

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

THE LEAST DEVELOPED COUNTRIES REPORT 2006

Developing Productive Capacities



UNITED NATIONS

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The least developed countries (LDCs) are a group of 50 countries which have been identified as "least developed" in terms of their low GDP per capita, their weak human assets and their high degree of economic vulnerability. The first part of this Report reviews recent economic trends in the LDCs and progress towards the development targets agreed at the Third United Nations Conference on the LDCs (UNLDC III), held in Brussels in 2001. The second part of the Report focuses on the issue of developing productive capacities in the LDCs.

Productive capacities are defined as the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop. For tradable goods and services, it is the capacity to produce in an internationally competitive manner that matters.

Productive capacities develop within a country through three closely interrelated processes: capital accumulation, technological progress and structural change. The Report examines the working of these processes within the LDCs, and discusses three basic constraints on them: (i) the infrastructure divide; (ii) weak institutions, notably firms, domestic financial systems and domestic knowledge systems; and (iii) lack of demand. It suggests how these constraints may be addressed.

The Report shows that in almost all the LDCs there is an imbalance between the rate of growth of the labour force, which is very rapid owing to population growth, and the rate of capital accumulation and technological progress, which is generally slow. As a result, most workers have to earn their living using their raw labour, with rudimentary tools and equipment, little education and training, and poor infrastructure. Labour productivity is low and there is widespread underemployment. This is the basic cause of persistent mass poverty in the LDCs.

The development of productive capacities in a way in which productive employment opportunities expand - in non-agricultural activities as well as within agriculture - is the key to achieving substantial and sustained poverty reduction in the LDCs. The Report thus calls for the development of productive capacities to be placed at the heart of national and international policies to promote economic growth and poverty reduction in the LDCs.

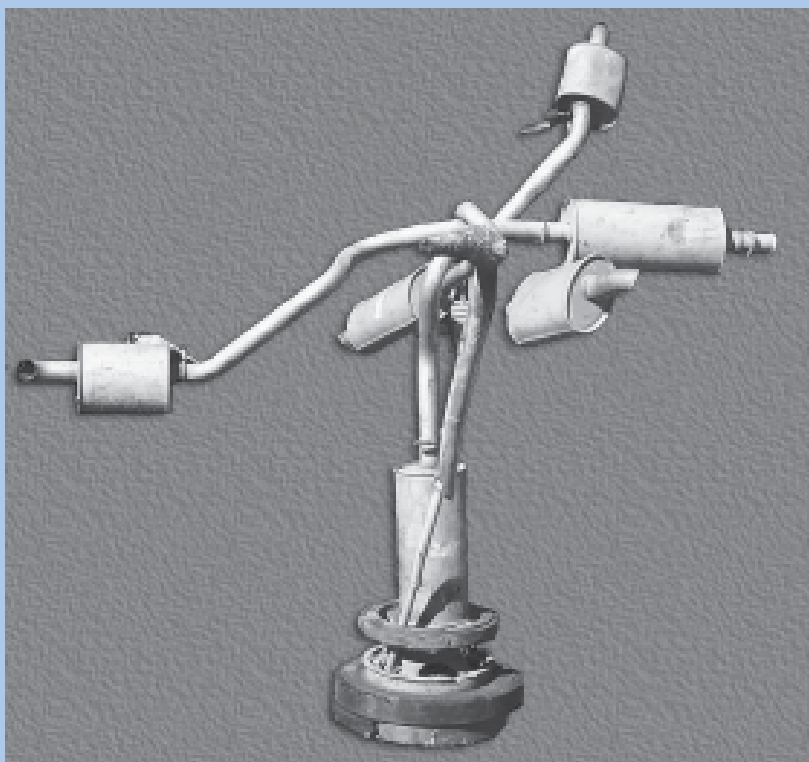
The front cover shows a metal sculpture, "Knallpot", created by Iliwatu Danabere (Julianto Pereira). As well as being an artist and sculptor, Iliwatu is Director and Assistant Administrator of the Arte Moris Free Art School in Dili, Timor-Leste. The image is reproduced with the permission of the artist.

Timor-Leste is the fiftieth country to be designated by the United Nations as a "least developed country". The sculpture has been chosen for the front cover because the process of developing productive capacities in the LDCs involves mobilizing their latent creative potentials and unexploited resources. The sculpture shows the creative potential which exists in blending traditional and modern knowledge, and in utilizing existing resources to create something new.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
Geneva

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Prepared by the UNCTAD secretariat



UNITED NATIONS
New York and Geneva, 2006

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UNCTAD/LDC/2006

UNITED NATIONS PUBLICATION

Sales No. E.06.II.D.9

ISBN 92-1-112701-7

ISSN 0257-7550

WHAT ARE THE LEAST DEVELOPED COUNTRIES?

Fifty countries are currently designated by the United Nations as “least developed countries” (LDCs): Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People’s Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia. The list of LDCs is reviewed every three years by the Economic and Social Council (ECOSOC) in the light of recommendations by the Committee for Development Policy (CDP).

The following criteria were used by the CDP in the 2006 review of the list of LDCs:

- (a) A “**low-income**” criterion, based on the *gross national income (GNI) per capita* (a 3-year average, 2002–2004), with thresholds of \$750 for cases of addition to the list, and \$900 for cases of graduation from LDC status;
- (b) A “**human assets**” criterion, involving a composite index (the *Human Assets Index*) based on indicators of (i) nutrition (percentage of the population undernourished); (ii) health (child mortality rate); (iii) school enrolment (gross secondary school enrolment rate); and (iv) literacy (adult literacy rate); and
- (c) An “**economic vulnerability**” criterion, involving a composite index (the *Economic Vulnerability Index*) based on indicators of (i) natural shocks (index of instability of agricultural production; share of population displaced by natural disasters); (ii) trade shocks (index of instability of exports of goods and services); (iii) exposure to shocks (share of agriculture, forestry and fisheries in GDP; merchandise export concentration index); (iv) economic smallness (population in logarithm); and (v) economic remoteness (index of remoteness).

For all three criteria, different thresholds are used for addition to, and graduation from, the list of LDCs. A country will qualify to be added to the list if it meets the three criteria and does not have a population greater than 75 million. A country will qualify for graduation from LDC status if it has met graduation thresholds under at least two of the three criteria in at least two consecutive reviews of the list. After a recommendation to graduate a country has been made by the CDP and endorsed by ECOSOC and the General Assembly, the graduating country will be granted a three-year grace period before actual graduation takes place. In accordance with General Assembly resolution 59/209, this standard grace period is expected to enable the relevant country and its development partners to agree on a “smooth transition” strategy, so that the loss of LDC-specific concessions at the end of the grace period does not disturb the socioeconomic progress of the country.

Acknowledgements

The Least Developed Countries Report 2006 was prepared by a team consisting of Charles Gore (team leader), Lisa Borgatti, Marquise David, Michael Herrmann, Ivanka Hoppenbrouwer-Rodriguez, Zeljka Kozul-Wright, Madasamyraja Rajalingam and Utumporn Reungsuwan. Penelope Pacheco-López also worked with the team from 1 February, 2006, and Veronica Escudero participated in the final stages of preparation of the Report from 1 April, 2006. Specific inputs were also received from Pierre Encontre. The work was carried out under the overall supervision of Habib Ouane, Director, Special Programme for Least Developed, Landlocked and Island Developing Countries within UNCTAD.

Two ad hoc expert group meetings were organized as part of the preparations for the Report. The first, “Mobilizing and Developing Productive Capacity for Poverty Reduction”, was held in Geneva on 20 and 21 June 2005. It brought together specialists in three distinct fields — the macroeconomics of development, the development of technological capabilities and the employment–poverty nexus — as well as representatives of some UN agencies which emphasize the importance of production and employment for poverty reduction. The participants in the meeting were as follows: Yves Ekoué Amaizo (UNIDO), Rizwanul Islam (ILO), Massoud Karshenas, Mark Knell, Thandika Mkandawire (UNRISD), Juan Carlos Moreno-Brid, (ECLAC) Banji Oyelaran-Oyeyinka, Eric Reinert, Jaime Ros, Tony Thirlwall, Rolf van der Hoeven (ILO) and Marc Wuyts. The meeting discussed the conceptual and analytical approach to the issue of productive capacities, the initial ideas on which were elaborated by Zeljka Kozul-Wright. The second expert group meeting, “New Productive Development Policies in LDCs”, was held in Geneva on 3 and 4 October 2005. It brought together two experts on new industrial policies, Anthony Bartzokas and Mario Cimoli (ECLAC), and an expert on new agricultural policy, Andrew Dorward, to discuss the overlaps between new thinking in these different fields, as well as its relevance for LDCs.

Background papers or specific inputs for the Report were commissioned from Adrian Atkinson, Amit Bhaduri, Ayman Ismael, Kenneth King, Mark Knell, Penelope Pacheco-López, Rajah Rasiah, Jaime Ros, Ignacy Sachs, Roberto Simonetti and Marc Wuyts. Claes Johansson of the UNDP Human Development Report Office in New York also provided inputs for part I of the Report.

Joerg Mayer, of the Macroeconomics and Development Policies Branch of the Division on Globalization and Development Strategies within the UNCTAD secretariat, provided specific advice. The staff of the Central Statistics Branch of the same Division also fully supported the work.

Secretarial support was provided at different times by Cora Alvarez, Mounia Atiki, Sylvie Guy, Paulette Lacroix, Mary McGee, Regina Ogunyinka, Veronica Rivera Cruz, Sivanla Sikounnavong and Stephanie West. Diego Oyarzun-Reyes designed the cover, and the text was edited by Graham Grayston. The overall layout, graphics and desktop publishing were done by Madasamyraja Rajalingam.

The financial support of the Government of Norway is gratefully acknowledged.

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