverty. Washington, DC: The World Bank.

National Institute of Statistics Rwanda (NISR) (2013). “The Evolution of poverty in Rwanda from 2000 to 2011: results from the Household Surveys (EICV)”. Kigali: National Institute of Statistics of Rwanda.

Pérez Niño, Helena and Philippe Le Billon (2013). “Foreign aid, resource rents and institution-building in Mozambique and Angola”. *WIDER Working Paper* No. 2013/102. United Nations University, World Institute for Development Economics Research.

Rahman, Mustafizur (2014). “Trade benefits for least developed countries: the Bangladesh case”. *CDP Background Paper* No. 18.

Rasheed, Athaulla A. (2015). “Development, development policy and governance in the Maldives: A political economy perspective”. *The Maldives National Journal of Research* 3, 29-51.

Rashid, Hamid (2012). “Understanding the Causes of the Rupee Shortfall: A Macroeconomic Policy Challenge for Bhutan and the Way Forward”. New York: UN DESA.

Republic of Rwanda (2014). “Promoting agricultural growth in Rwanda: Recent performance, challenges and opportunities”. Rwanda Agricultural Policy Note. Kigali: Republic of Rwanda.

Rocha, Carlos (2013), “Attracting Emigrant Investments”, Presentation on behalf of the Cape Verde Investment Promotion Agency, Civil Society Organization – AGOA Forum Diaspora´s role in SSA Sustainable Transformation through Trade and Transfer of Science and Technology, Addis Ababa, 10th August 2013.

Selolwane, Onnalena (2004). *Ethnic Structure, Inequality and Governance of the Public Sector in Botswana*. Geneva: United Nations Research Institute for Social Development.

Shiuna, M. and A. Sodiq (2013). “Improving education in the Maldives: Stakeholder perspectives on the Maldivan Education sector“. *MaldivesResearch*, Doc-MVR, 1/2013

Solow, Robert M. (1986). “On the Intertemporal Allocation of Natural Resources”. *Scandinavian Journal of Economics* 88, 141-149.

Stephens, Sian (2016), "Sonangol: Angola´s Charm Offensive". *Natural Resource Charter Case Study*. Natural Resource Governance Institute.

Tolentino, André Corsino, Carlos Manuel Rocha, Nancy Curado Tolentino (2008), "A importância e o impacto das remessas dos imigrantes em Portugal no desenvolvimento de Cabo Verde". Estudos Oi; 27. Observatório da Imigração.

United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) (2013). State of the Least Developed Countries 2013. New York: United Nations.

United Nations Conference on Trade and Development (UNCTAD) (2003). "Vulnerability profile of Vanuatu". Note by UNCTAD.

United Nations Conference on Trade and Development (UNCTAD) (2006). *The Least Developed Countries Report 2006: Developing Productive Capacities.* United Nations publication, E.06.II.D.9.

United Nations Conference on Trade and Development (UNCTAD) (2010). *The Least Developed Countries Report 2010: Towards a New International Development Architecture for LDCs.*: United Nations publication, E.10. II.D.5.

United Nations Conference on Trade and Development (UNCTAD) (2013). *The Least Developed Countries Report 2013. Growth with employment for inclusive and sustainable development.* New York and Geneva: United Nations.

United Nations Conference on Trade and Development (UNCTAD) (2013b). "Investment Policy Review of Bangladesh". Geneva: United Nations.

United Nations Conference on Trade and Development (UNCTAD) (2015). *The Least Developed Countries Report 2015. Transforming Rural Economies.* New York and Geneva: United Nations.

Volta River Authority (VRA) (2015). "The Cost of 'Dum-Sor' on Ghana's Economy". Volta River Authority Newsletter Volume 6.

World Bank (2016). *Transforming Vietnamese Agriculture: Gaining more for less. Vietnam Development Report.* Washington, DC: World Bank.