

Achieving the Istanbul Programme of Action by 2020

Tracking Progress, Accelerating Transformations

LDC IV Monitor



The Commonwealth



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Commonwealth Secretariat
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About *LDC IV Monitor*

LDC IV Monitor is an independent partnership established in September 2011 by eight think tanks and academic institutions from least developed countries (LDCs) and partner countries. Through monitoring and assessing the implementation of the Istanbul Programme of Action (IPoA) for the Least Developed Countries adopted by the Fourth United Nations Conference on the Least Developed Countries (UN LDC IV), it aims to contribute to an improved delivery of commitments made to the LDCs. Drawing its strength from the expertise and capacity of its members, the consortium undertakes policy research, organises dialogues, and carries out outreach activities, covering the key issues laid out in the IPoA.

The current seven members of the partnership are the following:

- Centre for Economics and Foreign Policy Studies (EDAM), Istanbul
- Centre for Policy Dialogue (CPD), Dhaka
- Commonwealth Secretariat, London
- Economic and Social Research Foundation (ESRF), Dar es Salaam
- Fondation pour les Études et Recherches sur le Développement International (FERDI), Clermont-Ferrand
- International Centre for Trade and Sustainable Development (ICTSD), Geneva
- OECD Development Centre (DEV), Paris

Centre for Policy Dialogue (CPD) is currently functioning as the Secretariat of the partnership.

As a part of its contribution to the assessment process of IPoA, *LDC IV Monitor* has published a volume of scholarly papers captioned, ‘Istanbul Programme of Action for the LDCs (2011–2020): Monitoring Deliverables, Tracking Progress — Analytical Perspectives’ along with a summary report titled, ‘Istanbul Programme of Action for the LDCs (2011–2020): Monitoring Deliverables, Tracking Progress — Synthesis Report.’

More information on the partnership is available on its website www ldc4monitor.org.

Foreword by Under-Secretary-General Gyan C Acharya, Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, UNOHRLLS

The 2016 report of the *LDC IV Monitor*, the second in a series, comes at a critical time for the Least Developed Countries (LDCs): the staging of a High-level Midterm Review of their Programme of Action, which was adopted in 2011 in Istanbul, Turkey.

Five years into the implementation of this global compact, the global community is holding a midterm review to assess the rate of progress in fulfilling commitments made by the LDCs and their development partners, to identify challenges, lessons learnt and best practices and to propose recommendations for the remaining five years.

This report constitutes a major contribution to this exercise and as such we welcome its efforts. It focuses on four themes at the core of the Istanbul Programme of Action (IPoA): structural transformation and export diversification in the LDCs; prospects for the countries' graduation from the LDC classification; implications of the 2030 Agenda for the LDCs' concerns; and new challenges facing the LDCs in their pursuit of achievement of the Sustainable Development Goals (SDGs).

The report is also noteworthy as it encapsulates joint efforts by a partnership of seven globally reputed think tanks, international organisations and development partners to come together and generate a knowledge product that all agree on. Such joint responsibility, partnership and ownership will go a long way in ensuring buy-in with regard to the messages of the report.

We would like to offer our gratitude to the partners of the *LDC IV Monitor* for this evidence-based assessment of the IPoA and the way forward—taking into account the 2030 Agenda for Sustainable Development.

It is our hope that policy-makers, academia and civil society, as well as the general public within and outside LDCs and their development partners, will consider the messages of this report as they move towards the next phase of implementation of the IPoA.

Foreword by Commonwealth Secretary-General, The Rt Hon Patricia Scotland QC

The Commonwealth Secretariat has long been a pioneer in providing long-term capacity-building support for its developing country members. We have consistently been in the forefront of advocacy on behalf of our Least Developed Country (LDC) members for a more inclusive and responsive international trade and development support architecture.

This publication is the product of encouraging cooperation between the Commonwealth Secretariat and other members of the *LDC IV Monitor* and assesses implementation of the 2011–2020 Istanbul Programme of Action (IPoA) for the LDCs.

It provides an independent and objective framework for analysing progress made, and offers concrete suggestions as to how implementation processes can be reinvigorated for the benefit of LDCs, emphasising the need for transparency and accountability in relation to the implementation of the IPoA by all development partners and by national governments.

Preface from the Chair

The publication, titled *Achieving the Istanbul Programme of Action by 2020: Tracking Progress, Accelerating Transformations*, is the second instalment of the *LDC IV Monitor* for tracking progress on implementation of the Istanbul Programme of Action (IPoA). It is a set of scholarly papers that addresses the multidimensional outlook for LDCs and analyses their progress on different development criteria before the midterm review of the IPoA in May 2016.

The context

The *LDC IV Monitor* independently evaluates the IPoA, which was the outcome document of the Fourth UN Conference on the Least Developed Countries (UN LDC IV), held in May 2011. This partnership of seven think tanks and academic institutions is aimed at expediting the delivery of the IPoA for the LDCs and bringing issues of critical concern and interest to LDCs to the forefront.

The IPoA, adopted at UN LDC IV in 2011, was endorsed by the UN General Assembly. Through Resolution 69/231 of 19 December 2014, the General Assembly announced, *inter alia*, its decision to organise a comprehensive and three-day high-level midterm review of implementation of the IPoA in mid-2016, and accepted the offer of the government of Turkey to host the event.

In the run-up to the midterm review, the *LDC IV Monitor* has not only prepared this volume, but also organised meetings on critical issues that have provided valuable inputs into it. Together, the meetings and the volume have been an integral part of the initiative's efforts to support the preparation process of the midterm review, through generating credible inputs into it. The Commonwealth Secretariat and the Organisation for Economic Co-operation and Development (OECD) Development Centre, two partners of the initiative, have organised two expert group meetings, in Johannesburg (25 June 2015) and Paris (29 February 2016), respectively. More recently, the UN Foundation hosted a roundtable in New York (7 April 2016), which disseminated key findings of the *LDC IV Monitor*.

Against this backdrop, this present publication aims to feed into discussions at the midterm review. Earlier contributions by the *LDC IV Monitor* have included a set of unique documents: a volume on Analytical Perspectives and a Synthesis Report. Prepared with critical and in-depth analyses on the status of IPoA implementation and the feasibility of the LDCs meeting these targets, the documents aimed to enhance transparency and accountability as well as to shine a light on efficiency in the implementation of the IPoA.

The volume on Analytical Perspectives addressed a range of issues, including articulation of a composite IPoA index, building productive capacity, enhancing

trade in goods and services, delivery of the Millennium Development Goals (MDGs), flows of different forms of development finance and consequences of climate change. The Synthesis Report captured the broad messages and key recommendations of the Analytical Perspectives. Now the second instalment of the *LDC IV Monitor* aims to give insight on the progress of IPoA implementation up to the midterm review and the associated opportunities and challenges for the LDCs for the next five years before the IPoA deadline in 2020.

The content

The LDC category, established by the UN in 1971, comprises states recognised as the most vulnerable and disadvantaged around the world. The LDCs are characterised as being susceptible to great risks and challenges and a failure to overcome poverty. The group consists of 48 countries—the number of LDCs having doubled from its original 24. Only Botswana (1994), Cape Verde (2007), Maldives (2011) and Samoa (2014) have managed to graduate from LDC status.

The IPoA is the successor of the Brussels Programme of Action (BPoA), which was unfortunately characterised by weak monitoring of implementation and strategy. The IPoA, in contrast, urges an effective monitoring process and wider scope for involvement for stakeholders in the process.

Apart from the IPoA, LDCs are suitably prioritised in the recently adopted Agenda 2030 for Sustainable Development, which has many synergies with the IPoA. The Sustainable Development Goals (SDGs) in Agenda 2030 could help realign the significance of mitigating risks and obstacles facing the LDCs, at the level of national development and that of development partners.

The upcoming high-level midterm review of the IPoA, which is to be held in Antalya, Turkey, will take stock of the actions taken by the LDCs and their development partners. It will provide opportunities to share best practices and lessons learnt, and help identify, *inter alia*, challenges, constraints and mitigation actions, as well as emerging issues and challenges ahead for the LDCs.

The volume highlights recent critical achievements and missed opportunities for the LDCs in the backdrop of the adverse global economic environment and inadequate delivery of global commitments. More specifically, it sheds light on the following issues: structural transformation and export diversification in the LDCs; prospects of graduation of countries from the LDC group; implications of the 2030 Agenda in view of LDC concerns; and new challenges facing LDCs in pursuit of achievement of the SDGs.

This publication of the *LDC IV Monitor* aims to enhance the transparency and accountability of IPoA implementation at national and international levels. Such enhancement will hopefully entail integration of national and international efforts and ownership of the IPoA. It is expected that the key messages derived from this study will aid in constructing strategic and effective measures to progress on IPoA implementation in the next five years. With these aspirations, the seven partner organisations of the *LDC IV Monitor* expect that all engaged stakeholders in LDCs and their development partners will recognise the intentions, ambitions and value of the partnership.

Acknowledgments

As mentioned earlier, the second volume of *LDC IV Monitor* is an outcome of collective endeavour of a large number of individuals and institutions. Sincere thanks go to the seven partner organisations of the *LDC IV Monitor*: Centre for Economics and Foreign Policy Studies (EDAM), Istanbul; Centre for Policy Dialogue (CPD), Dhaka; Commonwealth Secretariat, London; Economic and Social Research Foundation (ESRF), Dar es Salaam; Fondation pour les Études et Recherches sur le Développement International (FERDI), Clermont-Ferrand; International Centre for Trade and Sustainable Development (ICTSD), Geneva; and OECD Development Centre, Paris for their support and participation.

A special thanks to H.E. Gyan Chandra Acharya, Under-Secretary-General and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, and Rt Hon Patricia Scotland QC, Secretary-General, Commonwealth Secretariat, for kindly providing very appropriate Forewords for the volume.

Sincere gratitude also goes to the authors, who have put vigorous effort into drafting the various chapters of the volume. The *LDC IV Monitor* is sincerely grateful to Professor Rorden Wilkinson, FRSA, University of Sussex, for undertaking the peer review exercise and adding value to the volume.

In connection with preparation of the volume, the Commonwealth Secretariat and the OECD Development Centre are particularly recognised for organising two expert group meetings; the UN Foundation is also appreciated for hosting a roundtable, where some of the findings of the *LDC IV Monitor* were discussed.

The inputs, support and cooperation extended by the key members of the *LDC IV Monitor* are also thankfully recalled. These came from Dr Mehmet Arda (EDAM), Mr Ricardo Meléndez-Ortiz and Mr Christophe Bellmann (ICTSD), Mr Federico Bonaglia (OECD Development Centre), Dr Alassane Drabo and Professor Patrick Guillaumont (FERDI) and Dr Tausi Mbagi Kida and Dr Hoseana Bohela Lunogelo (ESRF).

Dr Mohammad Razzaque from the Commonwealth Secretariat is singled out because of his purposeful engagement with and sustained support to the *LDC IV Monitor*. The key role played by Dr Jodie Keane, Commonwealth Secretariat, in coordinating the preparatory process for the present publication is thankfully mentioned. The role of the publication section of the Commonwealth Secretariat in ensuring a high-quality output is also highly appreciated.

Finally, CPD, as the Secretariat of the *LDC IV Monitor*, deserves special mention for providing coordination and leadership to the partnership. Professor Mustafizur Rahman, Executive Director, CPD, and other professionals from CPD have been generous in extending support to the partnership.

Dhaka
May 2016

Debapriya Bhattacharya, PhD
Chair, *LDC IV Monitor* and
Distinguished Fellow, CPD

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Abbreviations and acronyms

| | |
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| AAAA | Addis Ababa Action Agenda |
| AQAP | Al-Qaeda in the Arabian Peninsula |
| AfT | Aid for Trade |
| BPoA | Brussels Programme of Action |
| BRIICS | Brazil, Russia, India, Indonesia, China and South Africa |
| CDP | Committee for Development Policy |
| DAC | Development Assistance Committee |
| ECOSOC | Economic and Social Council |
| EIF | Enhanced Integrated Framework |
| EU | European Union |
| EVI | Economic Vulnerability Index |
| FDI | Foreign Direct Investment |
| Ferdi | Fondation pour les Etudes et Recherches sur le Développement International |
| FSI | Fragile States Index |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| GNIpc | Gross National Income Per Capita |
| GVC | Global Value Chain |
| HAI | Human Assets Index |
| IIED | International Institute for Environment and Development |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| IPCC | Intergovernmental Panel on Climate Change |
| IPoA | Istanbul Programme of Action |
| LDC | Least Developed Country |
| MDG | Millennium Development Goal |
| ODA | Official Development Assistance |
| ODC | Other Developing Country |

| | |
|--------|--|
| OECD | Organisation for Economic Co-operation and Development |
| PPP | Purchasing Power Parity |
| PVCCI | Physical Vulnerability to Climate Change Index |
| RGTG | Recently Graduated or on the Track of Graduation |
| SDG | Sustainable Development Goal |
| SET | Structural Economic Transformation |
| SHI | Structural Handicap Index |
| UN | United Nations |
| UNCTAD | UN Conference on Trade and Development |
| UNDESA | UN Department of Economic and Social Affairs |
| UNDP | UN Development Programme |
| UNHCR | UN High Commissioner for Refugees |
| US | United States |
| WEF | World Economic Forum |
| WTO | World Trade Organization |

Executive Summary

Since 1971, the UN has recognised the Least Developed Countries (LDCs) as a group of economies with inherent characteristics that create particular economic vulnerabilities and disadvantages. This has led to the international community's articulating specific support measures to ameliorate the situation in the world's poorest countries. Despite these efforts, the number of LDCs has increased from the original list of 24 to 48 currently.

Only a handful of countries have managed to graduate from the group: Botswana (1994), Cape Verde (2007), Maldives (2011) and Samoa (2014). In view of the widespread failure of the LDCs to advance economically and socially so as to achieve the necessary UN graduation criteria, the adoption of the Istanbul Programme of Action (IPoA) for the decade of 2011–2020 spelt out a set of actions for the concerned countries and development partners to implement.

The IPoA follows on from the not-so-well-implemented Brussels Programme of Action (BPoA) for the period 2001–2010. Although this was rightly ambitious in scope, at that time there was a failure to install an effective monitoring framework for effective implementation of the agreed work programme. Subsequently, further to adoption of the IPoA, the *LDC IV Monitor*—a partnership of eight partner organisations across the globe—was created to provide an independent and objective assessment of its implementation on an ongoing basis.

As the midterm review of the IPoA approaches, this publication by the *LDC IV Monitor* makes a contribution to assessing the performance of LDCs vis-à-vis the aspirations and targets initially set out. The analysis contained here is by no means meant to be exhaustive. Instead, it is intended to provide a constructive review of progress made to date, so as to identify areas where the international development community can better adapt to the stark realities of the LDCs.

Key messages

Adapting to the emerging global trading landscape and achieving structural economic transformation: the challenge for LDCs

- The LDCs face a set of unique interrelated global challenges that must be addressed if the objectives of the IPoA are to be met. Since the global financial crisis, a structural break in the trade–growth nexus has become apparent.
- The growth target included in the IPoA (7 per cent per annum) was not achieved over the first half of the IPoA period (2011–2015). Since the crisis of 2008–09, real gross domestic product (GDP) growth in the LDCs has slowed to around 4

per cent—half of the rate prior to 2008. Subsequently, GDP per capita growth has slowed to below 2 per cent on average among the LDCs in recent years.

- According to the analysis presented in Chapter 1, the IPoA target to double exports by 2020 seems likely in value terms, including both goods and services. However, the proportion of global trade the LDCs account for is unlikely to increase substantially by 2020. Therefore, it is unlikely that the LDCs will double their share of world trade, based on current trends.
- Worryingly, the export baskets of the LDCs have become less diversified over time. This increased export concentration is taking place against a backdrop of dramatic preference erosion for the LDCs.
- In relation to the achievement of structural economic transformation, policy-makers must confront the challenge of the declining share of manufacturing value added in LDCs. Overall, results suggest an inability to achieve the desired objectives of the IPoA in the absence of more concerted efforts to enhance global economic governance and cooperation.

Prospects of graduation for LDCs

- The objective of IPoA to enable the number of LDCs to be halved by 2020 is extremely unlikely to be achieved. Rather, it is more likely that the number of LDCs will be reduced by only a fifth.
- Ten LDCs (Tuvalu, Angola, Kiribati, Bhutan, Nepal, São Tomé and Príncipe, Solomon Islands, Timor-Leste, Equatorial Guinea and Vanuatu) are likely to meet the graduation threshold by 2020, which combines an income criterion, a human assets index and an economic vulnerability index, according to the analysis presented in Chapter 2.
- However, out of these possible 10 countries meeting the graduation criteria by 2020, only three (Equatorial Guinea, Vanuatu and Tuvalu) may actually graduate by 2020.
- Reforms to the graduation process should include indicators related to the structural handicaps that constrain the graduation process and therefore the achievement of structural economic transformation.

Implications of the 2030 Agenda for the IPoA

- The 2030 Agenda, captured in the 17 goals and 169 targets of the SDGs, provides an important opportunity to realise the work plan set out in the IPoA, by way of drawing synergies and establishing coherence between their implementation.
- This year, 2016, marks the beginning of implementation of the SDGs as well as the midpoint of the period of implementation of IPoA. Lack of progress in terms of implementing the IPoA will also mean weak progress in attaining the SDGs. On the other hand, progress in IPoA implementation will contribute to advancement of the SDGs.

- The SDGs include related targets in the following areas: poverty, hunger, employment, health, water and sanitation, education, gender, inequalities, climate issues (including disaster risks), governance and global partnerships. All of these are closely interlinked with the IPoA priority areas.
- Only two goal areas (SDG 14 and SDG 15) are new areas, beyond the IPoA priorities.

Emerging global challenges and obstacles to achieving the SDGs

- The LDCs face a set of interconnected global challenges—economic, technological, demographic, environmental, security and governance-wise—with the potential to seriously undermine their prospects of achieving the SDGs, as well as the IPoA goals.
- In terms of official development assistance (ODA), while the absolute volume of flows to LDCs has increased, the share of the LDCs as a group of total ODA has declined.
- Aid for Trade (AfT) resources remain inadequate and fall short of commitments. This is a longstanding problem. Between 2002 and 2010, an average of 70 per cent of AfT commitments were disbursed; this is the same over the IPoA implementation period (2011–2014).
- While the 2030 Agenda calls for a ‘data revolution’ worldwide for monitoring global development goals and targets, the availability of data in LDCs remains inadequate. Monitoring progress against all of the targets set out in the SDGs, as with the IPoA, is therefore likely to be a challenge. In this regard, some of the lessons learnt since the BPoA and implementation of the IPoA must be heeded.

Chapter 1

Structural Economic Transformation and Export Diversification in the Least Developed Countries

Jodie Keane, Gazwan Aldafai and Mehmet Arda

1.1 Introduction

In response to some of the shortcomings of the Brussels Programme of Action (BPoA), the Istanbul Programme of Action (IPoA) includes a greater number of explicit targets. However, while trade and growth targets feature prominently, those related to structural economic transformation (SET) are rather more implicit than explicit. In order to overcome these shortcomings, Basnett et al. (2013) assigned indicators to the high-level objectives of IPoA related to the achievement of SET. Therefore in addition to monitoring progress vis-à-vis the explicit trade and growth targets of IPoA, this chapter revisits the SET-related targets identified by Basnett et al. (2013).

The evidence presented in this chapter suggests that, while some trade-related targets will be met by 2020, more limited progress across the selected SET indicators look likely based on current trends. This sanguine assessment suggests an inability to achieve the desired objectives of IPoA in the absence of more concerted efforts to enhance global economic cooperation and the design of 21st century solutions to the trade challenges of the least developed countries (LDCs).

International trade is a crucial mechanism to sustain modern economic growth and achieve SET through stimulating the diffusion of technological progress. This process facilitates movement from low to higher value added activities. In order to achieve this objective, the type and pattern of trade matters. So too does the ability to shift resources out of low- towards higher-productive activities, which may require organisation and institutional change. Hence, achieving structural change and adapting to the way the world trades is an essential part of sustainable development.

In spite of some reasons for optimism, the assessment of progress against targets presented in this chapter suggests an inability to achieve the desired objectives of IPoA. This failure is in the absence of more concerted efforts to enhance global economic cooperation and the design of 21st century solutions to the trade challenges of the LDCs. This chapter is organised as follows. We first review progress against the IPoA growth and trade targets. Then we assess progress in view of SET-related indicators.

1.2 Reaching the IPoA growth targets

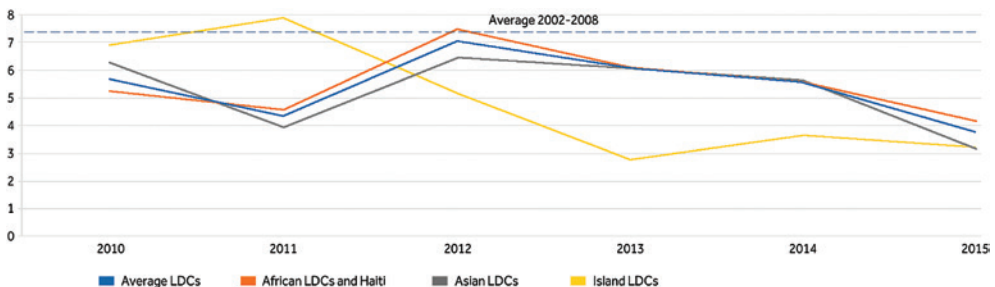
SET can be broadly defined as the reallocation of economic activity across three broad sectors (agriculture, manufacturing and services) that accompanies the process of economic growth (Kuznets, 1966). As part of this transformation, technological development is advanced as an endogenous process. It occurs as a result of within-country interactions between human capital and capital formation, as well as institutional and organisational change. It subsequently prompts movement from low towards higher value added activities. These are the lessons heeded from the growth experiences of successful industrialisers to date. Moreover, the experiences of successful industrialisers suggest that, in order to achieve SET, the overall level of growth must be relatively high and sustained over time. In view of these understandings, the IPoA includes a target to achieve 7 per cent per annum growth in the LDCs.

However, given current trends, the target specified for the LDCs in IPoA is unlikely to be met (Figure 1.1). The global growth outlook remains weak, with several revisions in estimations during and since 2015. These revisions have, in part, been driven by the dramatic oil price declines that occurred between 2014 and 2015,¹ in addition to adverse exchange rate movements. Whereas in the past oil price declines spurred global economic growth, the absence of this stimulus within the current global context is notable.

A structural break in the trade–growth nexus since the global financial crisis is becoming increasingly apparent. Prior to the global financial crisis, a 1 per cent increase in growth translated into a 2 per cent increase in trade. This relationship has changed dramatically since then. There are suggestions that the limits to the global fragmentation of production, so characteristic of recent decades, have been reached (Hoekman, 2015). That is, recent global growth trends are driven more by structural than cyclical factors particularly in view of the secular stagnation which is becoming increasingly apparent in Northern economies (Mayer, 2015).

Since 2008, the elasticity of trade with respect to growth has halved. This means that a 1 per cent increase in global growth now translates into a 1 per cent increase in global

Figure 1.1 Real GDP growth, 2002–2015, selected years (annual average growth rates, %)



Source: UNCTAD Secretariat calculations based on data from IMF World Economic Outlook database (accessed October 2015).

trade, a much weaker relationship compared to the pre-crisis era. Hence, not only global trade has slowed, but so too has the potency of growth to drive trade. For the LDCs in particular, these developments are particularly worrisome.

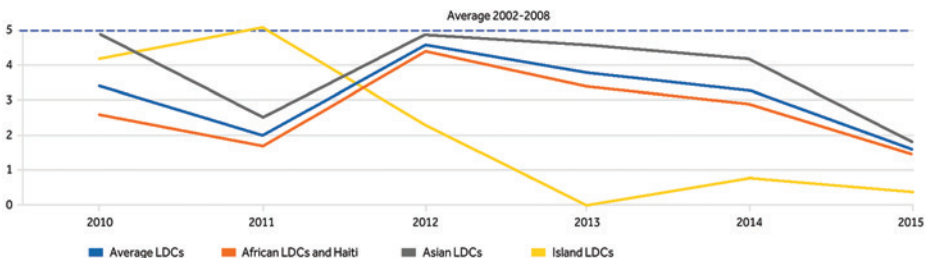
The knock-on effects of the decline in LDC growth rates from their long-run average prior to the global financial crisis on subsequent increases in gross domestic product (GDP) per capita are even more concerning (though IPoA includes no explicit target). Prior to the global financial crisis, an 8 per cent increase in GDP growth resulted in a 5 per cent increase in GDP per capita for the LDCs. Since the crisis, real GDP growth in LDCs has slowed to around 4 per cent—half of the rate prior to 2008. Subsequently, GDP per capita growth has slowed to below 2 per cent on average among the LDCs. However, as Figure 1.2 shows, island LDCs have experienced much larger declines in GDP per capita compared with the average for the group. This reflects the effects of devastating natural disasters, in addition to the dampening effect of the ability of global growth to drive growth.

1.3 Targeting trade as a driver of structural economic transformation

The IPoA recognises the potentially powerful role of trade as a driver of SET. The international community, in the Sustainable Development Goals (SDGs), has subsequently adopted some of the trade targets included. In terms of progress against the IPoA targets, the results presented in this section present rather a glass half-full scenario. While some trade-related targets will be met, others—more directly related to known pathways towards SET—will not.

The IPoA interprets the process of export diversification as one of the principal avenues to increase retained value added, reduce risks, generate positive externalities and, more generally, to improve LDCs' productive capacities. This is because this process expands the range and technological sophistication of goods and services produced and consumed. It is therefore disconcerting that current trends suggest increasing specialisation at low incomes for LDCs, in products with low levels of technological sophistication. These results are suggestive of the need to more creatively

Figure 1.2 Real GDP per capita growth, 2002–2015, selected years (annual average rates, %)



Source: UNCTAD Secretariat calculations based on data from IMF World Economic Outlook database (accessed October 2015).

consider how best to facilitate export diversification within the current global trading landscape, so as to effectively leverage trade as a driver of growth and SET.

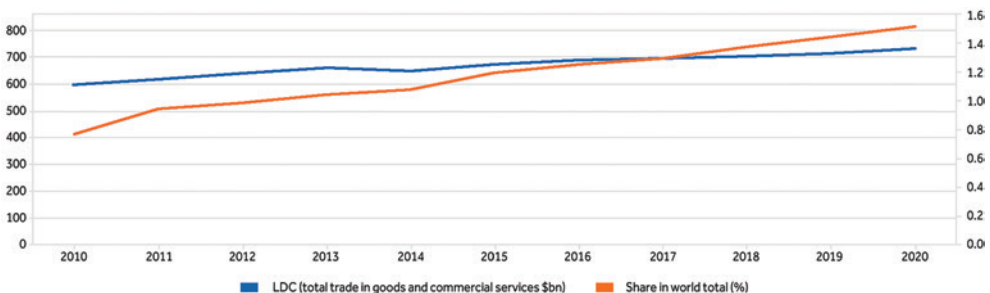
1.3.1 Trade targets

The IPoA target to double exports by 2020 is likely to be achieved if it includes both goods and services. However, increasing the LDC share of world trade looks less likely, based on current trends (Figure 1.3). Although LDCs' trade performance in services looks promising, the interpretation of these recent trends is challenging: most growth since 2010 has occurred on the import rather than the export side. LDCs' trade deficits have ballooned in recent years. This is partly driven by the LDCs' services trade deficit increasing by more than four times (in nominal terms) between 1995 and 2013.

In order to avoid a strictly mercantilist interpretation (e.g. that exports matter more than imports) in view of the importance of imported technology for growth, we simply interpret the IPoA trade targets in value terms. We refer to goods and services, as well as LDCs' share of both global exports and imports (Figure 1.4). The heterogeneity of LDCs and their economic and trade structures notwithstanding, their total trade in goods and services increased by an annual average of 12.5 per cent between 1995 and 2013, thereby outperforming world trade, which grew by 7.5 per cent on average (WTO, 2015). The favourable terms of trade for mineral and fuel exporters contributed to this development, as did the considerable foreign investment that flowed into extractive industries and increased output. However, despite this impressive performance, overall LDC trade is characterised by a structural deficit: for goods, exports covered about 83 per cent of imports in 2012–2014 but for services, exports cover only 43 per cent of imports.²

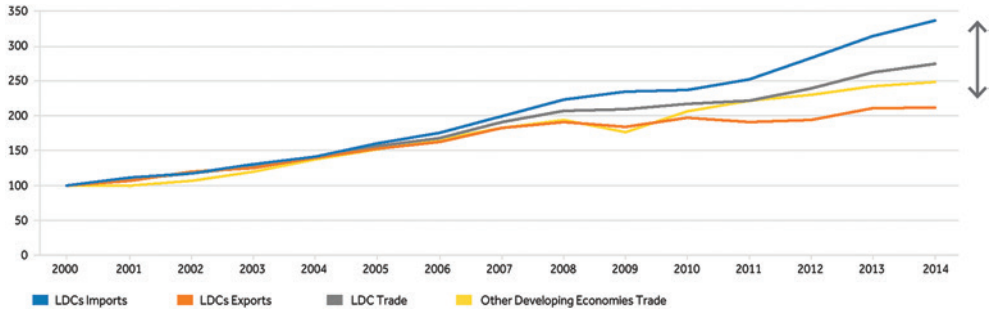
In relation to services exports, while travel (tourism) is the main source of services revenue and registers a net surplus, Mode 4 (presence of natural persons) is an important source of net exports but cannot be measured satisfactorily. LDC participation in royalties and licence fees remains negligible and in some cases has declined. This may be a reason for concern. For example, many island LDCs often

Figure 1.3 LDC progress in trade trends



Note: The base year is 2010; the projection is based on a simple extrapolation of trends from 2010 to 2014.

Source: Adapted from WTO (2015).

Figure 1.4 LDCs' trade balance

Source: UNCTADstat Database.

rely on foreign fishing vessels. ‘Other commercial services’ (e.g. communication, construction) provided by the LDCs has progressively shrunk (WTO, 2015).

Apart from major tourist destinations such as Cambodia, where ‘travel’ generated a substantial share of GDP (15 per cent in 2014), according to the World Trade Organization (WTO) (2015) the major LDC services exporter is currently Afghanistan (in construction) followed by Cambodia and Tanzania (in transportation). These results are somewhat surprising. The type of construction services exported by Afghanistan is not currently clear (e.g. whether construction in Afghanistan is undertaken for foreign firms domestically for reconstruction). Other questions arise regarding the reliability of services data in the case of transportation exports for Cambodia and Tanzania (e.g. whether port facilities are included). The largest LDC services importers according to the WTO include Angola, Bangladesh and Ethiopia, all in transportation.

On aggregate, LDCs’ exports in goods remain concentrated in primary commodities. Therefore, while the falling price of oil in 2015 may have been beneficial to some LDC importers, the subsequent knock-on effects on other commodity exports (because of a tendency towards co-movement within commodity markets in view of the increased presence of institutional investors) is worrying. The structure of the LDCs’ trade on aggregate remains polarised in terms of the sectoral composition of exports, between commodities and services. Overall, there is a relatively low share of skills- and technology-intensive items in export baskets.

1.4 Structural economic transformation-related targets

The process of economic development and structural transformation entails a shift in the productive structure as expressed through movement towards more sophisticated—that is, higher value added—products (Hesse, 2008). Diversification may entail not only producing items that have not been produced and exported before but also the production of ‘better’ products: those that create a higher proportion of value added in the country and generate forward and backward linkages, with positive externalities (Arda, 2014). Achieving this process is invariably challenging.

For the LDCs within the contemporary global trading landscape, the process may have become even more so than compared to in the past.

The achievement of SET requires changes related to the nature of interactions between stakeholders within a given system of production so as to transform activities from low value added to higher value (Gebreeyesus and Iizuka, 2010). Although this process may (or may not) take place within a defined innovation system, it is the type of knowledge and technology transfer that may arise as a result of stakeholders, interaction both within and across borders, which really matters.

The approach to global value chain (GVC) analysis considers trade to be embedded in, but also to a considerable extent to be determined by, specific (but changing) institutional structures and organisational aspects of international trade (Raikes et al., 2000). The literature recognises that increasingly global trade takes place within particular organisational forms and structures between related (or unrelated) firms precisely so as to either transfer (retain) types of technology, create barriers to entry and therefore generate economic rents.

However, discussions of SET often omit governance aspects related to ability to influence the system and structure of production. This absence is particularly notable when it comes to the LDCs, given limited governance capabilities and highly asymmetric trading relations within GVCs. It is worrying in view of the available evidence which suggests increasing export specialisation at low levels of income for the LDCs, without a commensurate increase in the level of technological sophistication.

1.4.1 Export structure of LDCs

The most recent data on export diversification processes for the LDCs confirm limited ability to induce changes in productive structures. Instead of movement towards more diversified export structures, the reverse is true: increasing specialisation at low levels of income is becoming apparent. These trends are deeply concerning given the fact that the sustenance of economic growth requires export diversification across the product space so as to achieve SET.

On average, almost 70 per cent of total LDC merchandise exports³ comprise three main products; for nine LDCs three products comprised 95 per cent or more of their export receipts and four of them exported petroleum (Arda, 2014). However, in 1995 the situation was markedly different. Export baskets in the past for LDCs were far less concentrated. At that time, only around 40 per cent of the LDCs' exports was attributable to their top three exports.

In more recent years, what is becoming clearly apparent is how the LDCs' increased export product concentration has been accompanied by a shift in their market orientation. China accounted for 23 per cent of LDC exports in 2014 compared with 3 per cent in 1995. In fact, in 2013, China imported more fuels and mining products from the LDCs than the EU, US and India combined.⁴ Hence, although a shift in market orientation by the LDCs away from Europe has occurred, it has seemingly been replaced with a similar dependence on China. Moreover, because the variety of items imported from LDCs by China is considerably narrower than those previously

imported by traditional importers within the EU, this may represent a potentially more risky kind of dependence.

1.4.2 Regional export structure

As LDC exports have become less diversified over time, deepening patterns of regional product concentration are becoming apparent for both trade in goods (Table 1.1), as well as trade in services (Table 1.2). In relation to trade in goods:

- The share of fuel and mining products has increased for the African LDCs and Haiti;
- The share of textiles and manufactures has increased for the Asian LDCs;
- The share of fuels, ores and minerals, and agricultural raw materials has increased for the Island LDCs.

With regards to trade in services, the share of travel has increased for all regions over the period 1995 to 2012; similarly, the share of communications and financial services too has seen a rise. However, the share of other commercial services as well as government services has declined.

These trends in increasing export product concentration are taking place against a backdrop of dramatic preference erosion for the LDCs. While the share of LDCs' duty-free imports stood at approximately 77 per cent compared with developing countries' 54 per cent in 1996, by 2014 developing countries had achieved around 80 per cent duty-free access in developed country markets, compared with 85 per cent for LDCs (WTO, 2015). This trend looks set to continue.⁵

Although there is scope for other developing economies to offer more favourable market access to the LDCs, competitive challenges are also arising within these markets as a result of deepening regional and bilateral trade agreements (Table 1.3). Clearly, within the current global trading landscape there is more limited scope to leverage preference margins to induce shifts in lead firm sourcing strategies towards the LDCs, which could lead to their inclusion within more dynamic forms of trade, as compared to in the past.

An important advantage of manufactures, as well as some specialised and differentiated commodities, is the generation of positive externalities. For example, knowledge spillovers are positive externalities which may occur further to the adoption of relatively advanced technologies, modern business techniques, including adhering to international trade practices (Arda, 2014). The available evidence confirms that agricultural productivity and yields have risen most strongly in manufactured goods exporters (UNCTAD, 2015). This is precisely because a strong manufacturing sector can promote a successful agriculture sector, through backward linkages as well as labour market effects such as increased wages.

The crucial role of services in facilitating the functioning of productive sectors notwithstanding, we simply do not know how services can contribute to the achievement of SET in the absence of a manufacturing sector (Rodrik, 2015). Even

Table 1.1 LDCs: Goods export composition (%)

| | LDCs: Asia | | | % change (1995–2014) | | | LDCs: Islands | | | % change (1995–2014) | | | LDCs: Africa and Haiti | | | % change (1995–2014) | | |
|----------------------------|------------|------|------|----------------------|------|------|---------------|-------|------|----------------------|------|-------|------------------------|------|------|----------------------|------|--|
| | 1995 | | 2000 | 2014 | | 1995 | 2000 | 2014 | 1995 | 2000 | 2014 | 1995 | 2000 | 2014 | 1995 | 2000 | 2014 | |
| | | | | | | | | | | | | | | | | | | |
| Food | 11.4 | 7.5 | 8.6 | -2.7 | 48.1 | 50.3 | 37.5 | -10.6 | 20.4 | 16.7 | 10.1 | -10.2 | 20.4 | 16.7 | 10.1 | -10.2 | | |
| Agricultural raw materials | 15.1 | 4.8 | 8.5 | -6.6 | 50.7 | 47.8 | 53.2 | 2.5 | 10.0 | 7.9 | 3.0 | -7.0 | 10.0 | 7.9 | 3.0 | -7.0 | | |
| Fuels | 21.8 | 27.2 | 14.8 | -7.0 | 0.0 | 0.1 | 4.6 | 4.6 | 20.3 | 47.5 | 56.2 | 36.0 | 20.3 | 47.5 | 56.2 | 36.0 | | |
| Ores and minerals | 1.3 | 0.7 | 5.7 | 4.4 | 0.1 | 0.2 | 4.1 | 3.9 | 22.6 | 15.2 | 17.4 | -5.2 | 22.6 | 15.2 | 17.4 | -5.2 | | |
| Textiles | 39.5 | 52.4 | 53.4 | 13.9 | 0.3 | 0.2 | 0.2 | -0.1 | 9.0 | 0.8 | 2.5 | -6.5 | 9.0 | 0.8 | 2.5 | -6.5 | | |
| Manufactured goods | 11.0 | 7.3 | 9.0 | -2.0 | 0.8 | 1.3 | 0.4 | -0.3 | 17.8 | 11.8 | 10.8 | -7.0 | 17.8 | 11.8 | 10.8 | -7.0 | | |

Source: UNCTADstat database and WTO (2015).

Table 1.2 LDCs: Services export composition (%)

| Services Category | LDCs: Africa and Haiti | | | % change (1995–2012) | | | LDCs: Asia | | | % change (1995–2012) | | | LDCs: Islands | | | % change (1995–2012) | | |
|--|------------------------|------|------|----------------------|------|------|------------|-------|------|----------------------|------|-------|---------------|------|------|----------------------|------|------|
| | 1995 | 2000 | 2012 | 1995 | 2000 | 2012 | 1995 | 2000 | 2012 | 1995 | 2000 | 2012 | 1995 | 2000 | 2012 | 1995 | 2000 | 2012 |
| | Transport | 21.3 | 19.2 | 23.9 | 2.6 | 10.7 | 13.3 | 12.9 | 2.2 | 11.8 | 16.0 | 11.1 | -0.7 | 11.8 | 16.0 | 11.1 | 11.8 | 16.0 |
| Travel | 34.5 | 37.0 | 43.1 | 8.6 | 23.8 | 32.7 | 33.1 | 9.2 | 52.9 | 40.0 | 65.1 | 12.1 | 52.9 | 40.0 | 65.1 | 52.9 | 40.0 | 65.1 |
| Communications | 0.0 | 4.6 | 6.0 | 6.0 | 0.0 | 4.9 | 7.0 | 7.0 | 0.0 | 4.0 | 4.8 | 4.8 | 0.0 | 4.0 | 4.8 | 0.0 | 4.0 | 4.8 |
| Construction | 0.0 | 1.7 | 2.6 | 2.6 | 0.0 | 0.0 | 7.4 | 7.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Insurance | 0.0 | 1.4 | 0.9 | 0.9 | 0.0 | 0.0 | 1.1 | 1.1 | 0.0 | 0.0 | 1.6 | 1.6 | 0.0 | 0.0 | 1.6 | 0.0 | 0.0 | 1.6 |
| Financial services | 0.0 | 0.7 | 1.7 | 1.7 | 0.0 | 0.0 | 2.6 | 2.6 | 0.0 | 12.0 | 3.2 | 3.2 | 0.0 | 12.0 | 3.2 | 0.0 | 12.0 | 3.2 |
| Computer and information technology | 0.0 | 0.0 | 0.8 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Royalties and licence fees | 0.0 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other business services | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 18.6 | 18.6 | 0.0 | 16.0 | 1.6 | 1.6 | 0.0 | 16.0 | 1.6 | 0.0 | 16.0 | 1.6 |
| Personal, cultural and recreational services | 0.0 | 0.0 | 0.4 | 0.4 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 3.2 | 3.2 | 0.0 | 0.0 | 3.2 | 0.0 | 0.0 | 3.2 |
| Government services | 20.3 | 15.1 | 12.0 | -8.2 | 19.2 | 27.8 | 15.9 | -3.3 | 11.8 | 12.0 | 9.5 | -2.2 | 11.8 | 12.0 | 9.5 | 11.8 | 12.0 | 9.5 |
| Other commercial services | 23.9 | 19.7 | 8.4 | -15.4 | 46.7 | 21.3 | 1.4 | -45.4 | 23.5 | 0.0 | 0.0 | -23.5 | 23.5 | 0.0 | 0.0 | 23.5 | 0.0 | 0.0 |

Source: UNCTADstat database and WTO (2015).

Table 1.3 Duty-free treatment of LDC exports in different markets

| | | Average applied tariff rate (weighted) | Average applied tariff rate (percentage) |
|--|-----------------------------|---|---|
| Selected developed countries and regions | Australia | 100 | 0 |
| | Switzerland | 100 | 0 |
| | Japan | 99.6 | 0 |
| | European Union | 98 | 0.1 |
| | United States of America | 65.9 | 5.9 |
| Selected developing countries | Singapore | 100 | 0 |
| | China | 98.2 | 0.1 |
| | Turkey | 93 | 1.7 |
| | South Africa | 78.1 | 2.1 |
| | Pakistan | 77.9 | 3.5 |
| | Brazil | 66.9 | 8.3 |
| | India | 66.5 | 5.3 |

Source: UNCTAD (2015).

in countries where tourism is an important economic activity, high-quality products demanded by tourists are often imported rather than procured domestically, with local linkages often underexploited.

Progress on other indicators of productive capacity, such as mobile cellular subscriptions, has been impressive between the two periods compared in Table 1.4. Other indicators of productive capacity show an improvement, such as cereal yields, GDP per capita and gross capital formation. Domestic credit to the private sector has increased. The only indicator related to population—infant mortality rates—has declined, which is suggestive of an improvement in health outcomes, or female education and literacy rates.

Whilst agricultural yields have increased, we know that this process has been accompanied by a significant reduction in the share of agricultural employment in total employment.⁶ Although this could be seen as an indication of structural transformation, much of this decreasing share for LDCs as a group (from 68.8 per cent in 2000 to 58.9 per cent in 2014) has been towards services, while the share of manufacturing in total employment has barely shifted: from 8.3 per cent to 11.7 per cent. Although this is a laudable increase in proportional terms, the interpretation in terms of the achievement of SET is a challenge. Moreover, much of this increase has been driven by the Asian LDCs, whose corresponding share of manufacturing in total employment rose from 10.8 per cent to 17.1 per cent.

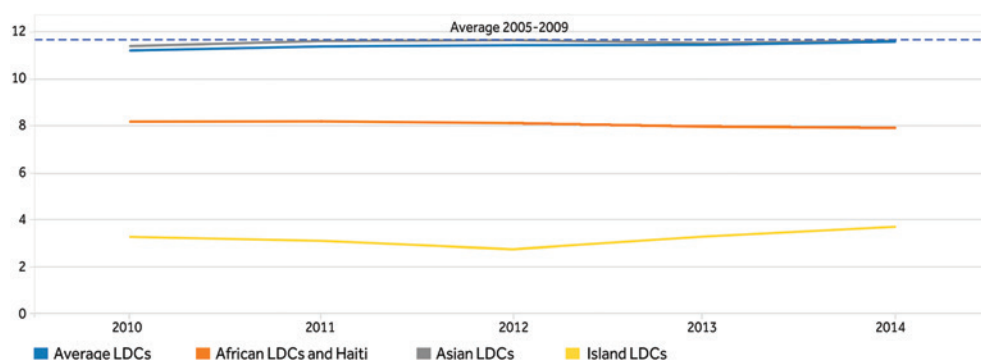
For the other LDC regions, it is important to confront the conceptual challenges that a reduction rather than an increase in the share of manufacturing value added presents policy-makers concerned with the achievement of SET and of the IPoA by 2020.⁷ This indicator is currently up for discussion as one additional indicator to monitor progress on the SDGs.⁸ The evidence presented in this chapter (see Figure 1.5) serves to reinforce the importance of its inclusion.

Table 1.4 LDC progress in comparable IPoA SET indicators

| Indicator | LDC Average 2005–08 | LDC Average (2009–13) | Change | IPoA pillar |
|--|---------------------|-----------------------|--------|---------------------|
| Mobile cellular subscriptions (per 100 people) | 12.7 | 41.6 | + | Productive capacity |
| Cereal yield (kg per hectare) | 1760.9 | 1949 | + | Productive capacity |
| Manufacturing, value added (% GDP) | 11.7 | 11.4 | – | Productive capacity |
| GDP per capita, PPP (current international \$) | 1603 | 1964.2 | + | Productive capacity |
| Gross capital formation (% GDP) | 23.6 | 26.7 | + | Productive capacity |
| Manufactures exports (% of merchandise exports) | 8.1 | 9.8 | + | Trade |
| Service exports (BoP, current US\$) as % of exports goods and services | 12.9 | 15.2 | + | Trade |
| Product diversification (Concentration Index) | 0.5 | 0.4 | – | Trade |
| Market diversification (Diversification Index) | 0.7 | 0.7 | = | Trade |
| Infant mortality rate (per 1000 live births) | 68.7 | 58.3 | – | Other |
| Domestic credit to private sector (% GDP) | 16 | 22.4 | + | Other |

Note: These indicators are the best available data, over time, for all LDCs. Other indicators (e.g. labour market, skills, employment, etc.) have been excluded because of data availability issues, as described in detail by Basnett et al. (2013).

Source: Adapted from Basnett et al. (2013).

Figure 1.5 Manufacturing, value added (% of GDP)

Source: World Development Indicators (accessed February 2016).

However, indicators of SET such as manufacturing value added or the share of industry within overall economic activity must be accompanied by others. These include, for example, the forces governing the process of capital accumulation and profits in the form of corporate retentions (as well as household savings).⁹ These aspects must feature in any discussion of the achievement of LDCs' SET. This includes their contribution to boosting productive capacity, creating jobs and stimulating technological progress (Amsden, 2001). Some coordination of investment decisions, in addition to the investment promotion called for in the IoPA (and SDGs) may be necessary in view of public policy objectives.

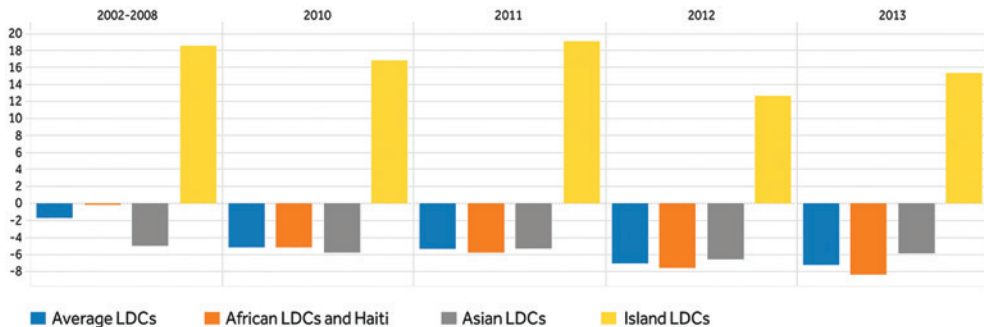
In relation to the external resource gap among the LDCs, it has grown for all except the island LDCs, which have a surplus (Figure 1.6). Gross domestic savings as a per cent of GDP and domestic credit have increased for all LDCs. However, Asian and the Island LDCs increased the share of domestic credit to the private sector most dramatically over the period 2005–2015. In comparison, FDI flows remain heavily concentrated in African LDCs (Figure 1.7). Overall, while gross fixed capital formation has increased among the LDCs as a group, as well as for African LDCs, so far it has been insufficient to achieve their stated growth target (Figure 1.8).

1.5 Concluding remarks

Overall, while some trade targets will be met, growth targets will not. There are some reasons for optimism regarding the achievement of some indicators related to the achievement of SET for the LDCs. These include increasing agricultural yields, reducing infant mortality rates, growing capital formation and expanding the availability of domestic credit to the private sector. However, there are also some major reasons for concern.

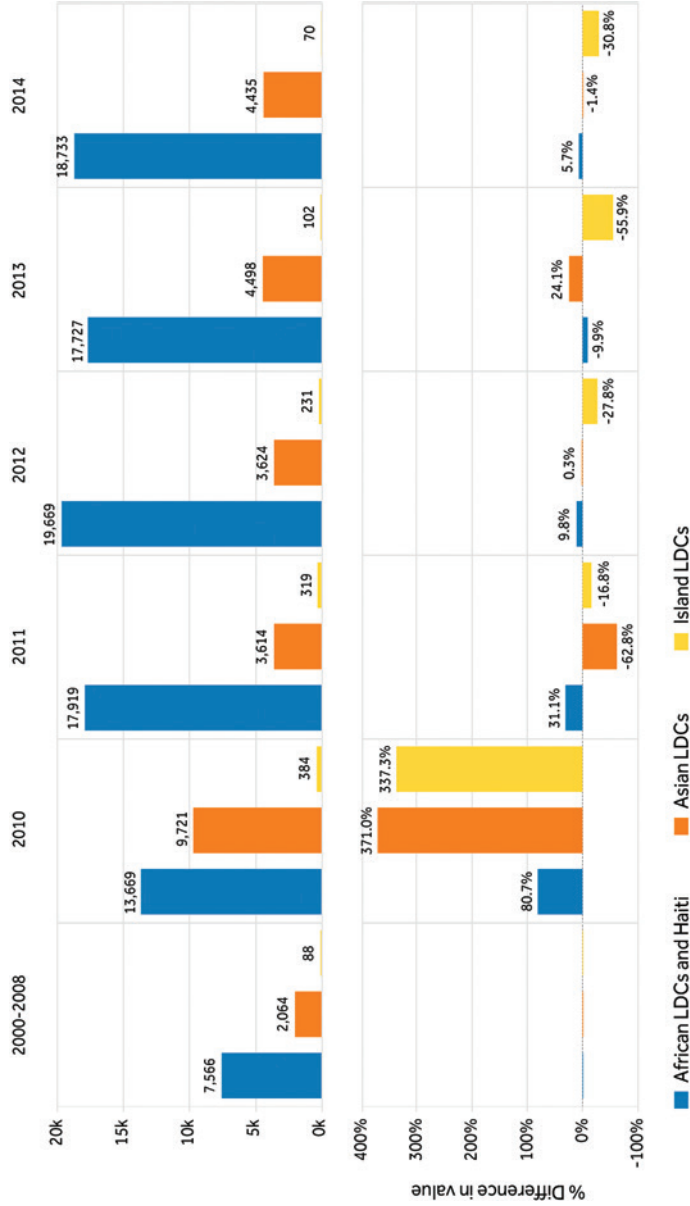
Although manufactured goods exports have increased, the value added component has actually declined for the LDCs as a group. That is, performance in one of the known effective mechanisms through which SET can take place, through increasing

Figure 1.6 External resource gap, 2002–2013, selected years (% of GDP)

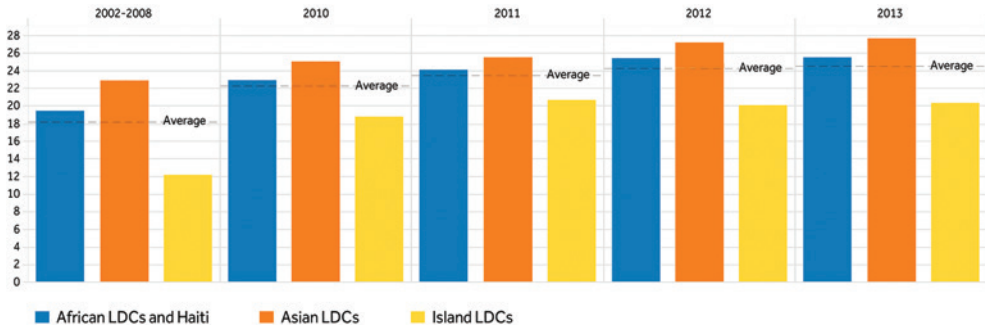


Source: UNCTAD Secretariat calculations, based on data from UNCTADstat database (accessed September 2015).

Figure 1.7 FDI inflows, 2000–2014, selected years (current US\$ million)



Source: UNCTADstat (accessed October 2015).

Figure 1.8 Gross fixed capital formation, 2002–2013, selected years (% of GDP)

Source: UNCTAD Secretariat calculations, based on data from UNCTADstat database (accessed September 2015).

manufacturing value added, has exhibited poor performance. Moreover, increasing product and market concentration is becoming apparent. Although recent performance in services trade looks promising, how this sector can contribute to the achievement of SET over time, in the absence of a strong manufacturing sector, is unknown with no historical parallel.

Only national governments can perform the vital role of designing and implementing policies in relation to allocating resources among sectors, in view of specific sectors exhibiting major differences in productivity at any given point in time.¹⁰ However, given the clear challenges in achieving export diversification and apparent increasing specialisation at low levels of income, the international community has an obligation to act.

As described by Kuznets (1971) sustaining modern economic growth requires a stable but flexible political and social framework capable of accommodating structural change and resolving conflicts. With specific reference to the LDCs “a substantial economic advance may require even greater innovations in political and social structure”. This includes within international institutions charged with the reliefment of acute poverty and the promotion of inclusive growth with structural economic change.

Creative solutions for the LDCs, fit for 21st century trading patterns so as to induce movement into the modern export sector and the stimulation of technological diffusion, are needed. Trade policy developments, which could offer scope for the LDCs to benefit from more favourable market access, include implementation of the WTO Services Waiver, Trade in Services Agreement (TiSA) and the Environmental Goods and Services (EGS) Agreement. Many developed and increasingly developing economies could go further with regards to more flexible rules of origin more attuned to today’s global production networks.

There is a need to avoid damaging trade measures affecting LDCs’ export interests. LDCs were hit hard by protectionist measures implemented since the global finance

crisis of 2008. According to one estimate, their exports could have been 31 per cent higher if crisis-era protectionism had been avoided (Evenett et al., 2015). Trade surveillance and international support mechanisms should be bolstered.

Although the IPoA provides important guidelines to promote the growth, development and eventual graduation of LDCs, more targeted policies and actions focused on the improvement of productive capacities in tandem with the process of export diversification across sectors are needed. Although this chapter has reviewed progress vis-à-vis the growth, trade and SET related targets, further analysis is needed in view of the actions of international development partners as well as of national governments themselves.

Notes

- 1 A price reduction of US\$59.2 per barrel occurred between 2014 and 2015.
- 2 See also UNCTAD (2015: Table 1.3).
- 3 LDC average 66 per cent in 2015; 43 per cent in 1995.
- 4 The EU maintained its position for manufactures and agricultural products.
- 5 For example, LDCs such as Bangladesh face formidable competitiveness effects in the textiles and clothing industry further to the inclusion of Vietnam within the Trans-Pacific Partnership Agreement.
- 6 See UNCTAD (2015).
- 7 Manufacturing is broadly defined as the “physical or chemical transformation of materials into new products”, regardless of the process (by machines or by hand), location (factory or home) or sale method (wholesale or retail). The value added is the net output of the manufacturing sector, calculated after adding up all the outputs and subtracting the intermediate inputs. It is determined by the International Standard Industrial Classification Revision 3, and calculated without deducting the depreciation of the fabricated assets, or the depletion and degradation of any natural resources.
- 8 <http://indicators.report/indicators/i-61/>
- 9 This includes the process by means of which the richest stratum of society acquires and uses its income (UNCTAD, 2003).
- 10 As discussed by UNCTAD (2003), the importance of structure to the development process relates to the allocation of resources.

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Chapter 2

Prospects of Graduation for Least Developed Countries: What Structural Change?

Alassane Drabo and Patrick Guillaumont

2.1 Introduction

This chapter analyses the graduation trends and the prospects of graduation for the least developed countries (LDCs), updated before the Mid-Term Review of the Istanbul Programme of Action (IPoA). A major aim of the 2011 IPoA adopted at the Fourth UN Conference on the LDCs is ‘enabling half the number of least developed countries to meet the criteria for graduation by 2020’ (UN, 2011). Several official UN documents have referred to or reiterated this goal. Even though it was considered not fully realistic at the time of the Istanbul Conference, it is evidence of a change in international attitudes towards graduation. During the first decade of the millennium, fear of and resistance to graduation among some graduating countries dominated the picture. Since Istanbul, graduation has been considered less of a threat to the development of the graduating countries and more of a signal that these countries are reaching a new phase of development. Moreover, the General Assembly Resolution on Smooth Transition adopted in December 2012 (and following the Report of an Ad Hoc Working Group of the General Assembly on this topic) has dampened the fear of graduation: several measures are now implemented or considered to make the transition smoother, such as continuing to provide some trade capacity-building after graduation, through the so-called Enhanced Integrated Framework (EIF).

This chapter first updates our contribution to the previous LDC IV Report (Drabo and Guillaumont, 2014). It outlines the implications of the previous and revised graduation rules for the graduation prospects of LDCs and shows that, in spite of a small change brought to the rules in 2015, no more than one fifth of the Istanbul LDCs (instead of one half) are likely to meet the graduation criteria in 2020. Prospects after 2020 are more favourable, in particular if LDCs can achieve the high rates of economic growth that are another goal of the IPoA. The chapter also questions the consistency of the IPoA graduation goal with the graduation rules.

The chapter also raises the issue of the consistency between the process of graduation and the structural transformation of LDCs, the importance of which is underlined in the IPoA (for more details see Cariolle et al., 2015; Drabo and Guillaumont, 2016). By definition, graduation is expected to occur when a country has overcome the structural handicaps that make it difficult to move sustainably out of low-income status—that is, that make it an LDC. We here consider the structural change corresponding to the reduction of the structural handicaps to growth on which graduation relies—namely, the improvement of human capital and the reduction

of structural economic vulnerability. This structural change is conceptually distinct from structural transformation, understood as a reallocation of resources likely to make the economy more productive, but to a large extent it is needed for it. The policy instruments involved in achieving the structural changes leading to graduation could not be examined here.

2.2 Graduation constrained by the rules applied

The prospects of graduation depend on the rules and criteria applied. Since the origin of graduation, there has been an asymmetry between inclusion and graduation criteria, set up for precautionary reasons. To be included, a country should meet three complementary criteria: a low level of income per capita, a low level of human capital, assessed using the Human Assets Index (HAI), and a high level of structural economic vulnerability, assessed using the Economic Vulnerability Index (EVI). Three main precautions are taken before an LDC can be recommended for graduation: (i) not only one but two of the three criteria of inclusion should no longer be met; (ii) margins need to have been set up between inclusion and graduation thresholds for each criterion; and (iii) a country is recommended by the Committee for Development Policy (CDP) only after having been found eligible at two successive triennial reviews. Moreover, since 2004, a country is graduated only three years after endorsement by the General Assembly of the CDP recommendation. An exception to the initial ‘two criteria rule’ was introduced in 2005: a country can be found eligible for graduation if its per capita gross national income (GNIPc) is at least twice as high as the ordinary income graduation threshold and deemed sustainable, making income per capita the only one criterion for graduation in these cases (see more details in CDP and UNDESA, 2015—the CDP Handbook—and in Drabo and Guillaumont, 2014).

The impact of criteria asymmetry is high. At the 2015 review, among the 48 LDCs under consideration 31 were no longer meeting the three complementary inclusion criteria (at the 2012 review there were 26 out of 49 LDCs) (CDP, 2012, 2015; CDP and UNDESA, 2015). This means that, without the present asymmetry, the IPoA goal would have already been reached, even over-reached.

In order to examine graduation prospects, it should be supposed that the graduation criteria remain unchanged: either two inclusion criteria, adjusted by a given margin, need no longer be met (initial rule, but since 2015 with a new definition of thresholds, explained below) or only an income per capita criterion at a higher threshold should be reached (additional 2005 rule). Other results could be obtained using alternative rules.

Until 2015, there was an important difference between the EVI and HAI criteria, and the GNIPc criterion. The former were relative thresholds put in place according to the quartile value of a reference group, the number of which remains approximately the same; the latter was and still is an absolute threshold, unchanged in constant dollars. This difference had significant implications for eligibility. Since 2015, the HAI and EVI thresholds are also supposed to be absolute. In fact, they are maintained at a constant nominal value of the indices corresponding to the threshold level in 2012

(the date of the previous review of the list of LDCs by the CDP), instead of moving with the whole set of the reference group. This makes graduation easier, as shown below.

The graduation prospects are also constrained by the timeframe of the graduation process. In order to ‘meet the criteria by 2020’, a country should be found eligible at two successive triennial reviews, strictly speaking no later than at the 2015 and 2018 reviews! And a country meeting the criteria in 2018 cannot effectively be graduated before 2021 ...

2.3 No more than one fifth of LDCs likely to reach the one half IPoA goal

Three graduations occurred before IPoA—Botswana (1994), Cape Verde (1997) and Maldives (2011)—but only one country has graduated since 2011 (Samoa, 2014). For two other countries, graduation has already been decided (by the General Assembly), to be effective later: Equatorial Guinea (2017) and Vanuatu (2020). Three others, having twice been found eligible, have already met the criteria: Tuvalu (2012 and 2015, recommended for graduation by the CDP in 2012 but without endorsement by the Economic and Social Council (ECOSOC)), Angola and Kiribati in 2015 (Angola being recommended, Kiribati not). Five other countries were found eligible a first time in 2015, so they could be found so again in 2018 and ‘meet the criteria by 2020’, as set up in IPoA: Bhutan, Nepal, São Tomé and Príncipe, Solomon Islands and Timor-Leste. Thus, at the end of the decade, 10 out of the 48 LDCs of the IPoA could have met the graduation criteria, which means around one fifth instead of the IPoA goal of one half. Moreover, among the five countries found eligible a first time for graduation, three (Bhutan, Nepal, Solomon Islands) would not have been found so had the method used for determining the criteria thresholds not changed. Although graduation prospects are substantial, they significantly (and unavoidably) lag behind the IPoA goal.

As for the date of effective graduation, the result is of course even more modest. Out of the possible 10 countries that have met the graduation criteria, only four are likely to have graduated during the period covered by IPoA (Samoa, already graduated in 2014; Equatorial Guinea, expected in 2017; Vanuatu, 2020; Tuvalu, if ECOSOC, and then the General Assembly, endorse the CDP recommendation of 2012, before the end of 2017). The General Assembly decided in January 2016 on an exceptional additional postponement of two years for Angola, which means this country will not be graduated before 2021. That said, all or some among the six countries, including Angola, likely to have met the criteria no later than 2018 may also graduate in 2021.

Among the 10 countries having met or likely to meet the graduation criteria before the end of the decade, three have been found eligible according to the income-only criterion (Angola, Equatorial Guinea, Timor-Leste), and seven according to two criteria—GNIpc and HAI for most of them (Bhutan, Kiribati, São Tomé and Príncipe, Solomon Islands, Tuvalu, Vanuatu) and only one according to HAI and EVI (Nepal). Among the seven countries eligible with regard to two criteria, three actually

were also eligible according to the income-only criterion (Kiribati, Tuvalu, Vanuatu). Bhutan is likely to be so in 2018. This means six or seven out of 10 likely to meet the criteria before 2020 may have met the income-only criterion.

2.4 Better long-term prospects

In the longer term, several other LDCs could meet the income-only criterion if they achieve a significant and sustained rate of growth. Table 2.1 considers several options, starting from the income levels of 2014:

- With a rate of growth of GNIpc corresponding to the rate achieved from 2001 to 2014, 14 LDCs would meet the criterion in 2030.
- With the same rate increased by 1 per cent, 17 LDCs would fall into this category.
- With a rate of (total) income growth corresponding to the IPoA target of 7 per cent gross domestic product (GDP) growth, this number would rise to 18.
- If a rate of 7 per cent GDP per capita was achieved, 24 LDCs would meet the income-only criterion, corresponding to half the number of IPoA-eligible LDCs.

Before 2015, for reasons endogenous to the design of the criteria, the key driver of eligibility for graduation was likely to be growth of income per capita. Economic growth would progressively push LDCs to meet the income-only criterion, albeit slowly. Indeed, according to the pre-2015 method of determination of graduation thresholds, improvement on the HAI and EVI would have had little direct impact on graduation likelihood, as the HAI and EVI were considered relative criteria that could be met only through a change in the country situation with respect to a reference group. An improvement on the HAI and EVI was rather expected to have an impact on graduation as a factor of higher economic growth. However, with the 2015 method of determination of the EVI and HAI thresholds, left at their nominal value of 2012, some LDCs become more likely to meet the corresponding criteria. As noted above, in 2015, three countries were found eligible for graduation a first time, which would not have been the case (with the HAI) with the previous method (Bhutan, Nepal, Solomon Islands). In the next 15 years, the change in the determination of the graduation thresholds is likely to result in some LDCs meeting the graduation criteria more easily. This could soon be the case for Lao PDR, Lesotho and Yemen (HAI and GNIpc), Senegal (EVI and GNIpc) and Bangladesh and Myanmar (HAI and EVI). With this change, the IPoA goal for 2020 becomes realistic for 2030. At this time, if identification of LDCs remains what it is presently, the list of LDCs will include essentially African countries (and Haiti).

In its December 2012 Resolution on Follow-up to the Fourth UN Conference on the LDCs, the General Assembly rightly expressed 'serious concern' that, after a decade of steady growth, LDCs were facing significant challenges in sustaining their economic growth. Of course, growth in GNIpc may be influenced by exogenous factors other than the two structural features identifying LDCs (weak human capital and high economic vulnerability). Such factors have already been working during the past decade: the rise and decline of international prices of commodities, in particular

Table 2.1 Countries likely to meet the income-only graduation threshold at the next five reviews if they keep last decade growth rate of GNI or grow at the 7% target of IPoA

| Review year | 2018 | 2021 | 2024 | 2027 | 2030 |
|---|--|--|---|---|--|
| List of countries likely to reach the income-only graduation threshold if their per capita growth rates remain those of 2001–2014 | Angola Bhutan Equatorial Guinea Kiribati Timor-Leste Tuvalu Vanuatu (7 countries) As above | As previous column +1 Myanmar (8 countries) As above+1 Lao PDR | As previous column +3 Lao PDR Sudan Zambia (11 countries) As above + 2 São Tomé and Príncipe Solomon Islands | As previous column +2 São Tomé and Príncipe Solomon Islands (13 countries) As above+1 Djibouti | As previous column +1 Cambodia (14 countries) As above+3 Bangladesh Djibouti Lesotho |
| List of countries likely to reach the income-only graduation threshold if their economic growth rates increase by 1% compared with those of 2001–2014 | (7 countries) As above | (9 countries) As previous column +1 Solomon Islands | (13 countries) As previous column +5 Djibouti Lao PDR São Tomé and Príncipe Sudan Zambia | (14 countries) As previous column +2 Lesotho Myanmar | (17 countries) As previous column +3 Bangladesh Mauritania Yemen, Rep. |
| List of countries likely to reach the income-only graduation threshold if their economic growth rates are 7% | (7 countries) As above | (8 countries) As previous column +6 Djibouti Lao PDR São Tomé and Príncipe Solomon Islands Sudan Zambia (13 countries) | (13 countries) As previous column +4 Lesotho Mauritania Myanmar Yemen, Rep. | (15 countries) As previous column +2 Bangladesh Senegal | (18 countries) As previous column +5 Benin Cambodia Chad South Sudan Tanzania (24 countries) |

oil. Some other factors may appear in the next decade, in particular through new oil or mineral exports, as a result of recent discoveries. Another set of highly important factors relates to the improvement in domestic as well as international policies, in particular those recommended by IPoA. These are difficult to assess and predict, and this chapter does not consider them, except through simulation of the achievement of the 7 per cent IPoA target of economic growth. The rather limited prospects of graduation in the period covered by IPoA should be an incentive to implement and hopefully reinforce the support measures agreed on in Istanbul.

2.5 How fast has the change been in the structural features of graduating LDCs?

Prospects for graduation should be examined with respect to the rationale behind graduation, supposing that graduation rules are designed consistently. In principle, graduation corresponds to checking a country's capacity to sustain its development, as determined by the level and growth of its income per capita as well as by the reduction in its structural handicaps to growth. Supplementing the series already available of income per capita, retrospective series of the EVI and HAI set up at the Fondation pour les Études et Recherches sur le Développement International (Ferdinand) (Feindouno and Goujon, 2016a, 2016b) allow us to identify the countries that have achieved more promising results with respect to graduation. Here, we compare the evolution of the three key indicators of LDCs (GNIpc, HAI and EVI) in countries having graduated since Istanbul and graduating (Angola, Bhutan, Equatorial Guinea, Kiribati, Samoa, Solomon Islands, Tuvalu, Vanuatu) with their average level (i) for all LDCs and (ii) for other developing countries (details by country are available on the Ferdin website). Do graduated and graduating countries evidence a more rapid change than (i) other LDCs and (ii) other developing countries in the level of the three indicators supposed to represent their structural features and handicaps?

- The rate of growth of GNIpc, the initial level of which was higher than that of other LDCs, has been higher than in other LDCs, while being not higher than in other developing countries (Figure 2.1).
- The HAI, the initial level of which was significantly higher than in other LDCs, but lower than in other developing countries, has been increasing at a similar or slightly faster pace than in other LDCs, but significantly faster than in other developing countries¹ (Figure 2.2).
- The EVI, the initial level of which was significantly higher than in other LDCs, and even more than in other developing countries, has been decreasing relatively fast, faster than in other LDCs, and even more than in other developing countries, still staying at a higher level than in other LDCs (Figure 2.3).

These figures give a summary picture. They evidence that graduation has essentially been the result of economic growth and of improvement in the absolute level of human capital, measured by traditional indicators, and that it hardly corresponds to a reduction in structural economic vulnerability. This result remains consistent

Figure 2.1 Evolution of GNIpc in LDCs, other developing countries (ODCs) and recently graduated or on the track of graduation (RGTG) countries

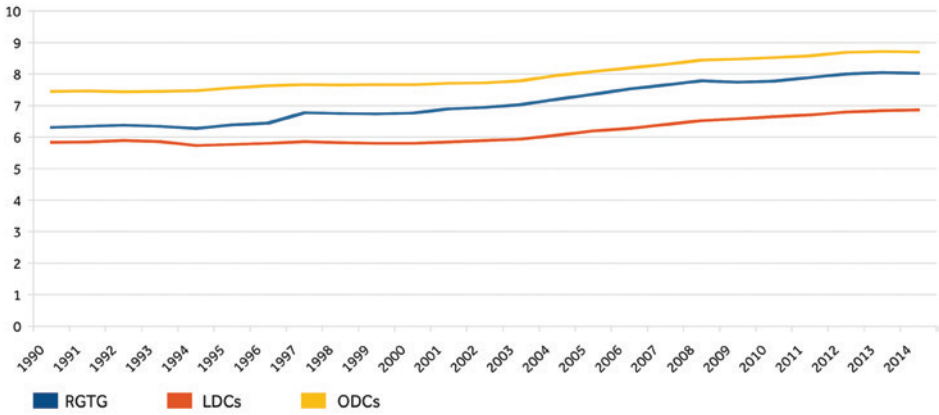


Figure 2.2 Evolution of HAI in LDCs, ODCs and RGTG countries

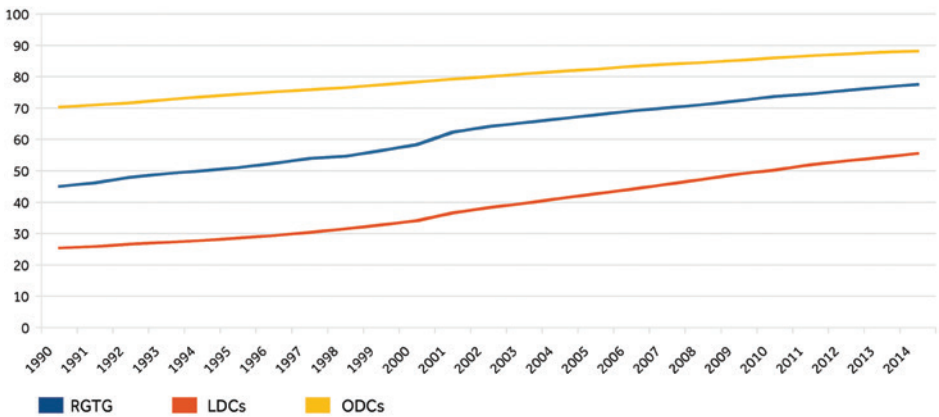
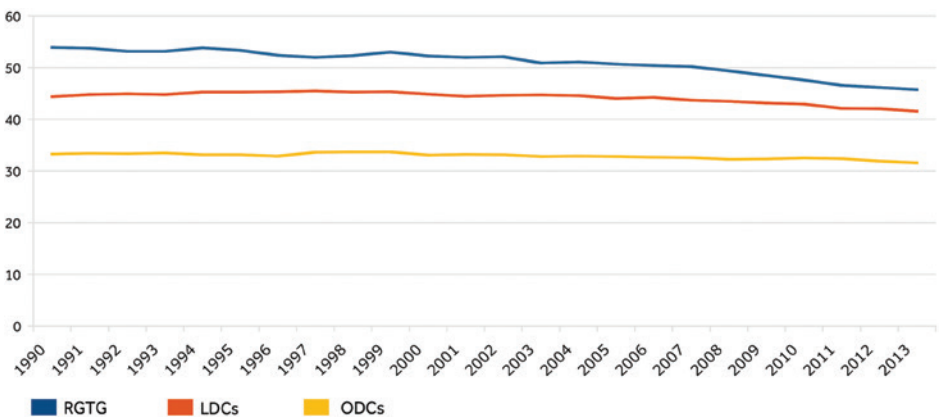


Figure 2.3 Evolution of EVI in LDCs, ODCs and RGTG countries



with the basic rationale of the category where the trap is supposed to correspond with both weak human capital and high structural economic vulnerability (the reason inclusion criteria are complementary), but it is not necessarily consistent with the IPoA goal of structural transformation. It is indeed so only if economic growth supported by a significant improvement in human capital is considered the basis of such a transformation and a sufficient condition to make development sustainable.

2.6 Making graduation rules more consistent with structural transformation

We have until now supposed the graduation rules roughly unchanged and have not considered any important change, except the recent change in the method of determination of the HAI and EVI thresholds. This change, avoiding the choice of a reference group of countries for the determination of the HAI and EVI criteria thresholds, has to some extent modified the nature of the LDCs, now considered poor countries facing an 'absolute' (but arbitrary) level of structural handicaps rather than relative structural handicaps. It has made eligible a first time for graduation three more countries that otherwise would not have reached the HAI graduation criterion.

Without changing the present rationale of graduation, other reforms could be considered. One could be the ranking of countries according to an 'expected natural income' determined using levels of income per capita, the HAI and the EVI. Easier to implement would be a revision in the measurement of the EVI (Guillaumont, 2014). A still easy to implement but deeper reform would be to follow a previous suggestion of the CDP (2005) to combine the two structural handicap indices in a synthetic index, used as an alternative criterion, which would have an impact on the path of graduation (Guillaumont, 2009a, 2009b, 2011). We explain elsewhere what could be the content and the use of a 'Structural Handicap Index' (SHI), combining the EVI and the (100-)HAI with limited substitutability. With such an index used as a graduation criterion, vulnerability would be necessarily taken into account as well as level of human capital, in a renewed rule of two criteria to be met (GNIpc and SHI), still supplemented by an income-only criterion at a higher threshold. Or it would be possible to combine in an aggregate measure the EVI, the (100-)HAI and income weakness in an index of 'least development', combining the three criteria. Actually, simulations of such changes do not lead to make the LDCs graduating the first strongly different from those identified from the present criteria. But they would make sure the graduation process takes into account the two kinds of structural handicaps presently considered for the identification of LDCs. It would then be that graduation corresponds to a 'structural change'.²

Of course, reduction in structural handicaps to growth, inherent in the goal of graduation, is not the same as 'structural transformation', also recommended by IPoA. Structural transformation, understood as a reallocation of resources likely to increase productivity, may be achieved in several ways, not the same in all countries. In any case, it does need a reduction in the structural handicaps to growth.

2.7 Concluding remarks

The argument of this chapter can be summarised as follows:

- Since Istanbul, graduation has been considered less of a threat to the development of graduating countries and more of a signal that these countries are reaching a new phase of development.
- The impact of asymmetry between inclusion and graduation criteria is high: At the 2015 review of the list of LDCs, among the 48 LDCs under consideration 31 were no longer meeting the three complementary inclusion criteria.
- In 2020, 10 out of the 48 LDCs of IPoA could have met the graduation criteria, instead of half set as a goal in the IPoA.
- The change brought in 2015 in the calculation of the thresholds of the two structural handicap criteria (EVI and HAI), making them absolute instead of relative criteria, has made easier to meet the graduation criteria, with three more countries found eligible a first time in 2015.
- Out of the 10 countries that will have possibly met the graduation criteria by 2020, only four are likely to have actually graduated during the period covered by IPoA.
- Six or seven out of 10 countries likely to have met the criteria by 2020 may meet the income-only criterion.
- Long-term prospects are better, in particular if LDCs are able to grow at the IPoA total income target of 7 per cent.
- But only with a 7 per cent rate of growth of income per capita, half of the 48 Istanbul LDCs will be able to have reached the income-only per capita criterion by 2030.
- Graduated and graduating LDCs have achieved this as a result of their economic growth and improvements in their levels of human capital. Their structural economic vulnerability, remaining high, had nearly no impact on graduation, although it has declined faster than has been the case in other LDCs.
- Reduction in structural handicaps—the rationale behind LDC graduation—could be better reflected in the design of the graduation criteria.
- Reduction in structural handicaps to development is also a condition of the structural transformation recommended by IPoA.

Notes

- 1 To some extent as the result of an upper bound to the index.
- 2 An even deeper reform would be to take into account not only handicaps captured through the EVI and the HAI but also vulnerability to climate change, through an appropriate index such as the Physical Vulnerability to Climate Change Index (PVCCI), set up at Ferdi.

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Chapter 3

Implication of the 2030 Agenda for the Istanbul Programme of Action

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3.1 Introduction

A strong argument can be made that the 2030 Agenda, captured in the 17 goals and 169 targets of the Sustainable Development Goals (SDGs), provides an important opportunity to realise the work plan set out in the Istanbul Programme of Action (IPoA), by way of drawing synergies and establishing coherence between these two aspirational documents. Indeed, it is not an exaggeration to state that least developed countries (LDCs)—the most vulnerable among the developing countries—are likely to emerge as the battleground for implementation of the SDGs. As it happens, 2016 marks the beginning of the SDGs as well as the midpoint of the period of implementation of IPoA, which was geared towards helping the LDCs undertake a transformational journey over the period 2011–2020 (UN, 2011). Similarly, when the implementation period for IPoA approaches the finishing line in 2020, it will also likely be time for the first review of implementation of the SDGs. Also, the end period of the Programme of Action of the possible LDC V coincides with the end of the implementation period of the SDGs: 2030.

As may be recalled, the SDG declaration expressed strong support for implementation of IPoA (UNGA, 2015). Many of the SDG targets find resonance in the priority areas set out in IPoA and also in the envisaged actions implemented by various actors (LDCs, developed countries and joint efforts). It is from this vantage point that the two global commitments could be mutually reinforcing and complementary. Lack of progress in terms of implementing IPoA will also mean weak progress in attaining the SDGs. On the other hand, IPoA implementation will contribute to advancing the cause of the SDGs. Indeed, recently, Economic and Social Council (ECOSOC) of the United Nations has also emphasised this issue (ECOSOC, 2016).

In view of the above, this chapter seeks to examine progress in a number of key common areas in IPoA and the SDGs over the period when IPoA was being implemented. This will also establish the benchmark for the SDGs. At the same time, the chapter takes a close look at developments concerning official development assistance (ODA) inflow to the LDCs and LDCs' exports to the world, which are defining factors in the realisation of both IPoA and the SDGs. As is known, developed countries have made specific and similar commitments as regards ODA and exports to support LDCs to attain both IPoA and SDG targets. The analyses presented in this chapter are based on 19 selected indicators covering areas of poverty, health, education, inequality, water and sanitation, investment opportunity, technology use, economic growth, trade and global partnership.¹

3.2 Midterm review of IPoA implementation and benchmarking the 2030 Agenda for LDCs

3.2.1 LDCs experienced slowdown in a number of key target areas

GDP growth rates in the majority of LDCs declined during the first four years of IPoA. The IPoA envisaged an annual average growth rate of 7 per cent for the LDCs. During the earlier Brussels Programme of Action (BPOA) period (2001–2010),² the average GDP growth rate for the LDCs as a group was 5.9 per cent. During 2011–2014, the corresponding GDP growth rate had indeed declined to 5.1 per cent. Among the 44 LDCs for which data were available, only seven had reached or crossed the threshold of 7 per cent GDP growth. The progress of LDCs as a group slowed down in such areas as prevalence of undernourishment, maternal and child mortality rates and gender equality. On the other hand, LDCs as a group witnessed accelerated progress in terms of ensuring access to an improved water source and electricity.

3.2.2 LDC progress was uneven during the IPoA period

In half of the LDCs, the GDP growth rate accelerated during the first four years of IPoA (2011–2014) compared with the respective BPOA period averages. Indeed, in two LDCs, Central African Republic and Yemen, the GDP growth rate had declined in the reported IPoA period. In terms of other development indicators, a number of LDCs were able to make notable progress. Bhutan, for example, emerged as the best performer among LDCs in the areas concerning poverty, public expenditure on education, safe drinking water, access to electricity and internet usage. On the other hand, on the majority of the indicators, the progress of Madagascar had been slower compared with its LDC peers.

3.2.3 LDCs had disparate levels of success in different areas

An assessment of the trends in progress made by the LDCs in terms of the aforesaid selected areas shows that LDCs experienced a diverse range of success in the various action areas. For example, Malawi is one of the worst performers in terms of poverty reductions and prevalence of stunting; however, the country is one of the highest spenders on education among the LDCs. Similarly, Tuvalu is one of the star performers among LDCs on safe drinking water and child mortality; in contrast, its performance as regards gender equality has been less than satisfactory. It has also been observed that, in spite of policy priority, progress in certain areas has been limited. A case in point concerns the employment to population ratio in Bangladesh since the adoption of IPoA.³

3.2.4 The IPoA and SDGs are interlinked

It is worth noting that SDG-related targets in areas such as poverty, hunger, employment, health, water and sanitation, education, gender, inequalities, climate issues (including disaster risks), governance and global partnerships are closely interlinked with IPoA priority areas. In contrast, IPoA addresses those related

to energy, technology and innovation, cities, consumption and production only partially. Only two goal areas—SDG 14 on ‘life below water’ and SDG 15 on ‘life on land’—are new and go beyond IPoA priorities (Figure 3.1).

A number of SDG goal areas include crosscutting targets and correspond to multiple IPoA priority areas. These are SDG 1 on poverty (with IPoA 5 and 6), SDG 2 on hunger (with IPoA 2, 3, 4 and 5), SDG 8 on decent work and growth (with IPoA 3 and 5), SDG 10 on inequalities (with IPoA 3 and 7), SDG 11 on cities and communities (with IPoA 1, 5 and 6), SDG 12 on consumption and production (with IPoA 2 and 6), and SDG 17 on global partnerships (with IPoA 1, 3 and 7). SDG 3 on health, SDG 4 on education, SDG 5 on gender equality, SDG 6 on water and sanitation, SDG 7 on energy, SDG 9 on industry, technology and innovation, SDG 13 on climate action and SDG 16 on governance are similar to only one particular IPoA priority area each.

3.2.5 Not all LDCs will kick off SDG implementation from a single starting point

LDCs will commence implementation of the SDGs from a wide range of starting points. For example, in eradicating poverty by 2030, Bhutan will need to reduce its poverty rate from only 2.2 per cent (in 2012). For Madagascar, this will be an uphill task, given the poverty rate of 81.8 per cent (in 2010). Indeed, between 2001 and 2010, the poverty rate in Madagascar increased by 13 per cent. Similarly, with respect to eradicating hunger, Haiti will need to start from its undernourishment rate, which was 51.8 per cent (in 2013); for Gambia, the benchmark figure was 6 per cent (in 2013). As it appears from the current vantage point, for many LDCs, despite notable progress, it will be very difficult to achieve the envisaged SDG targets. For example, Sierra Leone reduced maternal deaths per 100,000 live births from 2,650 in 2000 to 1,360 in 2015. The corresponding figure for Vanuatu was 78 in 2015, which will give the country an edge in terms of attaining the SDG-related target in this area.

3.2.6 IPoA could help identify priority areas for LDCs in the SDGs

LDCs have limited productive capacities to tackle multidimensional poverty; they also have limited opportunities available for enhancing social services for disadvantaged groups. Agriculture plays a critical role in almost all LDCs, particularly from the perspective of providing employment and ensuring food security. Lack of adequate investment in physical infrastructure for agriculture, research and development, technology transfer and agricultural extension services is common in LDCs. Agriculture development has been, and is likely to be, adversely affected by the impact of climate change in a number of LDCs.

Many of the LDCs have made significant improvements in reducing maternal mortality, under-five child deaths and improving reproductive health. In contrast, a number of other LDCs have been lagging behind and have remained off-track in terms of achieving targets relating to child mortality and maternal health. Large imbalances exist between and within countries with respect to access to improved health care. Enrolment in primary education has improved in LDCs, while quality issues and

Figure 3.1 Synergies between the IPoA and SDGs

Source: Authors' elaboration.

completion rates call for urgent attention. However, enrolment in secondary and tertiary levels needs significant improvement.

LDCs have achieved significant progress in terms of broadening coverage of safe drinking water and basic sanitation. However, several African LDCs are still struggling to lower the share of the population without access to safe drinking water. Several LDCs have made notable progress during the past decade with regard to enhancing access to basic energy, but a number of them have lagged behind in this respect. Lack of access to adequate physical infrastructure, electricity, transport, information and communication technology and water is common in most LDCs. Reliable and affordable infrastructure services, critical to attracting new investment and the envisaged structural transformation, are absent in most LDCs.

Many LDCs have attained commendable progress towards attaining gender equality in primary education. On the other hand, youth unemployment remains a matter of great concern. Gender equality and the empowerment of women are central to achieving inclusive growth and sustainable development across the board in LDCs. The IPoA document recognises that LDCs remained marginalised and continue to suffer from extreme poverty, inequality and structural weakness. It is to be recalled that IPoA addressed gender inequality and youth development and came up with dedicated actions to work on these areas.

IPoA did not talk of an action plan that focused particularly on reducing inequalities, as has been the case with the SDGs. Actions for the elderly, the disabled and the transgender population were not highlighted. Indeed, SDG targets related to reducing inequality are particularly relevant for the LDCs. Climatic phenomena disproportionately affect LDCs' socioeconomic development. LDCs have limited capacity to tackle climatic and natural disasters, hence the need for adequate and continuous support from developed communities. Many LDCs have to divert limited resources to address the consequences of these. IPoA mentions separate action areas concerning trade and commodities, and also for resource mobilisation.

In view of the above, we need to recognise that, without establishing good governance, it will not be possible for the LDCs to achieve both the SDGs and the IPoA targets. This is an issue the IPoA emphasises by specifying a dedicated action area; it is also given prominence in SDG 16. IPoA calls for a renewed and strengthened partnership for development based on mutual commitment and accountability between LDCs and development partners; SDG 17 has also highlighted this need. SDG 17 also includes a target related to making data available for measuring and monitoring progress, which will be challenging for LDCs (see Box 3.1 for details).

As may be recalled, the SDGs have provided individual countries the opportunity to adopt the 2030 Agenda based on their particular national situation and realities. However, it will be important for LDCs to avoid 'cherry picking' and to push themselves to pursue ambitious but pragmatic targets. One key aspect of the SDGs—'leave no one behind'—is a powerful driver of development that is participatory and based on shared prosperity. This will give IPoA implementation in LDCs a new dimension, whereby development is one of a more inclusive in nature.

Box 3.1 Data challenges confronting LDCs continue to be enormous

Data in LDCs are limited and irregular in many areas. Assessment of the IPoA and SDG achievements hinges on generating data and information. While the 2030 Agenda called for a ‘data revolution’ worldwide for monitoring global development goals and targets, data availability in LDCs remains inadequate.

This study used the 19 development indicators that are commonly available globally and that cover many of the areas prioritised in IPoA and the SDGs. Data relating to LDCs reveal that the situation was comparatively better for indicators concerning variables such as primary health, undernourishment, maternal health, water and sanitation, electricity access, macro variables and development aid (see Annex 3.1 for more details). However, consistent data were not available for many LDCs to measure progress over time as regards poverty, economic development and education, although LDCs’ achievements, aggregately, were notable in these areas during the Millennium Development Goal (MDG) era.

A few LDCs (i.e. Cambodia, Bangladesh) have periodic comparable data in these areas. On a positive note, many LDCs, particularly African LDCs, have registered significant improvement in terms of data availability, thanks to new surveys conducted. However, there is a need for further improvement in this respect. Data are of very poor quality in LDCs as regards employment indicators. Finally, regarding new areas identified in the SDGs (such as consumption, production, sustainable cities, life under water, etc.), monitorable data are not available in most cases for most of the LDCs.

There is now a need for LDCs to undertake concerted efforts to address emerging data demands to monitor development indicators. First, LDCs must realise investment required to generate disaggregated data according to national priorities and needs. This will entail searching for committed funds towards this. Second, LDCs will need good-quality data more often and supplied in a user-friendly and timely manner, with easy access, for appropriate monitoring of developmental targets. Third, to widen data availability, a more methodical approach will be required as regards data generated by non-state actors, as well as for development and recognition of administrative records maintained by government institutions. Finally, strengthening of relevant institutions and development of a healthy data ecosystem are important for LDCs to address data challenges. Technically skilled and digitally endowed human capacity-building is required to strengthen national statistical organisations and relevant government entities. These initiatives will need to be reinforced by strengthened global partnerships to meet data needs in LDCs.

3.3 Leveraging ODA for SDGs and IPoA

3.3.1 While formulating the 2030 Agenda, the Addis Ababa Action Agenda (AAAA) recognised ODA as a multidimensional tool

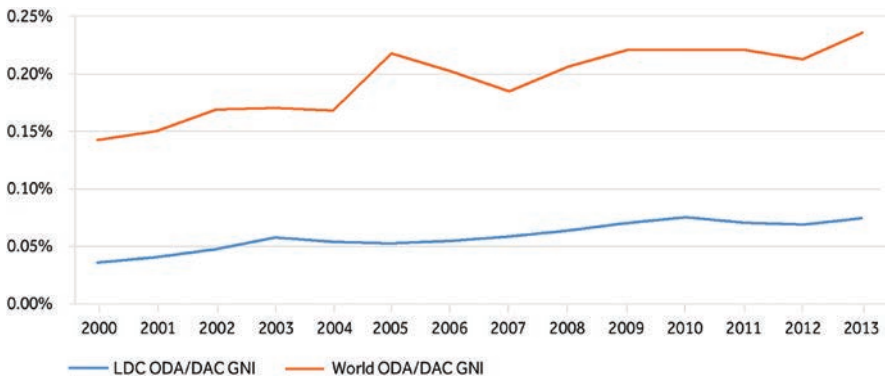
It may be recalled that, among the MDGs, implementation of the goal concerning global partnership (MDG 8) was the weakest. It is becoming increasingly important to make effective use of ODA, both in terms of reinforcing domestic efforts, and also to draw benefits from global cooperation. These relate to enhancing domestic resource mobilisation through capacity-building; development, dissemination, diffusion and transfer of environmentally sound technologies; and international cooperation and collaboration in science, research, technology and innovation. IPoA mentions specific actions for mobilisation of resources targeted at ensuring committed ODA flows by donor countries to LDCs.

However, in order to increase the resource flow for ODA, donor countries will have to raise public awareness in support of resource allocation, provide data on aid effectiveness and ensure tangible results. ODA then can also help catalyse additional resource mobilisation from other sources (public and private). Achieving sustainable development remains a crucial challenge for the LDCs, and ODA and other concessional finance geared towards implementing the SDGs will play an important role in implementing IPoA in specific areas.

3.3.2 While the volume of ODA flows to LDCs has increased, the share of LDCs as a group of total ODA has declined

As part of the AAAA, developed countries have pledged to reverse this trend. Developed countries have reaffirmed disbursing ODA equivalent to 0.7 per cent of their respective gross national income (GNI), and 0.15–0.20 per cent of GNI is to be targeted to the LDCs. This target was also included in the IPoA. Regrettably, net ODA as percentage of Development Assistance Committee (DAC) countries’

Figure 3.2 ODA inflow to LDCs



Source: Authors, using OECD/DAC database. Retrieved from: <http://www.oecd.org/dac/stats/idsonline.htm> (Accessed on 16 March 2016).

GNI increased from 0.14 per cent in 2000 to only 0.24 per cent in 2013 (Figure 3.2). During the same period, net ODA to LDCs as a percentage of DAC countries' GNI increased from 0.04 per cent to 0.07 per cent. Indeed, both the figures are well below the corresponding targets. During the IPoA implementation period, in 2013 net ODA as a percentage of DAC countries' GNI increased marginally to 0.24 per cent. However, the corresponding figure for LDCs remained stagnant at 0.07 per cent in 2013. As a result, the share of LDCs in total aid flow declined from 34 per cent in 2010 to 32 per cent in 2013. With little improvement in the trend of ODA inflow to LDCs, some countries are looking for additional support through South–South cooperation. The current scenario also indicates that, for implementing SDGs and IPoA, the LDCs will need to put increasingly more emphasis on domestic resource mobilisation—but raising the revenue and tax to GDP ratio by a significant margin will be challenging for many LDCs (ECOSOC, 2016).

3.3.3 Aid for Trade (AfT) also remained inadequate for LDCs

AAAA also committed to raising the proportion of AfT directed to the LDCs. It promised that enhanced technical assistance would be provided to landlocked developing countries, including to enable them to participate in trade negotiations. Indeed, the Enhanced Integrated Framework (EIF)⁴ was set up to make AfT more effective. It may be recalled that the central objective of the EIF is to attain economic growth and reduce poverty through the mainstreaming of trade in the LDCs. Between 2010 and 2014, the volume of AfT to LDCs increased by only an insignificant amount (US\$1.3 billion). Average AfT disbursement to LDCs was about US\$10.2 billion during the first four years of IPoA. However, it is important to note that AfT commitments were never fully realised. Between 2002 and 2010, on an average, 70 per cent of AfT commitments were disbursed. During the reported IPoA implementation period (2011–2014), the corresponding figure was about the same (70.7 per cent). The commitment to the EIF over the next five years also falls short of what was hoped for.

3.3.4 LDCs' share in global exports has improved marginally

During 2000–2010, the LDCs experienced a rise in the share of total global merchandise exports from 0.54 per cent in 2000 to 0.97 per cent in 2010. In 2014, the figure further improved to 1.11 per cent. However, in the backdrop of this trend, it will be difficult for the LDCs to raise their share in global exports to 2 per cent by 2020, as committed to in IPoA and reiterated in the SDGs. It is also to be noted that the export earnings of many LDCs are highly dependent on commodity export prices, which tend to experience significant volatility. For these LDCs, in view of the prevailing low level of global commodity prices, it will become even more difficult to generate export earnings that can then be deployed to attain the IPoA and SDG targets.⁵ In this context, greater and more meaningful market access and enhanced financial and technical assistance for LDCs have become more important. Indeed, to attain the aforesaid SDG target, it is important to implement market access commitment for LDCs in line with the Doha Development Agenda.⁶

3.4 Challenges in attaining the SDGs in LDCs

LDC decadal conferences and the SDGs provide an opportunity for an alignment of efforts in LDCs to attain common goals and aspirations. Indeed, the 2030 Agenda could be a powerful driver for attaining the key deliverables of IPoA in a number of ways. We might note that LDC IV (from midway) and the likely LDC V (fully) will coincide with the 2030 Agenda. The discussion above shows that some of the key milestones of both IPoA and the SDGs are closely aligned. The 2016 midterm review of IPoA is indeed a good opportunity to undertake an assessment of the likelihood of attaining the SDGs in the LDCs and to identify the new initiatives needed to address the gaps and deficits. In addition, in 2020 there will be an opportunity to design the work programme in the context of LDC V in a way that could align the targets of the two aspirational documents as well as their implementation.

When viewing from the current vantage point, it is important to recognise that successful implementation of the SDGs in the LDCs will face enormous challenges. These challenges may be summarised in six broad areas: (i) 'aligning' LDC decadal action plans with goals and targets of Agenda 2030; (ii) ensuring coherence in implementing initiatives in the context of IPoA and the SDGs; (iii) identifying specific areas in the context of the SDGs where more attention will be needed in view of implementing them in the LDCs; (iv) mobilising financial and other resources for implementation of IPoA and SDG measures in the LDCs; (v) addressing the data revolution in the LDCs to monitor progress of IPoA and the SDGs; and (vi) leveraging global partnership and actions undertaken by national stakeholders towards SDG implementation in order to achieve IPoA targets. Indeed, successful implementation of both the SDGs and IPoA will critically hinge on how LDCs and other relevant stakeholders are able to address the aforesaid challenging tasks.

3.5 Concluding remarks

The preceding sections reveal that, as the global community moves towards the midterm assessment of IPoA, the recently adopted Agenda 2030 offers a unique opportunity to take appropriate measures to ensure that the SDGs get implemented in countries likely to emerge as battlegrounds of SDG success or failure. The message that transpires from these discussions is that ensuring coherence, leveraging initiatives, drawing synergies, generating resources and coordinating various implementation measures will help in realising the ambitions of both the SDGs and IPoA in the particular context of the LDCs.

Notes

- 1 Suitable reference indicators are not readily available for areas such as commodity, governance and climate actions.
- 2 See UN (2001).
- 3 Bangladesh's employment to population ratio declined between 2010 (56.6 per cent) and 2015 (55.4 per cent).

- 4 The EIF covers 51 countries (48 LDCs plus Cape Verde, Maldives and Samoa) with the combined effort of 23 donors and eight partner agencies.
- 5 It needs to be conceded that a number of commodity-importing LDCs, such as Bangladesh, have benefitted from the lower level of commodity prices.
- 6 This commitment has been reaffirmed in both the IPoA and the SDGs.

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Annex 3.1: Data availability situation concerning selected indicators in LDCs

| Indicator | Maximum number of data points during 2000 and 2015 (16 years) available | Countries with no data | Number of LDCs (out of 48 LDCs) reporting data in benchmark year/latest year* | Data availability situation |
|--|---|------------------------|---|-----------------------------|
| Goal 1: End poverty in all its form everywhere | | | | |
| Poverty headcount ratio at US\$1.90 a day (2011 PPP) (% of population) | 7 years (Cambodia) | Afghanistan | 8 (2012) | Below average |
| | | Equatorial Guinea | 12 (2010) | |
| | | Guinea | 6 (2000) | |
| | | Eritrea | | |
| | | Myanmar | | |
| | | Somalia | | |
| | | South Sudan | | |
| | | Tuvalu | | |
| Government expenditure on education, total (% of GDP) | 14 years (Togo) | Guinea-Bissau | 15 (2013) | Average |
| | | Haiti | 29 (2010) | |
| | | Myanmar | 30 (2000) | |
| | | Somalia | | |
| | | South Sudan | | |
| | | Tuvalu | | |

| | | | | |
|---------------------------------------|-------------------|---------|-------------------------------------|-----------|
| Health expenditure, public (% of GDP) | 15 years (Tuvalu) | Somalia | 47 (2013) 47 (2010) 45 (2000) | Very good |
|---------------------------------------|-------------------|---------|-------------------------------------|-----------|

Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture

| | | | | |
|---|-----------------------|---|-------------------------------------|---------------|
| Prevalence of undernourishment (% of population) | 14 years (38 LDCs) | No data for other 10 LDCs Bhutan Burundi Comoros Congo, DR Equatorial Guinea Eritrea Somalia South Sudan Sudan Tuvalu | 38 (2013) 38 (2010) 38 (2000) | Very good |
| Prevalence of stunting, height for age (% of children under 5) | 11 years (Bangladesh) | Kiribati | 10 (2013) 17 (2010) 26 (2000) | Below average |
| Prevalence of severe wasting, weight for height (% of children under 5) | 11 years (Bangladesh) | Kiribati | 10 (2013) 17 (2010) 26 (2000) | Below average |

Goal 3: Ensure healthy lives and promote well-being for all at all ages

| | | | | |
|---|----------------------------|--------|---|---------------|
| Maternal mortality ratio (modelled estimate, per 100,000 live births) | 16 years (47 LDCs) | Tuvalu | 28 (2013) 26 (2010) 25 (2000) | Very good |
| Maternal mortality ratio (national estimate, per 100,000 live births) | 5 years (Bangladesh) | Angola | 2 (2014) 6 (2013) 14 (2010) 8 (2000) | Below average |
| Mortality rate, under-5 (per 1,000 live births) | 16 years (for all 48 LDCs) | None | 48 (2015) 48 (2010) 48 (2000) | Very good |

Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

| | | | | |
|---|-------------------|--|------------------------------------|---------------|
| Literacy rate, youth total (% of people ages 15–24) | 5 years (Senegal) | Djibouti Kiribati Solomon Islands Somalia Tuvalu | 14 (2013) 8 (2010) 15 (2000) | Below average |
|---|-------------------|--|------------------------------------|---------------|

Goal 5: Achieve gender equality and empower all women and girls

| | | | | |
|---|--------------------|--------------------------------------|-------------------------------------|-----------|
| Proportion of seats held by women in national parliaments (%) | 16 years (22 LDCs) | None Minimum 6 years (Myanmar) | 46 (2015) 44 (2010) 38 (2000) | Very good |
|---|--------------------|--------------------------------------|-------------------------------------|-----------|

Goal 6: Ensure availability and sustainable management of water and sanitation for all

| | | | | |
|---|--------------------|---------------------------------------|-------------------------------------|-----------|
| Improved water source (% of population with access) | 16 years (44 LDCs) | None Minimum 12 years (Somalia) | 47 (2015) 47 (2010) 45 (2000) | Very good |
|---|--------------------|---------------------------------------|-------------------------------------|-----------|

Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all

| | | | | |
|---|-----------------------|------|-------------------------------------|-----------|
| Access to electricity (% of population) | 3 years (all 48 LDCs) | None | 48 (2012) 48 (2010) 48 (2000) | Very good |
|---|-----------------------|------|-------------------------------------|-----------|

Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

| | | | | |
|--|--------------------|--|-------------------------------------|---------------|
| GDP (constant 2005 US\$) | 15 years (40 LDCs) | Myanmar Somalia South Sudan | 48 (2014) 48 (2010) 48 (2000) | Very good |
| Employment to population ratio, 15+, total (%) (national estimate) | 9 years (Cambodia) | Angola Burundi Central African Republic Chad Comoros Equatorial Guinea Eritrea Guinea-Bissau Haiti Myanmar Somalia | 8 (2013) 12 (2010) 5 (2000) | Below average |

Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

| | | | | |
|--|--------------------|--|-------------------------------------|-----------|
| Manufacturing, value added (% of GDP) | 15 years (27 LDCs) | Equatorial Guinea Guinea-Bissau Haiti Liberia Mali Somalia South Sudan | 29 (2014) 34 (2010) 38 (2000) | Very good |
| Mobile cellular subscriptions (per 100 people) | 15 years (43 LDCs) | None Minimum 5 years (South Sudan) | 48 (2014) 48 (2010) 46 (2000) | Very good |

Goal 17: Strengthen the means of implementation and revitalise the global partnership for sustainable development

| | | | | |
|---|--------------------|--|-------------------------------------|-----------|
| Net official development assistance received (current US\$) | 14 years (47 LDCs) | None Minimum 3 years (South Sudan) | 48 (2013) 47 (2010) 47 (2000) | Very good |
| Internet users (per 100 people) | 15 years (38 LDCs) | None Minimum 3 years (South Sudan) 8 years (Tuvalu) | 47 (2014) 47 (2010) 44 (2000) | Very good |
| Merchandise exports (by the reporting economy) | 15 years (43 LDCs) | Bhutan Eritrea Lesotho South Sudan Timor-Leste | 43 (2014) 43 (2010) 43 (2000) | Very good |

Source: Authors, using World Development Indicator data. Retrieved from: <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> (Accessed on 14 March 2016).

Note: Data availability is ranked in the following order: below average, average and very good. South Sudan gained independence from Sudan in 2011. For a few indicators, 2000 and 2010 data were extrapolated for South Sudan. In most other cases, 47 LDCs were considered for these two time points.

Chapter 4

Obstacles to Achieving the Sustainable Development Goals: Emerging Global Challenges and the Performance of the Least Developed Countries

Carl Dahlman and Sam Mealy

4.1 Introduction

The least developed countries (LDCs) are defined as low-income developing countries suffering from severe structural obstacles to sustainable development (UNDESA, 2015a). Indicators of such obstacles include a low level of human assets and high vulnerability to economic and environmental shocks. Nearly half the population of the 48 LDCs—some 400 million people—remain in extreme poverty, compared with less than a quarter in any other developing country (UNCTAD, 2015). The headline commitment of the Sustainable Development Goals (SDGs) is to eradicate global poverty by 2030. Improving the prospects of the LDCs will play a crucial role in this.

This chapter argues that, despite relatively fast economic growth, the track record of LDCs graduating from their category has been poor, with only four graduating since 1971. Moreover, the LDCs are facing a new set of interrelated global challenges that will hamper further progress. If the SDGs are to be met, the international community must ratchet up development efforts to help equip the LDCs for prosperity in an increasingly constrained development context.

This chapter pursues its argument in two sections. First, it outlines global challenges across six domains—economic, demographic, technological, environmental, security and governance—that have significant implications for LDCs in achieving the SDGs. Second, it explores the implications for the international community and for LDCs, as well as for development strategies more generally, of an increasingly constrained development context.

4.2 Challenges to meeting the SDGs

The period 2000–2015 was generally one of robust economic growth for the LDCs. From 2002 to 2008, for the group, gross domestic product (GDP) grew at an average rate of more than 7 per cent. This represented the strongest and longest period of sustained growth achieved by these countries since 1970 (UNCTAD, 2010). Although, this growth slowed somewhat after 2010, it remained strong, averaging around 5 per cent in the period 2010–2015 (UNCTAD, 2015). This rapid economic growth has translated into better outcomes in terms of improving human assets and reducing susceptibility to economic and environmental shocks.

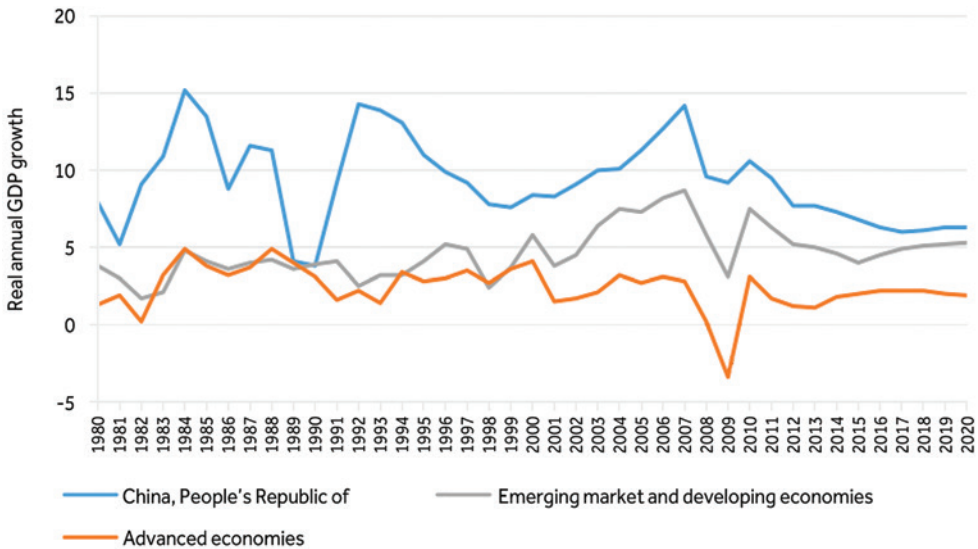
Despite this progress, the LDCs as a group cannot be expected to meet most of the SDGs unless critical action is taken. This argument is based on three key factors: first, the LDCs' historical record of graduating from their category and meeting the previous Millennium Development Goals (MDGs) has not been stellar. In the 40 years since the LDC category was established, the Committee for Development Policy (CDP) recommended only seven countries for graduation, and found another two countries eligible for graduation (Kawamura, 2014). While the pace of LDCs graduating/being found eligible to graduate has accelerated since 2000, it has not been nearly fast enough to meet the Istanbul Programme of Action (IPoA) target or the MDGs. Moreover, the SDGs and their related indicators are more comprehensive, more universal in scope and more ambitious in magnitude than the MDGs. For example, SDG 1 is to 'by 2030, eradicate poverty for all people everywhere, currently measured as people living on less than USD 1.25 a day' (UNDP, 2016). As such, they will be more difficult to attain.

Second, the LDCs failed to meet the MDGs and the targets for graduation during a period of unprecedented economic growth (2000–2015), when they on average out-performed other developing countries. They now face a significantly more constrained development context in which they must progress towards the SDGs. The global economic outlook is one of secular stagnation: growth in China is slowing, global output is reduced, the favourable commodity super cycle has come to an end, interest rates are rising and it is becoming increasingly difficult to access international finance.

Third, LDCs face a set of interconnected global challenges—economic, technological, demographic, environmental, security and governance-wise—that will hamper seriously their prospects of achieving the SDGs. Compounding the more pessimistic economic outlook are income inequality, automation, jobless growth, demographic imbalances, climate change-related shocks, political instability and security threats and weakened domestic governance. Underpinning all of these challenges is that, despite the progress LDCs have made on reducing their vulnerability, they remain the most susceptible to economic and environmental shocks. Moreover, these shocks have the potential to proliferate between now and 2030, and their associated costs will fall disproportionately on the LDCs. Taken together—the poor historical performance of the LDCs, the worsening economic climate and the emergence of new global challenges—these factors will limit LDC progress towards achieving the SDGs unless serious action is taken, both domestically as well as by the international community. The remainder of this section explores the emergence of a series of global challenges pertinent to this discussion.

4.2.1 Economic

Economic convergence between the advanced and emerging countries is slowing down: the gap in the economic growth rate between Organisation for Economic Co-operation and Development (OECD) and non-OECD countries has narrowed in the past decade. This is compounded by the slowing growth of China (Figure 4.1), whose previously rapid growth benefited neighbours and suppliers, in particular exporters of natural resources, such as the LDCs (OECD, 2014b).

Figure 4.1 Actual and projected slowing growth

Source: Datamapper (2016).

The slowdown in LDC growth since 2010 can be attributed partly to their dependence on commodity exports and falling commodity prices. All commodity price indices, including food, agricultural raw material, mineral ores and metals and crude petroleum, declined between 2012 and 2015 (UNCTAD, 2015). Falling prices were a result of weakening demand, oversupply (following overinvestment during the preceding decade of higher prices), an appreciating dollar and unusually large harvests (World Bank, 2015a). Decreasing demand from the US following the gains made by fracking and other deposits, as well as the Organization of the Petroleum Exporting Countries' decision not to reduce production, has pushed down oil prices. LDC reliance on commodities has also resulted in a pro-cyclical investment strategy, leaving them vulnerable to price fluctuations. Almost one quarter of LDCs (11) are highly dependent on natural resource rents as an engine of growth and are thus especially susceptible to commodity price shocks (Table 4.1).¹

Slowing growth and falling commodity prices are compounded by the prospect of jobless growth. GDP and employment growth trends have been diverging over the past two decades in almost all countries, including the major OECD economies, the BRIICS (Brazil, Russia, India, Indonesia, China and South Africa) and certain low-income countries, such as Ghana and Bangladesh (Figure 4.2) (OECD, 2015a). Jobless growth is thought to be a significant global risk for the coming decade (WEF, 2015).

Income inequality, both across and within countries, was also on the rise. In 2015, the poorest 66 per cent of the world's population were estimated to receive just 13 per cent of global income, while the richest 1 per cent received nearly 15 per cent. Approximately 50 per cent of the world's wealth is owned by 1 per cent of the global population (OECD, 2015a). Of the 27 LDCs with data pertaining to their Gini

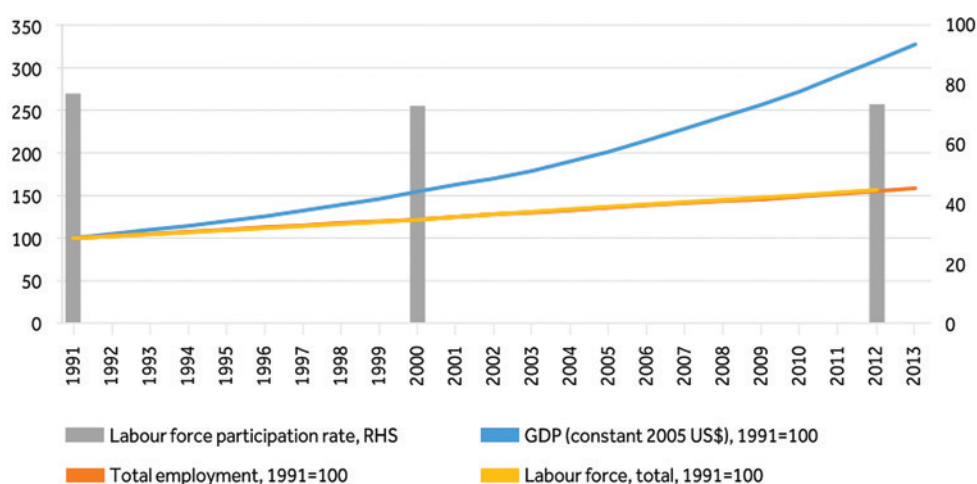
Table 4.1 LDCs are highly dependent on non-renewable natural resources

| Country | Non-renewable natural resource rents (% of GDP) |
|-------------------|---|
| Equatorial Guinea | 53.3 |
| Mauritania | 41.9 |
| Angola | 34.6 |
| South Sudan | 25.8 |
| Chad | 23.3 |
| Congo, Dem. Rep. | 21.1 |
| Eritrea | 18.8 |
| Zambia | 16.6 |
| Yemen, Rep. | 15.7 |
| Burkina Faso | 13.7 |
| Lao PDR | 10.3 |

Source: Authors' calculations based on World Development Indicators (2016c).

coefficient available, 12 have worsened in terms of income inequality since the early 2000s (World Bank, 2016c).

This more constrained economic environment is making international finance more difficult to come by for the LDCs. Real bilateral official development assistance (ODA) from OECD Development Assistance Committee (DAC) members has stagnated since 2010 (UNCTAD, 2015). While foreign direct investment (FDI) to LDCs grew rapidly during the 2000s, it has stagnated since 2010. Moreover, FDI inflows are concentrated in a few key resource-rich countries. Mozambique, Zambia, Tanzania, Democratic Republic of Congo, Equatorial Guinea and Haiti accounted for 58 per cent of total FDI to the LDCs in 2014 (*ibid.*). Although extractive industries in

Figure 4.2 Jobless growth occurring in LDCs: Bangladesh

Source: World Development Indicators (2016c) and ILO Employment Trends (2015).

Notes: Indexed GDP (constant 2005 US\$), total employment and total labour force, 1991=100 (LHS); labour force participation rate, total in % of total population ages 15–64 (RHS).

LDCs will continue to attract foreign investment, accessing the levels of international finance required to help meet the SDGs will be problematic.

4.2.2 Technology

Technology has been responsible for significant productivity increases throughout human history and technological adoption and penetration have contributed to economic convergence between advanced and emerging countries. Technology also poses risks, however. Automation may accelerate the trend of jobless growth. The rise of processing power and digital information has enabled computers to increasingly perform both routine manual and routine cognitive tasks more cheaply and effectively than people. Moreover, skill-biased technological change is exacerbating income inequality trends. The income and wealth gains the digital revolution has generated are increasingly accruing to capital owners and the highest-skilled workers. Over the past three decades, labour's share in output has shrunk globally from 64 to 59 per cent (The Economist, 2014).

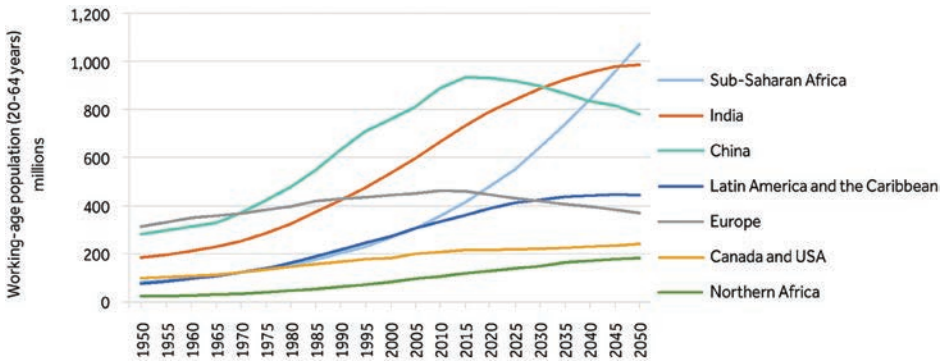
The prospect of digital technologies and automation worsening income disparities and disrupting society is relevant to developing countries too. Nike used 106,000 fewer contract workers in 2013 than in 2012 because it is 'shifting toward automation,' even in lower-margin countries such as China, Indonesia and Vietnam (McAfee, 2014). The rise of 3D printing and additive manufacturing has the potential to re-localise parts of the production process and shorten global supply chains, with significant implications for jobs in low-value added manufacturing activities in developing countries. These trends are contributing to 'premature deindustrialisation' and mean developing countries need to think carefully about where they want to position themselves in global value chains (Rodrik, 2013). This implies a particular challenge for developing regions with fast-growing working-age populations, such as South Asia and Sub-Saharan Africa, which may be less able to employ the millions of job entrants in emerging basic manufacturing industries.

4.2.3 Demography

The world will experience large-scale demographic transitions over the next 50 years. Working-age populations will expand rapidly in low-income countries, particularly in Africa and South Asia (Figure 4.3). Africa in particular has experienced a rapid decrease in child mortality combined with high fertility rates, contributing to a population explosion. The LDCs have experienced a growing share of the total global population but their share of global GDP has not matched this (Figure 4.4). Meanwhile, LDCs will continue to experience sustained population growth figures until 2050 (Figure 4.5).

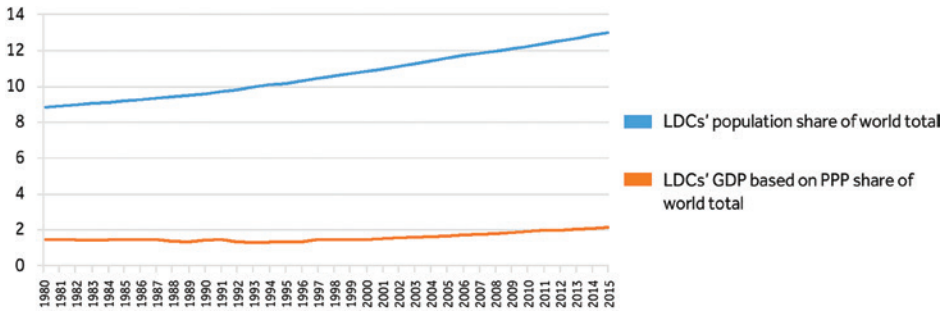
Countries with a high ratio of non-dependants to dependants can enjoy a 'demographic dividend'. A country's capacity to exploit this demographic dividend, however, relies on its capacity to employ the growing youth bulge in the labour force. Sub-Saharan Africa's labour force is expanding by about 8 million people per year; South Asia's by 12 million per year (World Bank, 2012). There should be around 600 million more jobs in 2020 than in 2005 in order to maintain the world's ratio of employment to

Figure 4.3 Working-age populations are expected to grow substantially in low-income countries



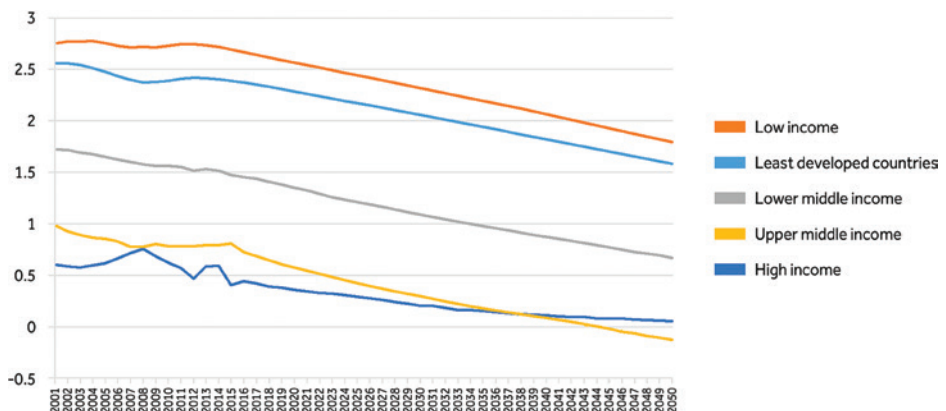
Source: UNDESA World Populations Prospects: The 2012 Revision, www.esa.un.org/wpp

Figure 4.4 LDCs' population and GDP share of world total



Source: Author's calculations based on UNCTAD (2015), IMF Datamapper (2015) and http://esango.un.org/sp/ldc_data/web/StatPlanet.html

Figure 4.5 LDCs will experience sustained population growth figures (annual %)



Source: Authors' calculations based on World Bank Health Nutrition and Population Statistics: Population estimates and projections 2016.

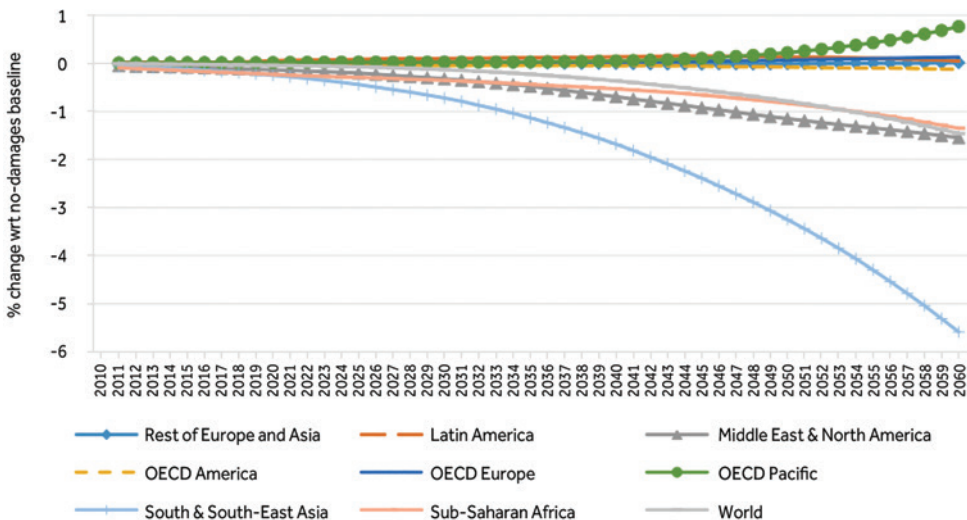
working-age population (ibid.). However, the gap between actual employment and the working-age population is significant, and is growing in several regions; it may reach about 200 million in Sub-Saharan Africa in 2030 (ibid.). Such a youth bulge and employment gap may cause significant social and political problems if left untended.

4.2.4 Environment

Environmental degradation and GDP growth are tightly and negatively correlated (van Zanden et al., 2014) and climate change is expected to reduce economic growth in most regions (Figure 4.6). The Intergovernmental Panel on Climate Change (IPCC) estimates that the global mean temperature will increase by 0.5–1.2 degrees Celsius between 2015 and 2035 (IPCC, 2014). Significant portions of plant and animal species face extinction risks as a result. The frequency of natural hazards, such as floods, droughts, typhoons and hurricanes, is already increasing because of climate change. The number of people exposed to droughts is expected to increase by 9–17 per cent in 2030 and 50–90 per cent in 2080. The number exposed to river floods is expected to increase by 4–15 per cent in 2030 and 12–29 per cent in 2080 (World Bank, 2016a). Coastal systems and low-lying areas are at increasing risk from sea level rise, which will continue for centuries even if the global mean temperature is stabilised (IPCC, 2014). People living in LDCs are disproportionately at risk from climate change-related shocks. LDCs suffered 1.3 million climate-related deaths from 1980 to 2013, accounting for 51 per cent of global casualties, although they are home to only 12 per cent of the world's population (IIED, 2013).

Climate change poses a significant threat to food security: fisheries productivity and wheat, rice and maize production in tropical regions will be severely challenged.

Figure 4.6 Climate change will reduce economic growth in most regions (OECD projection of regional economic impact (in % of GDP) owing to climate change)



Source: OECD (2014b).

Water scarcity will become increasingly prevalent in light of the projected reduction in renewable surface water and groundwater resources. Climate change is also expected to affect human health by compounding existing health problems and diseases, such as malaria and diarrhoea.

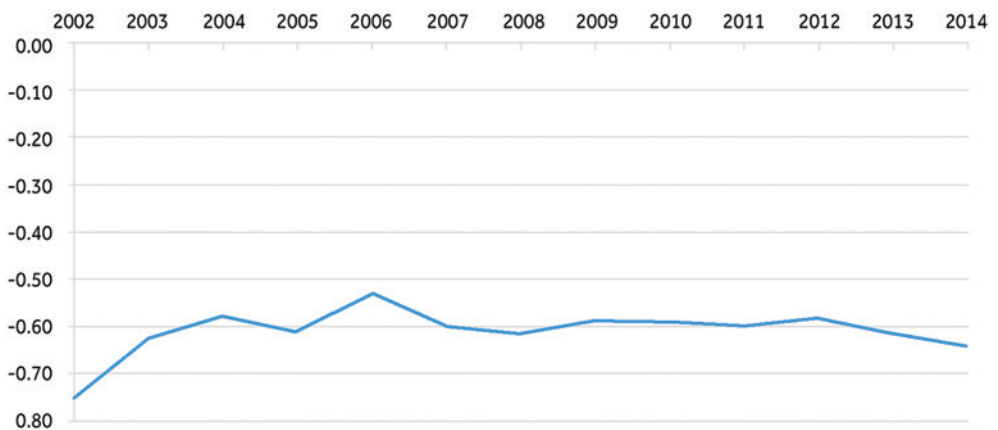
Poorer people suffer disproportionately from climate-related shocks. In the absence of rapid and inclusive development policies, climate change could result in an additional 100 million, mostly based in LDCs, living in poverty by 2030 (World Bank, 2016a). Meeting the SDGs is highly unlikely under such a scenario.

4.2.5 Security

Security and peace are essential for development. Yet 1.5 billion people live in countries affected by conflict. Inter-state conflict is one of the most important global risks in terms of its high likelihood and probable negative impacts (WEF, 2015). Globally, forced displacement has been accelerating, reaching unprecedented levels. By the end of 2014, conflict, persecution and human rights violations had forcibly displaced 59.5 million people worldwide (UNHCR, 2015). The burden of these displaced peoples falls disproportionately on low-income countries and LDCs. Developing regions hosted 86 per cent of the world’s refugees in 2014, whereas the LDCs hosted 25 per cent in 2014—some 3.6 million refugees (ibid.). Meanwhile, political instability and violence continue to blight many LDCs (Figure 4.7).

Persistent conflicts in many low-income countries have negative impacts on development, as the rise in poverty in such countries demonstrates. For example, countries that experienced major violence between 1981 and 2005 had average poverty rates 21 percentage points higher than in countries that experienced no violence (World Bank, 2011). Moreover, the negative externalities of conflicts spill

Figure 4.7 Perceptions of political stability and absence of violence/terrorism remain high in the LDCs



Source: World Bank (2015b).

Note: Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism. Estimate of governance ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance.

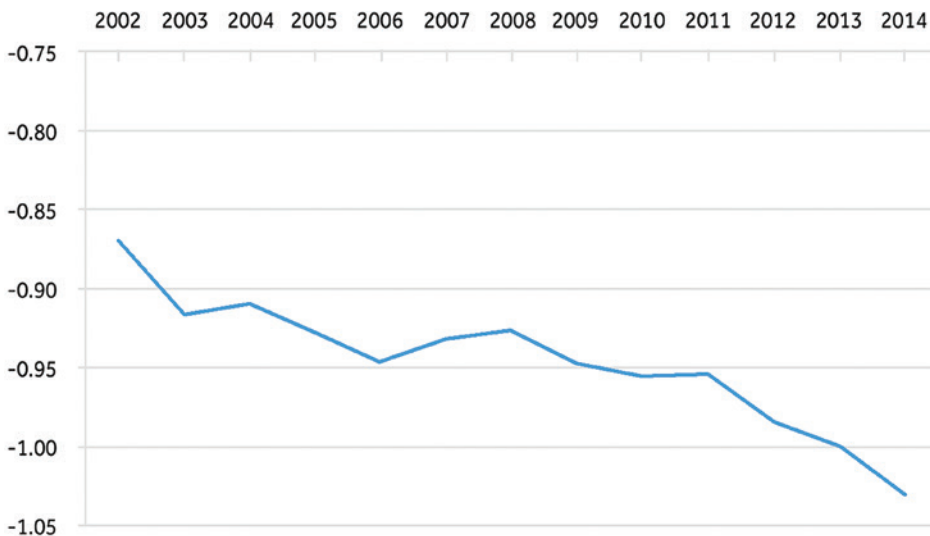
over to other countries: neighbouring countries host 75 per cent of refugees (UNHCR, 2015). Moreover, while inter-state conflicts have declined, new forms of security risks have emerged. Terrorism has become an increasingly salient problem for advanced countries and LDCs since 9/11. The rise of rogue terrorist groups, such as Al-Qaeda in the Arabian Peninsula (AQAP) in Yemen, Boko Haram in Nigeria and Al-Shabaab in Somalia, is making governance in already fragile states increasingly difficult. All these groups are propagating conflict beyond their origin countries.

4.2.6 Governance

The final global challenge is one of governance. Several significant challenges to governance have emerged worldwide, including bureaucracies' reluctance to change, an institutional 'silo' mentality and the weakness of subnational entities. Public trust in governments has stagnated and fallen in many places over recent decades. Moreover, the governments of LDCs face greater financial constraints and find it increasingly difficult to carry out programmes of action with reduced mandates from the citizen body. The World Governance Indicators project estimates that government effectiveness—perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation and the credibility of the government's commitment to such policies—has deteriorated rapidly since the early 2000s (Figure 4.8).

Another way of assessing the governance prospects of the LDCs is through the concept of fragility. A total of 31 of the 48 LDCs are defined as 'fragile states' as classified by an OECD composite index (OECD, 2015b).² These are countries whose governmental

Figure 4.8 Perceptions of government effectiveness in LDCs have been declining



Source: World Bank (2015b).

Note: Estimate of governance ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance.

effectiveness, regulatory quality and accountability are weak. The OECD's composite list of fragile states is partly based on the Fund for Peace's Fragile States' Index (FSI).³ Of the 38 most fragile states on the 2015 FSI—marked as 'very high alert', 'high alert' and 'alert'—26 are LDCs (Table 4.2). Moreover, a critical portion of LDCs have become more fragile over time. Since the Fund for Peace began compiling its index in 2005, 13 LDCs have experienced 'worsening', 'significant worsening' or 'critical worsening' in their fragility indices (Fund for Peace, 2015).

These governance issues should be cause for concern. Meeting the SDGs will require significant domestic resource mobilisation, in terms of generating government revenues, coordinating and implementing programmes and evaluating progress. Several LDCs lack such effective government capacity and are thus at risk of falling further behind in their development.

The challenges outlined above are of course not discrete. Rather, they interact with one another in complex and often mutually reinforcing ways. For example, automation and skill-biased technological change may widen disparities in the income distribution and contribute to a worsening economic environment. Moreover, the democratic youth bulge in many LDCs will place pressure on economies already struggling to create sustainable jobs in large numbers. The negative effects of climate change will interact with and exacerbate the other challenges, causing additional economic, governance and security problems. It is important to emphasise that a significant portion of the burden of these global challenges falls disproportionately on the LDCs, and this has severe implications for whether or not they can meet the SDGs.

4.3 Implications for the international community and development strategy

This chapter has highlighted the difficulty in achieving the SDGs for the LDCs. This is based on their historical record of graduation from the LDC category, the more pessimistic global economic outlook they now face and the emergence of a set of global challenges particularly problematic for their development context. It is important to recognise that the ultimate objective is development, and the SDGs are just one mechanism by means of which to gauge progress towards this. However, because of their universality of scope and unprecedented magnitude of ambition, they do represent a significant departure from previous development frameworks and deserve to be treated seriously. It is thus imperative that the LDCs and the international community realise that a 'business as usual' approach will be insufficient to meet the SDGs. Detailing a comprehensive framework for how the LDCs can achieve the SDGs is beyond the remit of this chapter. That said, the remainder of this section sketches what steps the international community and the LDCs can take to put themselves on a path to success.

4.3.1 Increase the total allocation of ODA to LDCs and improve ODA targeting

ODA to LDCs has stagnated since 2010. Moreover, it has become increasingly unevenly distributed, with significant portions going to countries based on

Table 4.2 LDCs are among the world's most fragile states

| Ranking | Country | Fragility Index 2015 | Status since 2006 |
|------------------------|---------------------------|----------------------|-----------------------|
| Very High Alert | | | |
| 1 | South Sudan* | 114.5 | Some worsening |
| 2 | Somalia* | 114 | Worsening |
| 3 | Central African Republic* | 111.9 | Significant worsening |
| 4 | Sudan* | 110.8 | Some improvement |
| High Alert | | | |
| 5 | Congo (D. R.)* | 109.7 | Marginal change |
| 6 | Chad* | 108.4 | Some worsening |
| 7 | Yemen* | 108.1 | Worsening |
| 9 | Syria | 107.9 | Significant worsening |
| 8 | Afghanistan* | 107.9 | Worsening |
| 10 | Guinea* | 104.9 | Some worsening |
| 11 | Haiti* | 104.5 | Marginal change |
| 12 | Iraq | 104.5 | Strong improvement |
| 13 | Pakistan | 102.9 | Marginal change |
| 14 | Nigeria | 102.4 | Some worsening |
| 15 | Cote d'Ivoire | 100 | Strong improvement |
| 16 | Zimbabwe | 100 | Strong improvement |
| Alert | | | |
| 17 | Guinea Bissau* | 99.9 | Critical worsening |
| 18 | Burundi* | 98.1 | Marginal change |
| 19 | Niger* | 97.8 | Significant worsening |
| 20 | Ethiopia* | 97.5 | Some worsening |
| 21 | Kenya | 97.4 | Significant worsening |
| 21 | Liberia* | 97.3 | Some improvement |
| 23 | Uganda* | 97 | Marginal worsening |
| 24 | Eritrea* | 96.9 | Significant worsening |
| 25 | Libya | 95.3 | Critical worsening |
| 26 | Mauritania* | 94.9 | Some worsening |
| 27 | Myanmar* | 94.7 | Some improvement |
| 28 | Cameroon | 94.3 | Some worsening |
| 29 | North Korea | 93.8 | Some improvement |
| 30 | Mali* | 93.1 | Critical worsening |
| 31 | Sierra Leone* | 91.9 | Strong improvement |
| 32 | Bangladesh* | 91.8 | Some improvement |
| 33 | Congo (Republic) | 90.8 | Some improvement |
| 34 | Sri Lanka | 90.6 | Marginal change |
| 34 | Timor-Leste* | 90.6 | Some improvement |
| 36 | Nepal* | 90.5 | Some improvement |
| 37 | Rwanda* | 90.2 | Some improvement |
| 38 | Egypt | 90 | Marginal worsening |

Note: LDCs are marked with an asterisk. Source: Fund for Peace (2015).

geostrategic imperatives. Between 2003 and 2012, 22 per cent of all OECD ODA was allocated to Afghanistan and Iraq (OECD, 2015b). Per capita ODA is also unevenly distributed across LDCs, heightening the risk of 'aid orphans'—countries that are potentially under-aided and thus at risk of being left further behind.

4.3.2 Improve the quality of aid distribution and test innovative aid modalities to LDCs

The ultimate objective of aid to LDCs is to develop local capacity until it is no longer required as a financing mechanism. As such, ODA should reward national reforms that enhance domestic resource mobilisation, enable multi-sectoral approaches, build trust and quality (not just quantity) of public services, extend the use of technology among the poorest and most vulnerable people and scale up South–South, regional and triangular cooperation (OECD, 2015b).

4.3.3 Adapt traditional aid modalities, such as sector and budget support, to more specific LDC contexts

This could include supporting national ownership and capacity-building by distributing aid through national systems (OECD, 2015b).

4.3.4 Ease access to international finance and agree on quantifiable targets for mobilising additional sources of finance beyond aid

This includes increasing LDCs' own domestic revenues, making international commitments to raise support for public financial management, reducing the transaction cost of remittances and a new global partnership to stem illicit financial flows.

4.3.5 Help LDCs tap existing global knowledge as well as develop new knowledge relevant to their needs

Ultimately, aid and international finance will go only so far. The key to long-term cross-national income convergence is the widespread adoption of policy knowledge and existing technology (Comin and Ferrer, 2013). While the pace of technology adoption across developing countries and LDCs has been increasing in recent years, its widespread penetration within countries has been slowing down. In addition, there is rapid development of new digital technologies that disrupt existing ways of operating as well as providing new possibilities to leapfrog to produce and deliver goods and services more efficiently (OECD, 2015, 2016b). Moreover, equally large disruptions and potential are possible with rapid advancement in biotechnology as well as new materials (OECD, 2016a). It is therefore important to help developing countries tap into existing knowledge as well as to help prepare them to take advantage of new technological development rather than being left behind. This requires deep technical expertise and policy knowledge, and institutional capacity with which to select and use relevant knowledge and technologies. This in turn requires significant investment in education. To accelerate this process, the international community should invest heavily in knowledge exchange programmes with LDCs, open up public data platforms and share intellectual property and expertise on key technologies around climate change mitigation, disease prevention, agricultural productivity and new manufacturing technologies.

4.3.6 Address specific LDC challenges

The SDGs are to be lauded for their universality. However, the international community should not forget that the LDC category exists because these countries face a specific set of obstacles to development, as well as challenges unique to each member of the group. Two of the challenges outlined in this chapter stand out in particular: demographic changes and vulnerability to climate-related shocks. Several LDCs face an explosion in their working-age populations in coming decades. This youth bulge can provide a demographic dividend if harnessed carefully. However, widespread political unrest and economic instability could result if sound development policies on universal education, female empowerment and job creation are not put in place. LDCs are also more exposed to flooding, droughts and famines and more vulnerable to their effects, and possess less capacity to prevent and manage those effects. Mitigating the effects of climate change in LDCs will be a key task in the short run, while the long-term prevention of climate change will be instrumental to their sustainable development. LDC private sector capacity can be built through access to established global funds for climate change mitigation.

This chapter has highlighted the difficulties facing the LDCs in meeting the SDGs based on their historical record of graduating and meeting the MDGs, the more challenging economic environment in which the SDGs must be attained, and the emergence of a set of global challenges that will hamper their progress if not addressed rigorously. It should be a call to renewed and heightened action by the international community and the LDCs to mobilise the resources and develop the institutional capacity necessary to meet these emerging development challenges.

Notes

- 1 High dependency on non-renewable natural resources is defined as a country's total non-renewable natural resource rents as a percentage of GDP exceeding 10 per cent.
- 2 The OECD began reporting on official development assistance (ODA) flows specifically to a group of conflict-affected and "fragile states" in 2005 based on an annually revised composite list drawn from the World Bank and the African and Asian Development Bank Harmonised List and the Fund For Peace's Fragile States Index (FSI) (formerly the Failed States Index).
- 3 The FSI is a composite index that covers 178 countries and is based on 12 main social, economic and political indicators: social (demographic pressures, refugees and internally displaced persons, group grievance, human flight and brain drain), economic (uneven economic development, poverty and economic decline), political (state legitimacy, public services, human rights and rule of law, security apparatus, factionalised elites, external intervention).

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