

SESSION ONE
**Graduation from LDC Status,
the Development of Productive Capacities
and Structural Transformation**

Charles Gore

**UN-DESA CDP Capacity-building Workshop on Productive Capacity and the
Use of Trade-Related International Support Measures (ISMs) for LDC
Graduation**

**November 3-4, 2015
Palais des Nations, Geneva**

Objective and Perspective

- **Objective:** Strengthen LDC capacity to use international support measures (ISMs) to sustainably progressing through and beyond LDC graduation.
- **Perspective:**
 1. The best way for LDCs to progress through and beyond graduation is to develop their productive capacities and to promote structural transformation.
 2. National trade policies will work best when they integrated within a national development strategy oriented towards building productive capacities and structural transformation.
 3. International support measures (ISMs) will work best where they complement and support national policies for trade development and building productive capacities.

VISION:
WHY



STRATEGY:

TACTICS:

Organization

- **The workshop is organized in four basic sessions considering:**
 1. Questions of overall vision in terms of how trade and productive capacity development fit into overall development strategy as part of the graduation process. WHY...WHY...WHY
 2. Strategic issues concerning what priorities a country should adopt for trade and the development of productive capacities. WHAT...WHAT...WHAT
 3. Tactical issues concerning national policy measures and institutional arrangements to realize these priorities. HOW...HOW...HOW
 4. Examination of how international support measures can best support and complement these national efforts. HOW...HOW...HOW
- **ISMs will be most effective if they complement and support national policies. THIS IS THE BASIC MESSAGE OF THE WORKSHOP**
- **Interactive dialogue, including country and sectoral case studies**

Risks of Trade Capacity Development

(See LDCR 2004 pp290-300)

“As the development objectives of developed countries as donors overlap with their commercial interests (as trading powers), they may be prone to decide upon what type of assistance to provide according to their own interests rather than those of recipient countries” Solignac-Lecompte 2003.

Risks to trade capacity development:

- **Negative discrimination.** Donors are reluctant to provide assistance in areas perceived as being detrimental to their own interests
- **Positive discrimination.** Donors may be tempted to positively discriminate in favour of trade- related assistance they see as generating benefits for their own economies
- **Tied aid in relation to technical assistance.**
- **Buy-off in negotiations.** The support granted by donors for enhancing the recipient’s negotiating capacity may alter the negotiator’s goals and incentives to support those of the donor.

The key to an effective national trade policy process is the identification of a country’s trade interests within an overall national development strategy. Use of ISMs must complement and support the strategy.

This Session

1. Describes LDC graduation criteria, indicators and processes and where participant countries stand in relation to them.
2. Defines what is meant by the development of productive capacities and structural transformation, and why they relate to graduation. WHY

THE BOTTOM LINE

The best way for LDCs to take advantage of LDC status with a view to advancing towards graduation and prospering afterwards is **not** to focus directly on promoting progress on specific indicators which make up the graduation criteria.

Rather LDCs should seek to develop productive capacities and to promote structural transformation. Trade development is an essential part of this process.

1. LDC Graduation: Criteria, Indicators and Processes

LDCs and International Support Measures

- The idea that the least developed amongst the developing countries faced structural weaknesses which meant that their development required special LDC-specific support from the international community was first put forward in the late 1960s and early 1970s
- International support specifically available for LDCs has been internationally agreed in a series of UN conference, most lately in the Istanbul Programme of Action 2011-2020.
- ISMs include commitments on aid, trade preferences and special and differential treatment in WTO agreements, and special financial and technical support through the UN system.
- A key goal of the Istanbul Programme of Action is to ensure that half the LDCs reach the criteria for graduation by 2020.

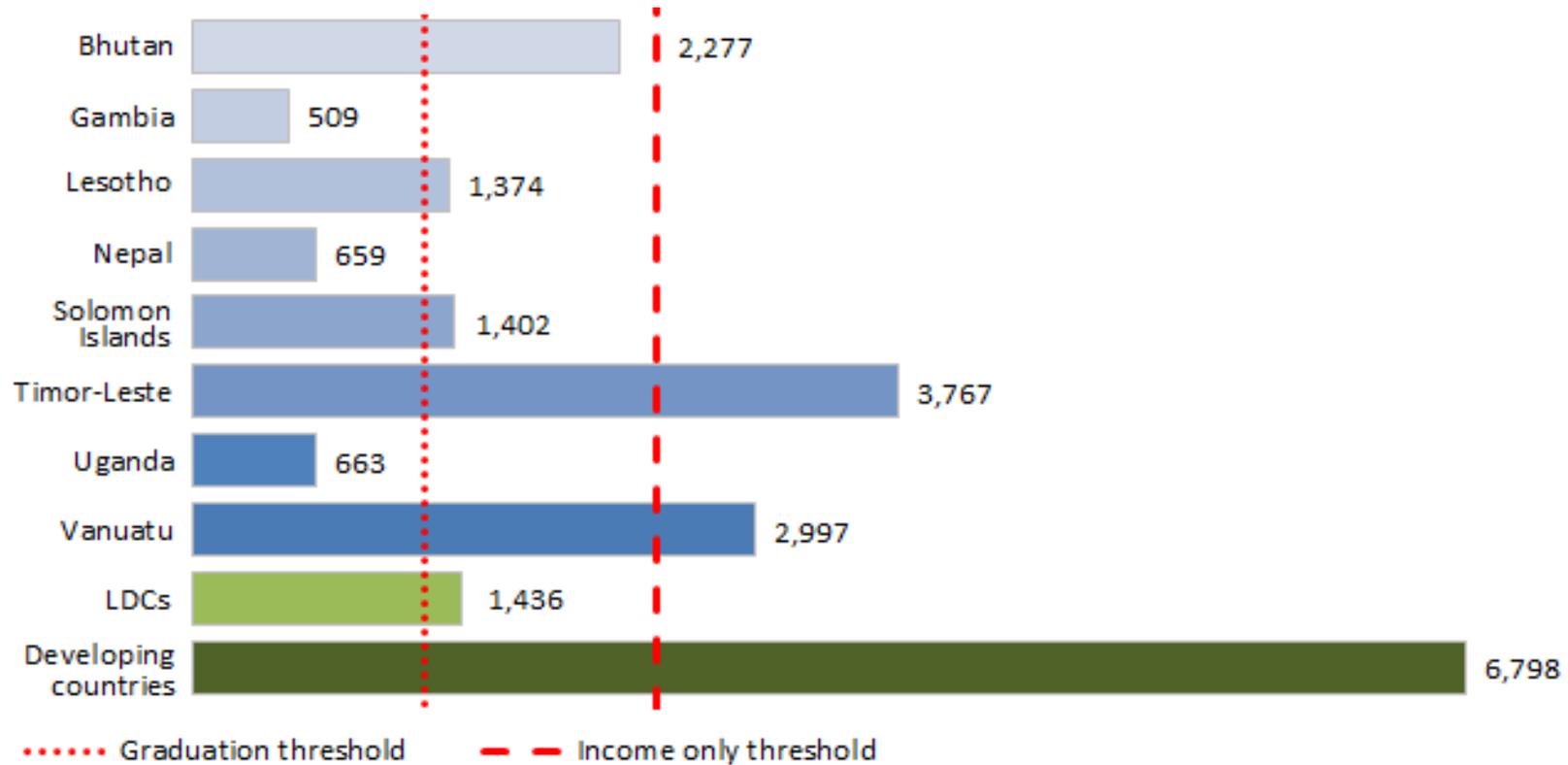
LDC Identification: Criteria and Indicators

- **The Income Criterion.** Based on a three-year average estimate of GNI per capita for the period 2011-2013, using the World Bank Atlas method.
- **The Human Assets Criterion.** The Human Assets Index is based on:
 - Percentage of population undernourished (1/4)
 - Mortality rate for children five years and under (1/4)
 - Gross secondary enrolment rate (1/4)
 - Adult literacy rate (1/4)
- **The Economic Vulnerability Criterion.** The Economic Vulnerability Index is calculated based on:
 - Population (1/8)
 - Remoteness – measured as the trade-weighted distance to reach 50 per cent of world market (1/8)
 - Percentage of population living low coastal areas – areas below 5 meters above sea level (1/8)
 - Export concentration – Herfindahl-Hirschman Index (1/16)
 - Agriculture, forestry and fisheries value-added as share of total value-added (1/16)
 - Share of population which have been victims of natural disasters over last 20 years (1/8)
 - Instability of agricultural production (1/8)
 - Instability of exports of goods and services (1/4)

Per capita GNI

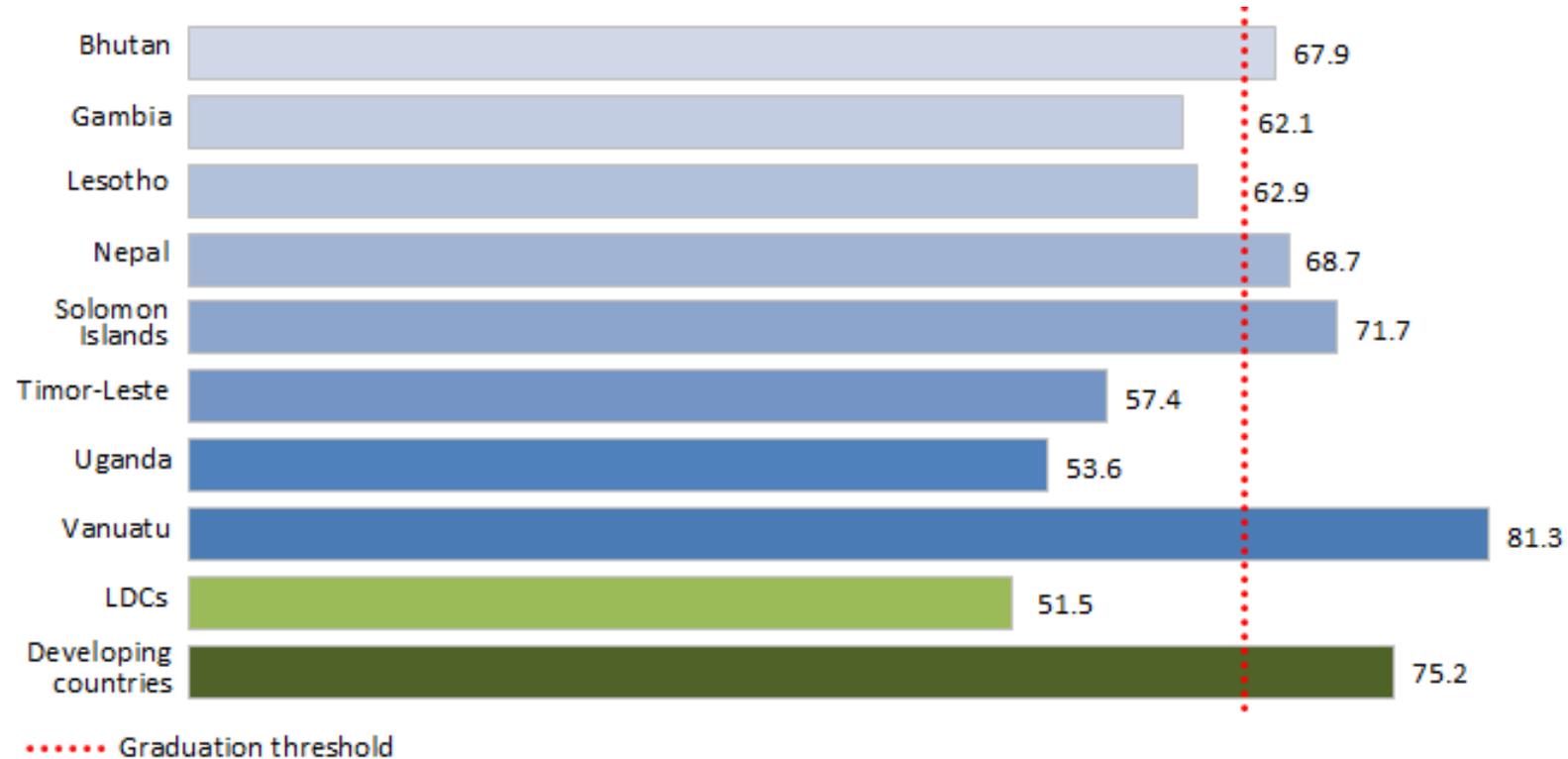
Graduation threshold: \$ 1,242

Income only threshold: \$ 2,484



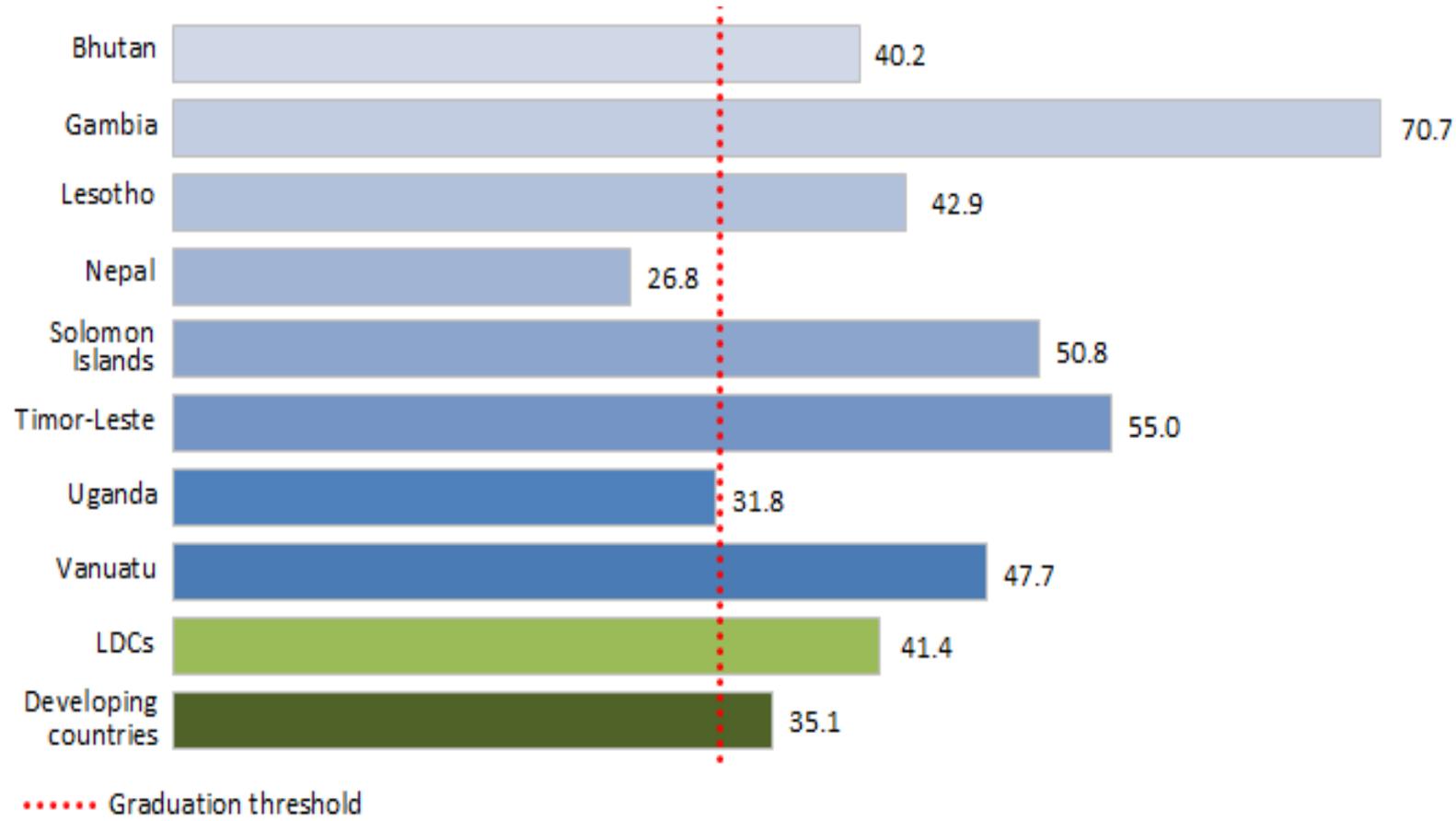
Human asset index (HAI)

Graduation threshold: 66 or above



Economic vulnerability index (EVI)

Graduation threshold: 32 or below



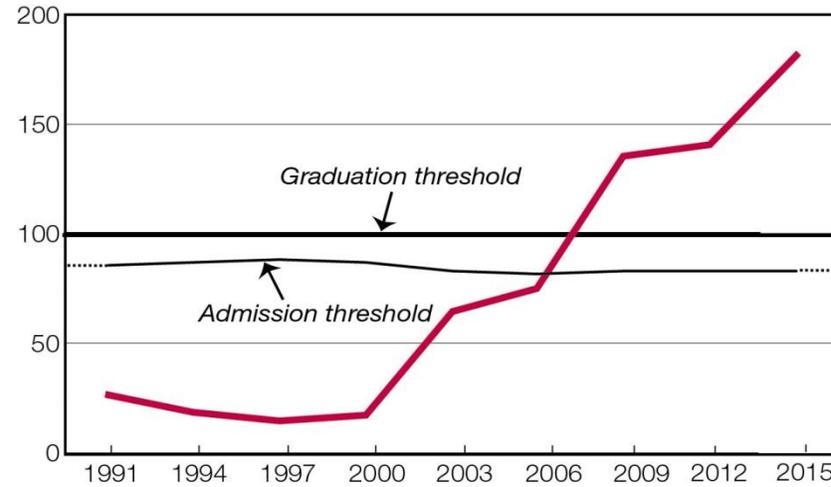
LDC Scores underlying HAI and EVI (CDP 2015)

| Countries\Indicators | Bhutan | Gambia | Lesotho | Nepal | Solomon Islands | Timor-Leste | Uganda | Vanuatu |
|-----------------------|--------|--------|---------|-------|-----------------|-------------|--------|---------|
| Population | 75.2 | 61.4 | 59.6 | 19.7 | 79.7 | 68.9 | 15.1 | 92.0 |
| Remoteness | 52.7 | 45.3 | 98.1 | 52.9 | 85.0 | 69.0 | 72.0 | 90.3 |
| Pop. In low coastal | 0.0 | 67.2 | 0.0 | 0.0 | 36.8 | 2.7 | 0.0 | 3.4 |
| Export concentration | 28.1 | 17.8 | 43.5 | 4.7 | 56.6 | 77.5 | 11.3 | 70.9 |
| Agric. F F Share (%) | 27.2 | 38.1 | 12.0 | 58.9 | 46.2 | 4.8 | 44.9 | 40.8 |
| Nat. disaster victims | 66.6 | 75.7 | 89.1 | 64.7 | 59.2 | 34.2 | 67.9 | 84.3 |
| Agric instability | 45.5 | 87.7 | 27.0 | 9.9 | 17.0 | 23.9 | 7.2 | 33.1 |
| Export instability | 27.0 | 100.0 | 20.9 | 17.7 | 38.6 | 100.0 | 31.9 | 11.3 |
| Undernourishment | 75.0 | 98.3 | 89.2 | 86.7 | 87.5 | 60.3 | 65.5 | 96.3 |
| Under 5 mortality | 84.1 | 61.3 | 46.7 | 82.0 | 87.8 | 73.0 | 66.0 | 95.8 |
| Literacy | 37.1 | 36.0 | 67.7 | 43.2 | 68.8 | 44.4 | 64.3 | 77.8 |
| Sec. school enrolm. | 75.2 | 52.8 | 48.1 | 62.9 | 42.7 | 51.8 | 18.7 | 55.0 |

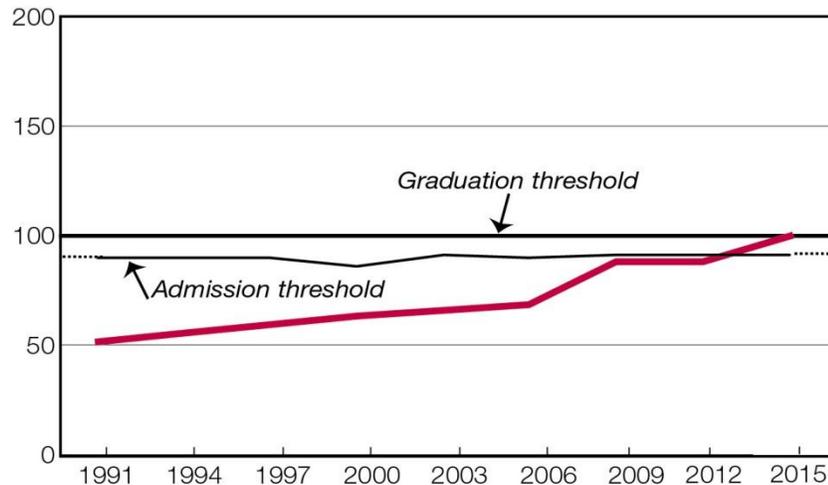
| Countries\Indicators | Bhutan | Gambia | Lesotho | Nepal | Solomon Islands | Timor-Leste | Uganda | Vanuatu |
|---|--------|--------|---------|--------|-----------------|-------------|--------|---------|
| | | | | | | | | |
| Population (000) | 754 | 1 849 | 2 074 | 27 797 | 561 | 1 132 | 37 579 | 253 |
| Remoteness | 4 094 | 4 880 | 8 248 | 4 108 | 8 996 | 7 029 | 5 517 | 9 765 |
| Pop. In low elevated coastal zones (%) | 0.00 | 23.53 | 0.00 | 0.00 | 12.88 | 0.94 | 0.00 | 1.18 |
| Export concentration | 0.34 | 0.25 | 0.47 | 0.14 | 0.58 | 0.76 | 0.20 | 0.70 |
| Agriculture, forestry and fisheries (%) | 17.1 | 23.5 | 8.1 | 35.8 | 28.2 | 3.9 | 27.5 | 25.1 |
| Victims of natural disasters (%) | 0.790 | 1.579 | 4.358 | 0.682 | 0.449 | 0.067 | 0.875 | 3.036 |
| Agricultural instability | 9.91 | 17.72 | 6.50 | 3.33 | 4.65 | 5.91 | 2.83 | 7.63 |
| Export instability | 13.09 | 65.13 | 11.26 | 10.32 | 16.59 | 43.68 | 14.58 | 8.40 |
| Undernourishment (%) | 20.0 | 6.0 | 11.5 | 13.0 | 12.5 | 28.8 | 25.7 | 7.2 |
| Under 5 mortality (per 1000) | 36 | 74 | 98 | 40 | 30 | 55 | 66 | 17 |
| Literacy rate | 52.8 | 52.0 | 75.8 | 57.4 | 76.6 | 58.3 | 73.2 | 83.4 |
| Gross secondary enrolment ratio | 77.7 | 57.5 | 53.3 | 66.6 | 48.4 | 56.6 | 26.9 | 59.5 |
| GNI per capita (\$) | 2 277 | 509 | 1 374 | 659 | 1 402 | 3 767 | 663 | 2 997 |

BHUTAN: overall performance at a glance

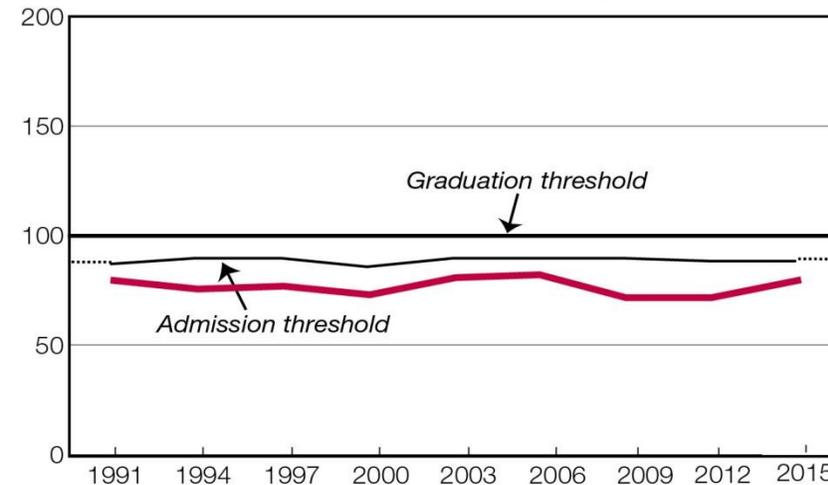
Low-income criterion (per capita GDP until 2000, per capita GNI in 2003)



Human capital weakness criterion (Human Assets Index)

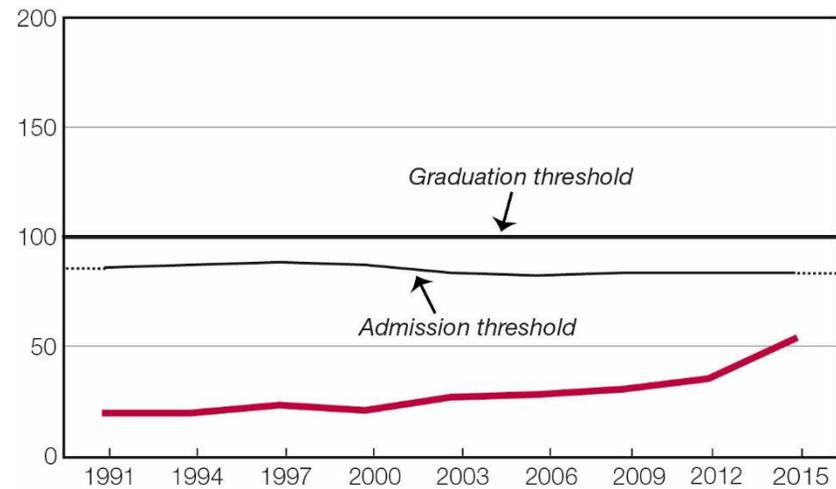


Economic vulnerability criterion (Economic Vulnerability Index)

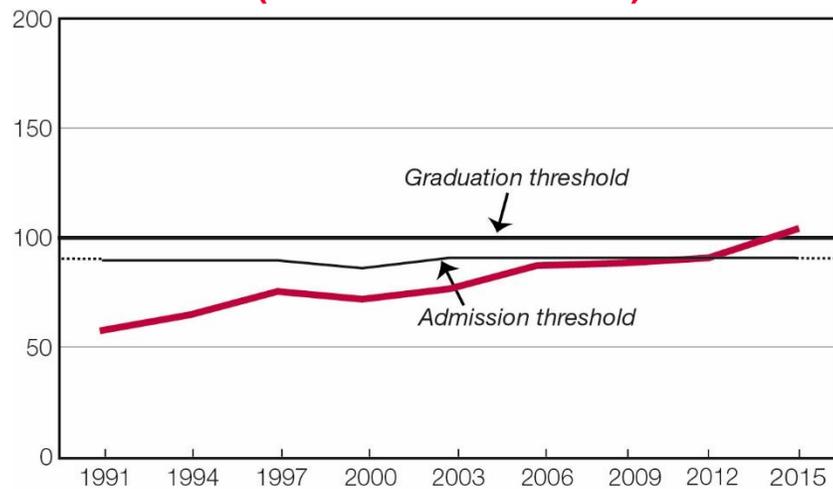


NEPAL: overall performance at a glance

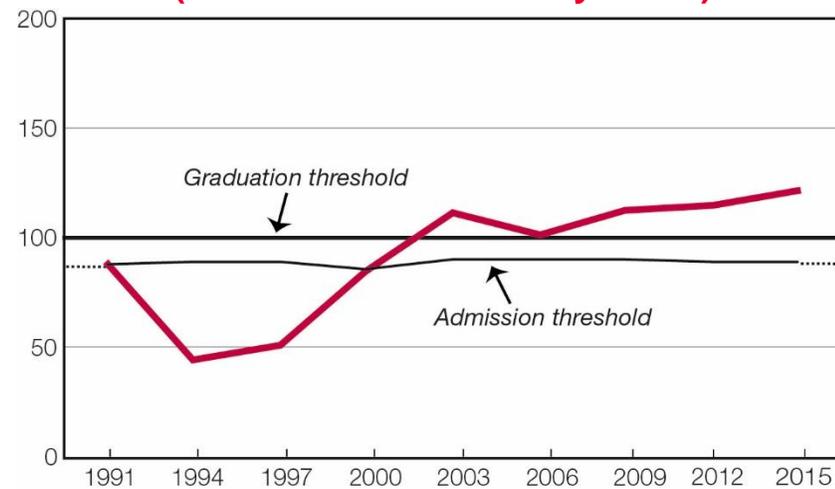
Low-income criterion (per capita GDP until 2000, per capita GNI in 2003)



Human capital weakness criterion (Human Assets Index)

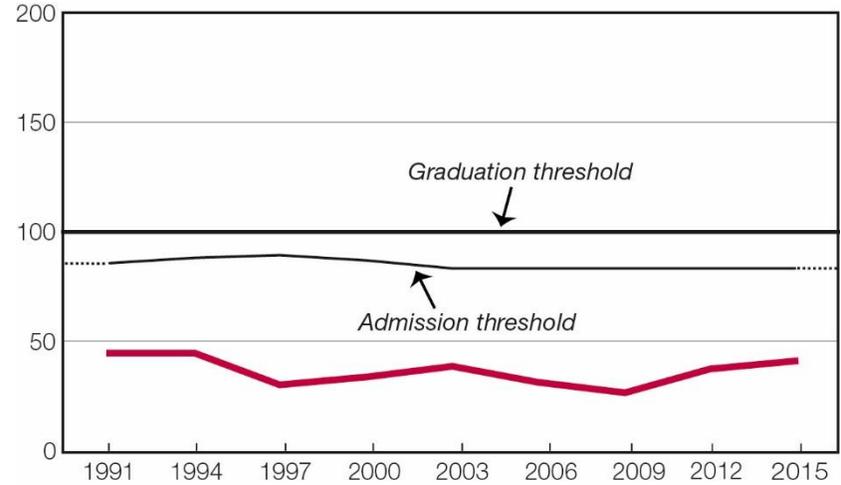


Economic vulnerability criterion (Economic Vulnerability Index)

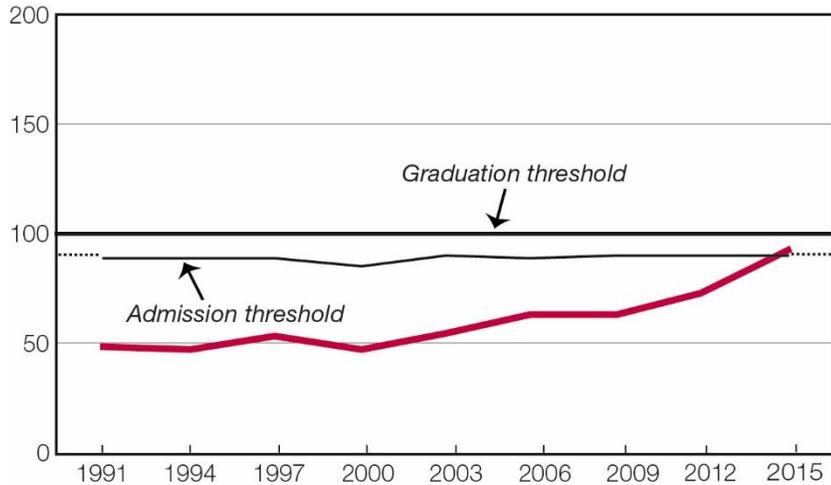


GAMBIA: overall performance at a glance

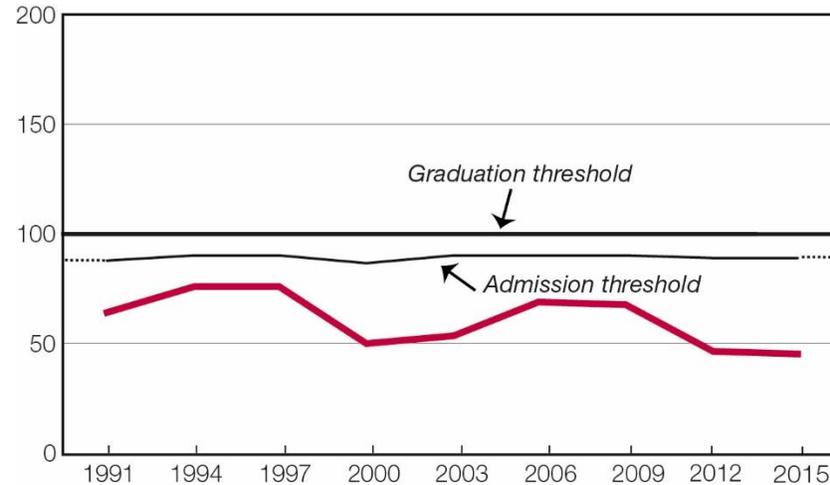
Low-income criterion (per capita GDP until 2000, per capita GNI in 2003)



Human capital weakness criterion (Human Assets Index)

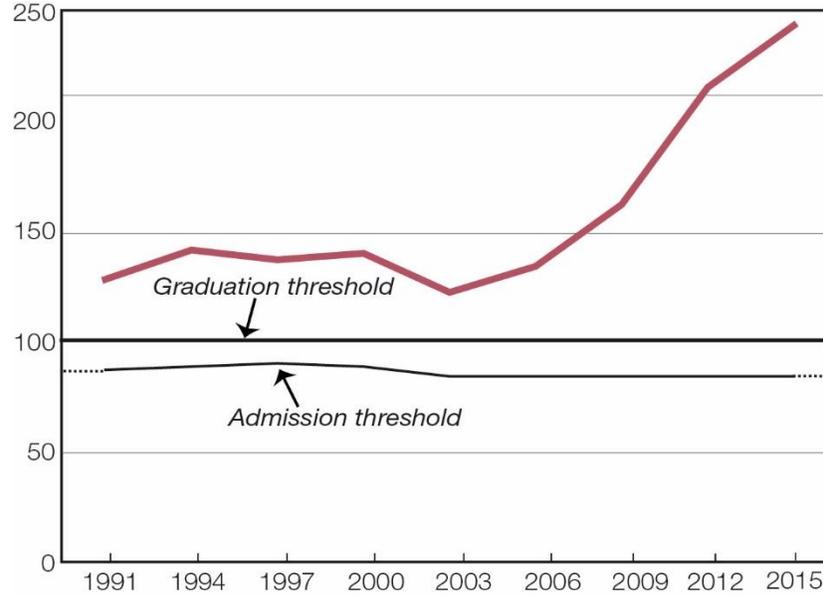


Economic vulnerability criterion (Economic Vulnerability Index)

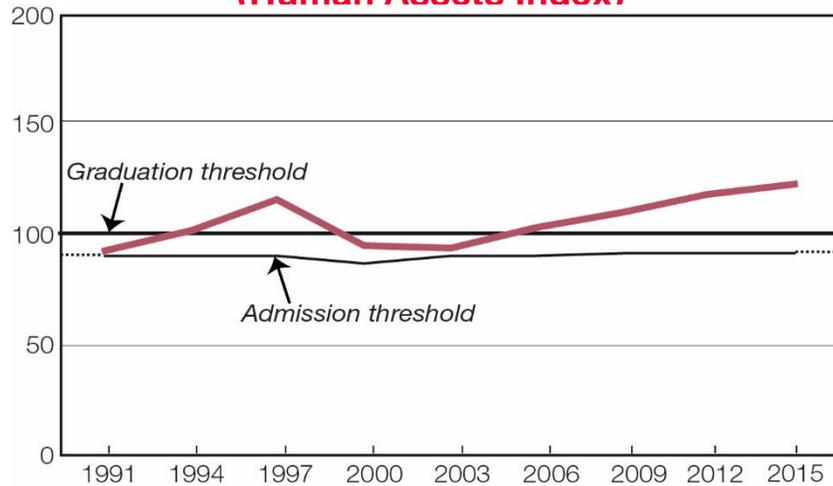


VANUATU: overall performance at a glance

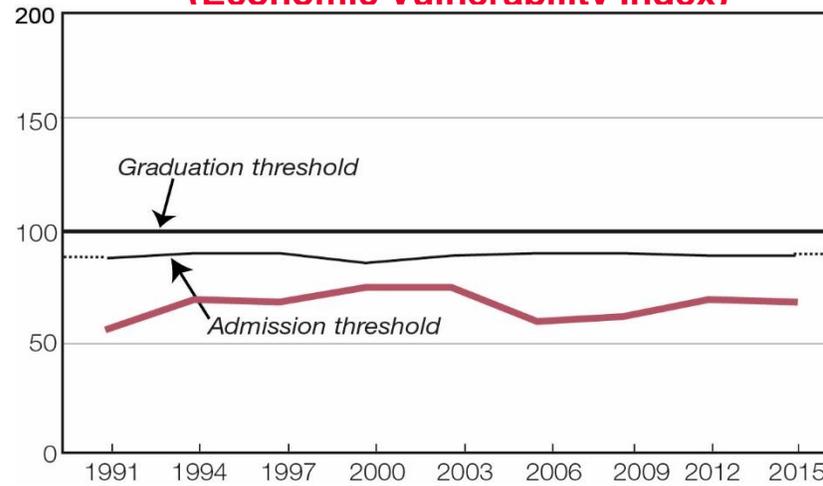
Low-income criterion (per capita GDP until 2000, per capita GNI in 2003)



Human capital weakness criterion (Human Assets Index)



Economic vulnerability criterion (Economic Vulnerability Index)



What Does «Graduation» Mean?



What Does «Graduation» Mean?

- “Graduation from the LDC category inherently means that a country has reached a level of development that no longer requires LDC-specific support from the international community” (CDP Background Paper No. 14, 2012).
- THUS THE CENTRAL PARADOX OF THE WORKSHOP
Essentially we are seeking to build the capacity of LDCs to use international support mechanisms so that they will not have to use them in the future.
- Graduation from LDC status is neither a mechanical nor abrupt process but is best achieved through a smooth transition.

LDC Graduation as a Process

- The process of graduation for a country takes at least six years from the initial moment when the CDP finds that two graduation thresholds have been met in that country, including three years after the CDP recommends that a country graduates.
- Graduation criteria must be met in two successive CDP reviews. Graduating country can make written and oral reports as inputs to the second review
- Vulnerability profile and ex-ante impact assessment prepared after the first notification of the country that graduation thresholds met and taken into account in CDP recommendation
- CDP recommendation goes to ECOSOC and noted by General Assembly for graduation after a further three years
- During years 3 to 6, graduating LDC establishes consultative mechanism, with development and trading partners, to facilitate preparation of a smooth transition strategy, with UNDP facilitating and UN providing technical assistance
- Development partners do not abruptly withdraw support but phase it out according to country needs
- CDP monitors progress and regression with annual country reports to CDP for three years and triennial reports for two further CDP reviews.

Celebrating and Leveraging LDC Graduation

- Graduation “reflects international recognition of the achievement of an important stepping stone in a country’s development efforts. Naturally, such an accomplishment should not be interpreted as the limit or pinnacle of what that country can achieve as seen by the actions constantly being undertaken by all developing countries to improve the welfare of their populations. The fact that the country met certain critical thresholds should therefore be **celebrated**, and not a cause for apprehension” (CDP Background Paper No. 14).
- Given the international commitment to moving towards “a world without LDCs” in the Istanbul Programme of Action, LDCs approaching graduation should seek to leverage their success to ensure that they can sustainably progress through and beyond graduation.
- This implies maximizing the use of international support measures and working out how they can be phased out successfully.

2. Structural Transformation and the Development of Productive Capacities

The Importance of Productive Capacities

- **Istanbul Programme of Action 2011-2020**

→ “Building a critical mass of viable and competitive productive capacity in agriculture, manufacturing and services is essential if least developed countries are to benefit from greater integration into the global economy, increase resilience to shocks, sustain inclusive and equitable growth as well as poverty eradication, achieve structural transformation, and generate full and productive employment and decent work for all». Para.44

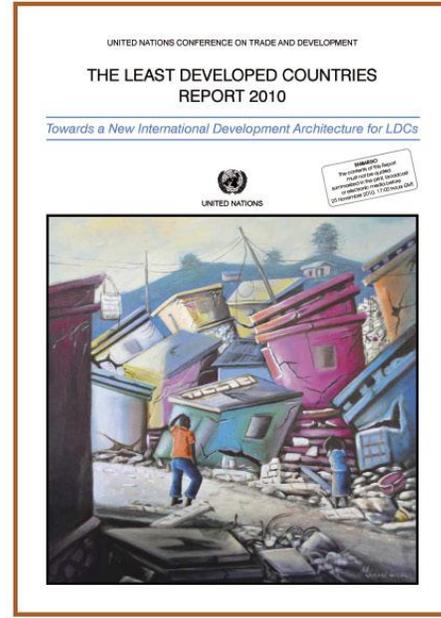
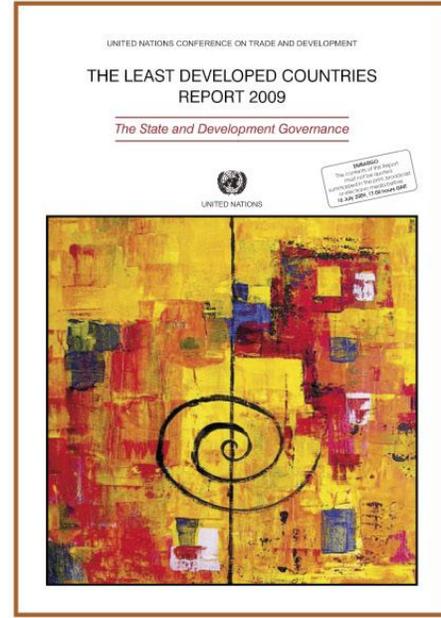
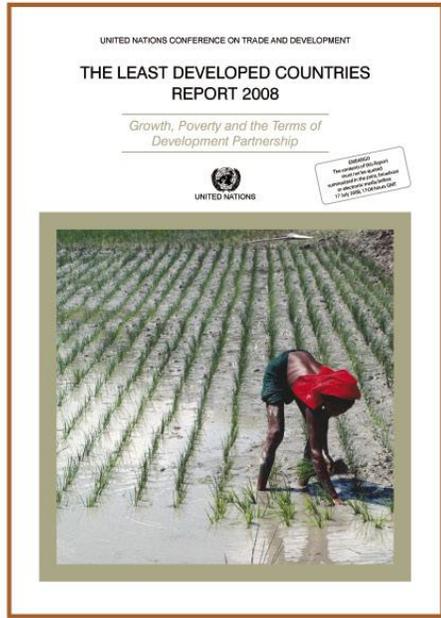
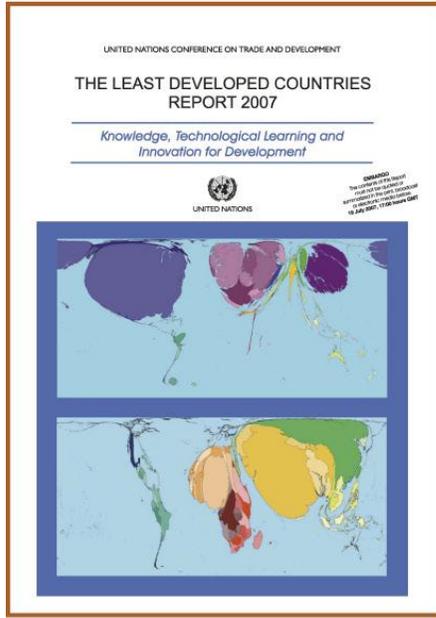
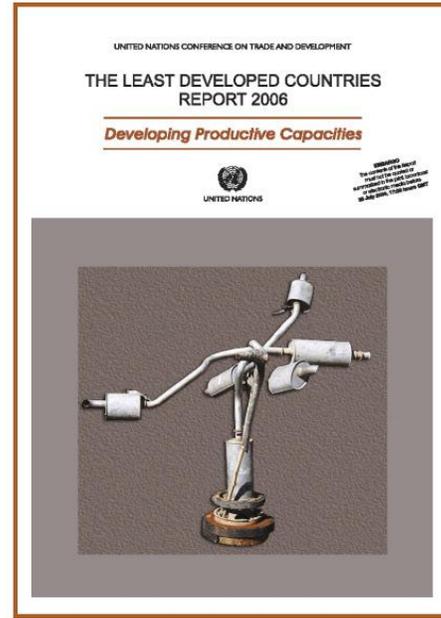
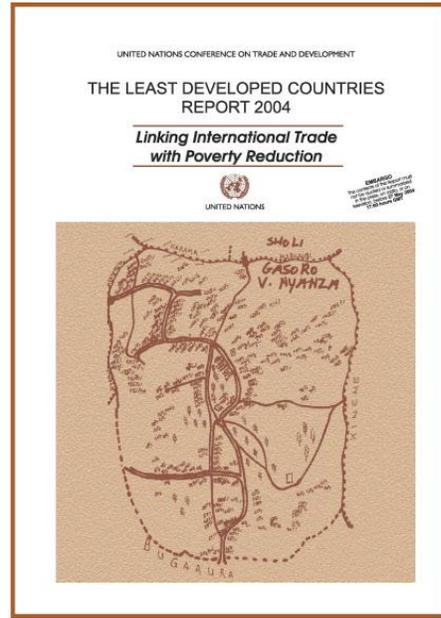
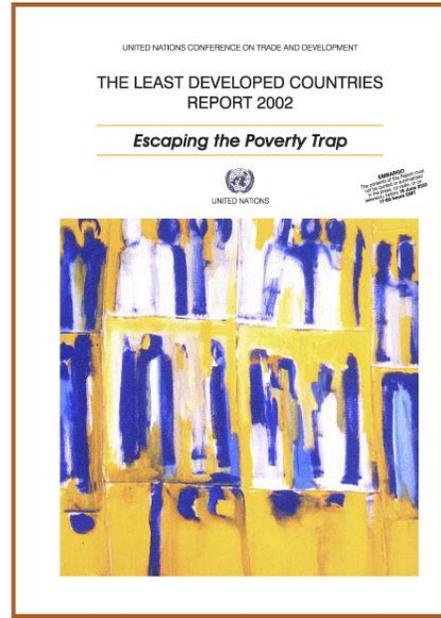
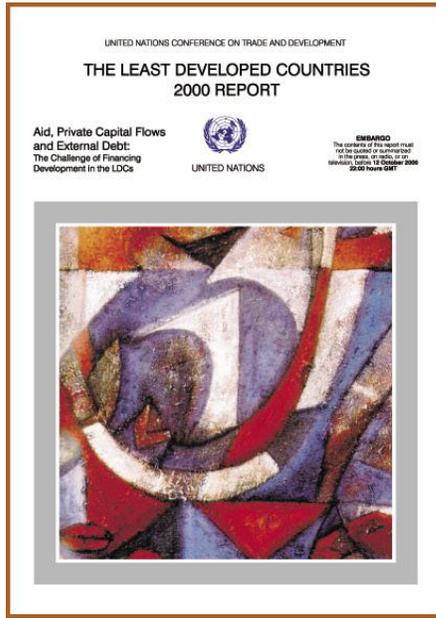
- **UNCTAD Least Developed Countries Reports (LDCR)**

→ The development and utilization of productive capacities should be put at the heart of national and international policies to promote development and poverty reduction in LDCs

- **OHRLSS – State of the LDCs Report 2013**

→ “Building productive capacity is essential for achieving high and sustainable growth, structural transformation, and creation of employment and decent jobs. Progress towards structural transformation will not only reduce the exposure of these countries to shocks, but also enable them to sustain a GDP growth rate of at least 7 per cent per annum, and help them meet the criteria for graduation”.

- **LDC IV Monitor Report 2014: Analytical Perspectives**



What are Productive Capacities?

- The productive capacities of a country are “the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop”
- “The productive capacities of a country develop when its abilities to produce, efficiently and competitively, an increasing range of higher value-added goods and services increase”.
- Productive capacities, in this vision, are not the same as export supply capacities

WHAT ARE PRODUCTIVE CAPACITIES?

UNCTAD LDC Report 2006

- Productive **resources** – natural resources, human resources, financial capital, physical capital.
- Entrepreneurial **capabilities** – core competences; technological capabilities.
- Production **linkages** – exchange of goods and services; flows of information; human and financial resource flows – between sectors and between enterprises.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

THE LEAST DEVELOPED COUNTRIES REPORT 2006

Developing Productive Capacities



UNITED NATIONS

EMBARGO
The contents of this report
must not be quoted or
summarized in the print, broadcast
or electronic media before
16 July 2006, 17:00 hours GMT



What is Structural Transformation?

- Structural transformation is a process in which the relative importance, inter-linkages and organizational structure of different sectors and activities within an economy changes over time.
- Structural transformation is an indicator and outcome of the development productive capacities.
- In the context of least developed countries and graduation, aspects of structural transformation are:
 - Increasing division of labour
 - Relative decline of low productivity agriculture and low value-added extractive activities and relative increase in manufacturing and high-productivity services
 - Increasing share of the employed population engaged in formal rather than informal economic activities
 - Introduction into the country of new tradeable sectors, including both import substitutes and export activities
 - Reduction in dependence on primary commodities for export
 - Increase in local value-added and density of local linkages

The Core Processes through which Productive Capacities Develop

- **Capital accumulation** – increasing capital stocks of various kinds through *investment*. **Key input is finance**
- **Technological progress** – introducing new goods and services or methods of production through application of knowledge in production (*learning and innovation*). **Key input is knowledge**
- **Structural change** – change in the inter- and intra-sectoral composition of production and pattern of linkages amongst sectors and enterprises. This is an active ingredient, as well as outcome, of the process because it changes the potential for capital accumulation and technological progress

Indicators of Productive Capacity Development: IPOA Para 45

- (a) Increase significantly the value addition in natural resource-based industries paying special attention to employment generation;
- (b) Diversify local productive and export capability with a focus on dynamic value added sectors in agriculture, manufacturing and services;
- (c) Significantly increase access to telecommunication services and strive to provide 100 per cent access to the Internet by 2020;
- (d) Strive to increase total primary energy supply per capita to the same level as other developing countries;
- (e) Significantly increase the share of electricity generation through renewable energy sources by 2020;
- (f) Enhance capacities in energy production, trade and distribution with the aim of ensuring access to energy for all by 2030;
- (g) Ensure that the least developed countries have significant increase in combined rail and paved road mileage and sea and air networks by 2020.

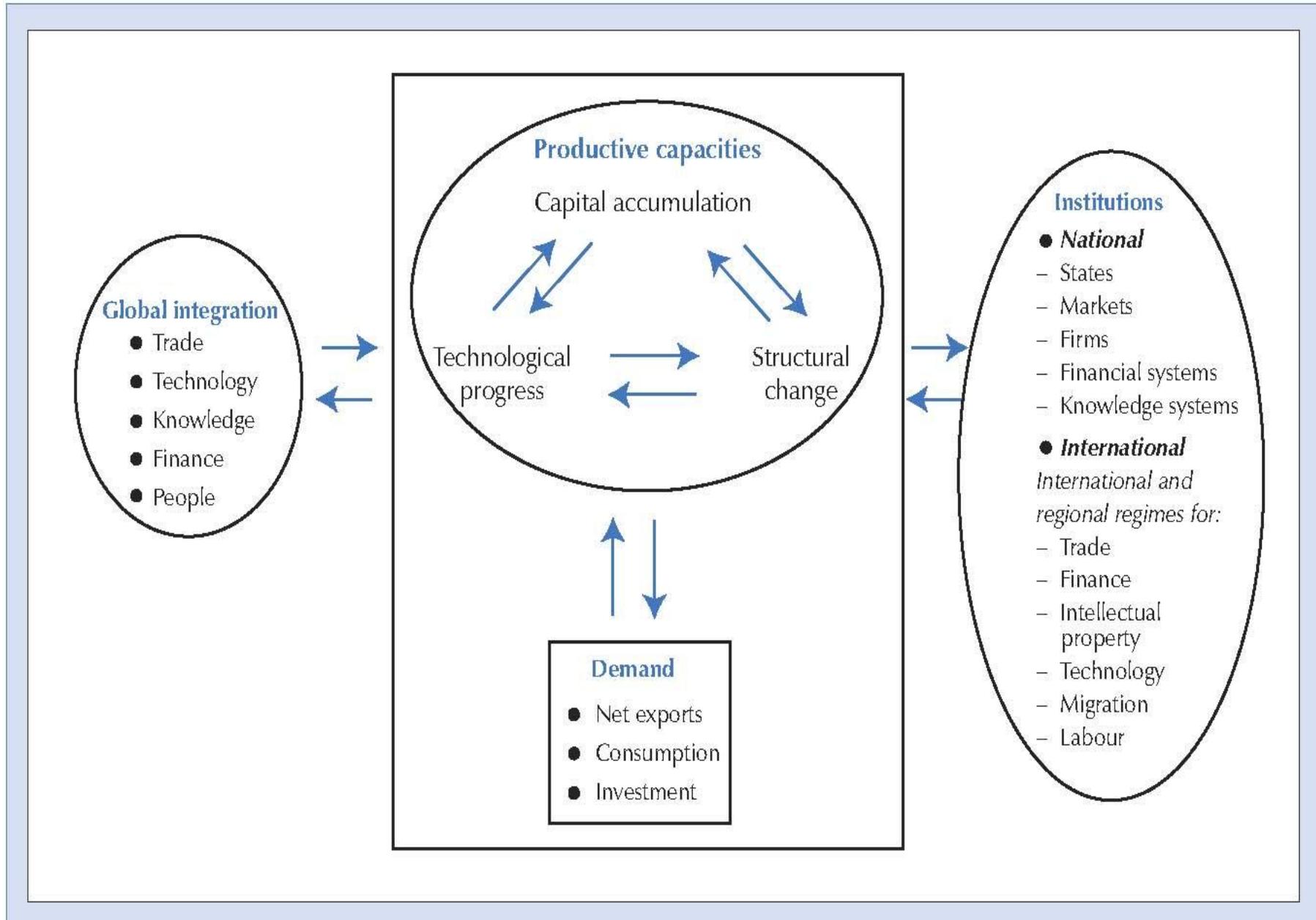
Indicators of Productive Capacity Development: A Longer Indicative List

- Physical Capital Accumulation
 - Gross fixed capital formation as share of GDP
 - Credit to private sector as share of GDP
 - Inward FDI per capita
 - Capital goods imports per capita
 - Adjusted Net Savings (natural capital)
- Physical Infrastructure
 - Electricity generated per capita
 - Access to electricity (% of population)
 - Road and rail density
 - Port infrastructure
- Human Capital
 - Average years of schooling of working age population
 - Gross secondary school enrolment rate
 - Vocational students as percentage of population
 - Graduates in science and engineering as percentage of population
 - Personal computers per 1000 people
 - Mobile phones per 1000 people
- Entrepreneurial and Technological Capabilities
 - Number of national firms with more than 50 employees
 - R&D expenditures by production enterprises
 - Royalty and license payments per capita and as % of GDP
 - ISO certificates per capita
- Structural outcomes
 - Export diversity, complexity and sophistication
 - UNIDO Competitive Industrial Performance Index, based on manufactured value-added as share of GDP, manufactured exports as share of exports, and the technological structure of each of these (resource-based, low-tech, medium tech and high tech manufactures).

Utilization of Productive Capacities Matters as well as their Development

- Productive capacities create only a potential for production and growth. Whether this potential is realized depends on whether they are fully used.
- Whether they are fully used depends on demand-side factors.
- In most LDCs, there are underutilized productive resources and entrepreneurial capabilities.
- Including: underemployed labour; latent entrepreneurial capabilities; unmobilized savings; untapped natural resources.

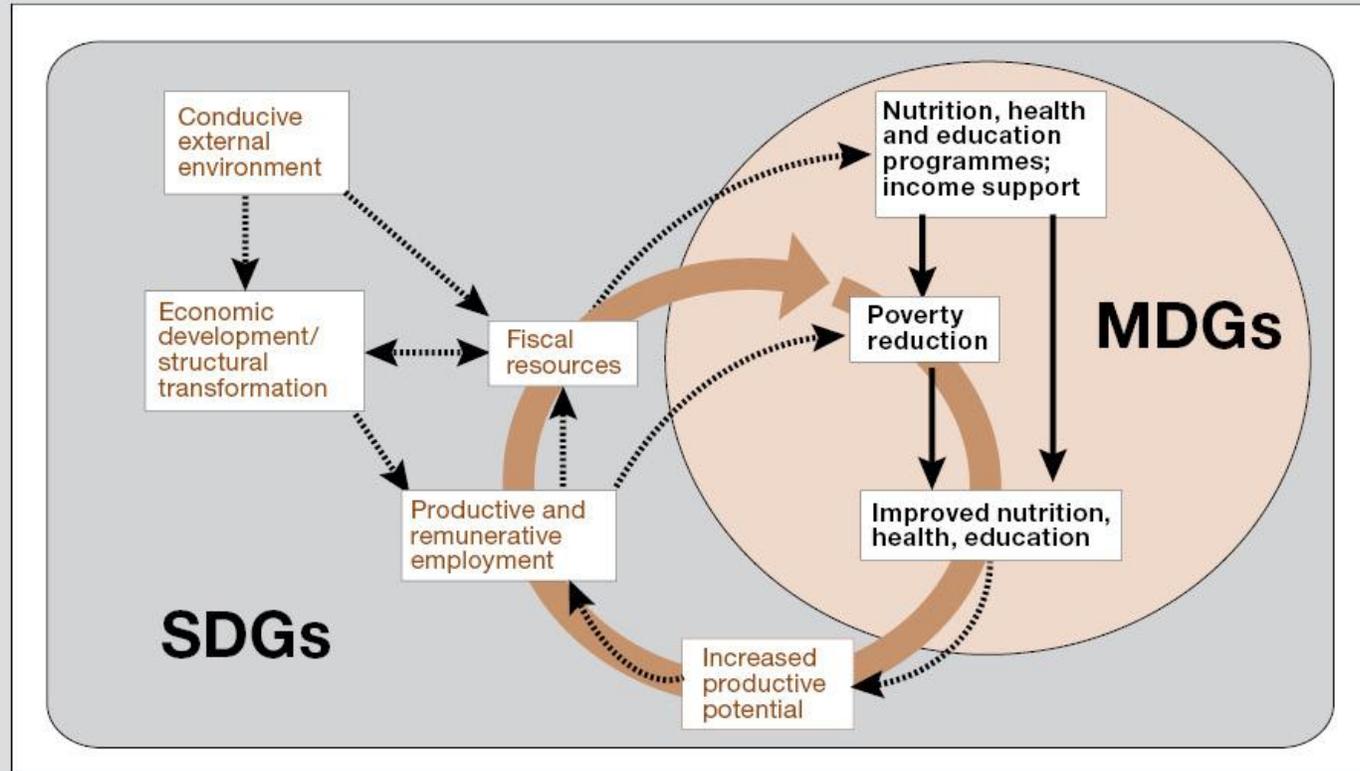
CHART 9. HOW PRODUCTIVE CAPACITIES DEVELOP



Central Importance of Developing Productive Capacities for Graduation

- Developing productive capacities is the basis for increased domestic resource mobilization, reduced aid dependence and expansion of fiscal space for achievement of human development MDGs
- Investing in human capital is a key element of developing productive capacities
- The manner in which productive capacities are developed provides the basis for sustainable and inclusive development which reduces poverty and provides broad based improvements in well-being.
- The expansion of employment opportunities associated with the development of productive capacities is the key mechanism of poverty reduction
- Developing productive capacities reduces vulnerability to external shocks by increasing resilience of the economy

Chart 22. Completing the circle: A framework for the SDGs



Source: UNCTAD secretariat.

The Bottom Line

- Developing Productive Capacities and Promoting Structural Transformation is the Best Way for LDCs to Sustainably Progress through and beyond Graduation
- NEXT SESSION. Looks at the role of trade in this process

Thank You