



# POLICY BRIEF

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### KEY POINTS

- State capacity – the ability to formulate public policies and accomplish policy goals – has been a crucial element of all successful development experiences
- State capacity in the least developed countries has been continuously eroded since the 1980s, especially due to external economic and political pressures to undertake damaging austerity measures and to the negative impacts of some ways of delivering official development assistance
- In the 50 years of the least developed country category, levels of development in most of the least developed countries have fallen behind those in other developing countries
- Reversing the erosion of State capacity and achieving sustainable development will require conscious and intentional support from the international community for the efforts of the least developed countries to strengthen and deepen State capacity

## The least developed countries need to strengthen and broaden State capacity to operationalize policy space and achieve development goals

State capacity both drives improved development outcomes and is accumulated as a by-product of positive progression in the development process. However, the least developed countries have experienced attrition on both fronts. Development challenges among the least developed countries in the 2020s require them to develop and strengthen State capacity. These countries need the support of development partners through the implementation of programmes that intentionally reinforce and expand State capacity.<sup>1</sup>

### Introduction

State capacity is understood as the ability to formulate public policies and accomplish policy goals. It is a condition for the full enjoyment of human rights, including the right to development, in any country. It is therefore a distinct component of national development.

<sup>1</sup> For further information and analysis of the topics discussed in this policy brief, see UNCTAD, 2021, *The Least Developed Countries Report 2021: The Least Developed Countries in the Post-COVID World – Learning From 50 Years of Experience* (United Nations publication, Sales No. E.21.II.D.4, Geneva), available at <https://unctad.org/webflyer/least-developed-countries-report-2021> (accessed 24 January 2022).

The coronavirus disease (COVID-19) pandemic has laid bare the social and economic shortcomings of the development paths followed in most of the least developed countries over the past 50 years, since the least developed country category was established in 1971 and, by the same token, their low level of State capacity. The long-term growth performance of these countries has been sluggish and uneven. In the last two decades, since the year 2000, only a few of the least developed countries have displayed encouraging signs of incipient structural transformation and meaningful productivity improvements.

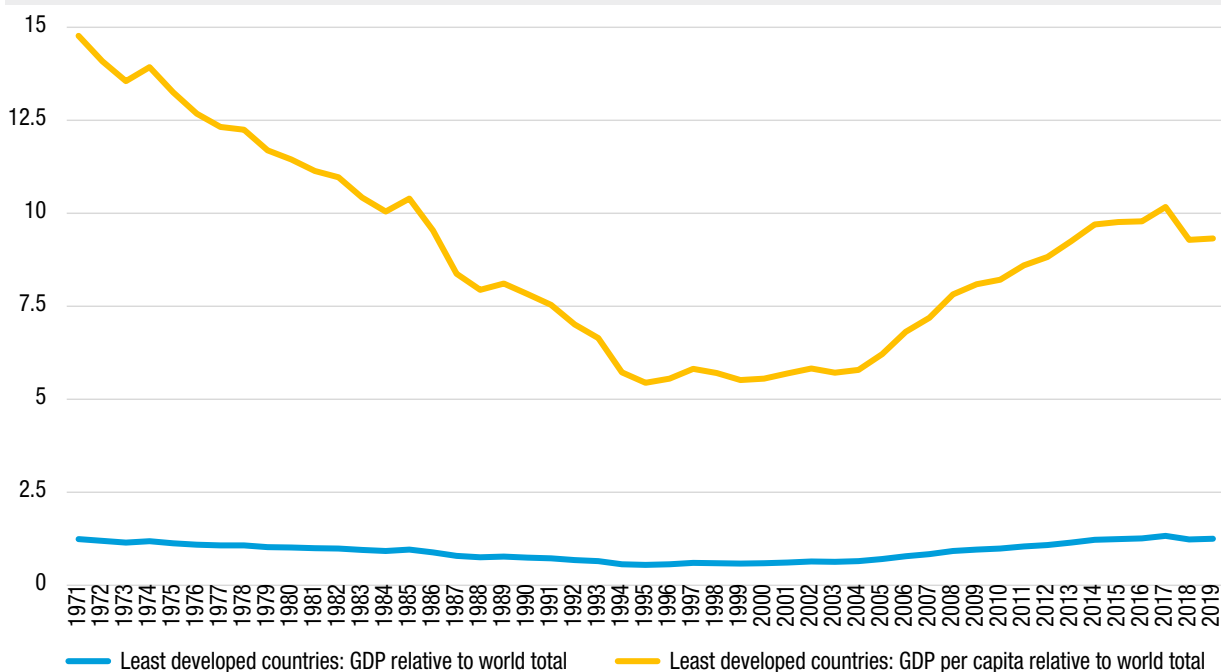
This mediocre record, on the fiftieth anniversary of the establishment of the category, highlights that there are, within and across this group of countries, significant gaps in the State capacity needed to expand productive capacities and foster resilience to exogenous shocks.<sup>2</sup> The expectation was that such gaps would narrow due to the policy space widened through a series of decade-long programmes of action, spanning the 40 years since the 1980s, incorporating least developed country-specific international support measures. Yet State capacity in the least developed countries has been susceptible to erosion throughout the implementation periods of these programmes of action.

The significant task of achieving the Sustainable Development Goals is likely to remain unfinished in the least developed countries. Further, building forward and differently to transform in the aftermath of the COVID-19 crisis and during the climate crisis threaten to overwhelm the still-limited institutional capacities of the least developed countries.

### A less than stellar 50-year record

GDP per capita in the least developed country grouping represented 15 per cent of the global average in 1971; by 2019 – the year before the onset of the pandemic – this had declined to less than 10 per cent (see figure).

**Least developed country gross domestic product compared with world total**  
(Percentage)



Source: UNCTAD calculations, based on UNCTAD, 2021.

Note: Based on GDP and GDP per capita series in constant 2015 dollars.

Only seven of the 46 least developed countries, namely, Bangladesh, Bhutan, Cambodia, the Lao People's Democratic Republic, Lesotho, Mali and Myanmar, may be classified as still on course to catch up with other developing countries, which are further ahead in the development process. Half of the least developed countries, in particular those in Africa, are falling behind and many may be characterized as approximately keeping pace with the pace of global economic growth. Facing the social, health-related and economic crises brought about by the COVID-19 pandemic, in 2020, the least developed countries recorded the worst growth performance in about three decades.

<sup>2</sup> Productive capacities are the productive resources, entrepreneurial and technological capabilities and production linkages that collectively determine the capacity of an economy to produce goods and services competitively that set it on an inclusive path to sustainable development.

## Overview of the weakening of State capacity in the least developed countries

In the mid-1980s and 1990s, the already limited State capacity of the least developed countries diminished further. In this period, austerity measures taken in the context of structural adjustment programmes sponsored by international financial institutions prioritized short-term macroeconomic concerns in the wake of burgeoning developing country indebtedness in the aftermath of the oil crises in the 1970s. These programmes had as hallmarks the objective of shrinking the State and curtailing its involvement in the provision of public services; State capacity was whittled away. Such programmes almost completely overshadowed the longer-term vision and objectives of the Substantial New Programme of Action for the 1980s for the Least Developed Countries and the Programme for the Industrial Development Decade for Africa. In contrast, both latter programmes had sought to better distinguish the causes from the symptoms of underdevelopment by addressing the underlying structural impediments to sustainable development in the least developed countries. The weakening of State capacity brought about under structural adjustment programmes had the effect of curtailing the structural transformation ambitions of the least developed countries and represents a fault line in the record of implementation of the decade-long programmes of action.

Subsequent programmes of action in the 2000s failed to wholly reverse this trend of short-term visions and work to recover lost State capacity was not initiated. Moreover, commitments to official development assistance and measures intended to improve aid allocations and mechanisms consistently remained unmet. This hampered goals on aid effectiveness. Programmes of action are heavily dependent on the capacity and leadership role of least developed country Governments. Had the goals on aid effectiveness been met, it would have contributed significantly to the building of State capacity to deliver on the programmes of action and other development goals.

Instead, programmes of action have progressively become more complex, with the volume of policy measures, including related trade-offs and sequencing challenges, amplified as national and global challenges have increased. Consequently, and in tandem, the requirement for increased levels of sophistication in statecraft has risen, without commensurate attention given under programmes of action and by the development community to the necessity of allocating development finance to developing this area in the least developed countries.

Weak State capacity among the least developed countries is also reflected in the low level of ability to mobilize domestic development finance. Least developed country financing needs to achieve the Sustainable Development Goals are daunting, in particular in relation to the targets related to structural transformation. This unequivocally serves to emphasize the importance of building State capacity in the least developed countries, as a fundamental requirement in order to achieve sustainable development in the 2020s.

## Policy recommendations

There is a fresh sense of urgency related to the matter of underdevelopment among the least developed countries. This represents an opportunity for a renewed and heightened focus on how to engineer a lasting transformation of development realities in these countries. State capacity will be the backbone of this re-engineering effort.

Following its expected adoption at the fifth United Nations Conference on the Least Developed Countries, the implementation of the programme of action for the least developed countries for the decade 2022–2031 should give a prominent role to policies aimed at building State capacity. This could include consideration of the following by the international community:

### *(a) Useful principles to guide the choice of priority areas of action:*

- Embracing a more holistic view of capacity development and technical assistance with a view to: expanding and reinforcing the skills of national officials in the least developed countries; eschewing overly sectoral and fragmented approaches; and limiting biases among delivering agencies and the lure of ineffective policies applied in the past
- Explicitly aiming to develop instruments that enable the gauging of State capacity, to facilitate the monitoring and evaluation of progress in implementing development strategies and plans, including the 2030 Agenda for Sustainable Development and the programme to be adopted at the fifth United Nations Conference on the Least Developed Countries

*(b) Priority areas of action:*

- Equipping the least developed countries with national capacity to make synchronic and diachronic policy trade-offs
- Building national capacity in the least developed countries to mainstream industrial policy objectives
- Expanding least developed country capacity for domestic resource mobilization
- Enhancing the capacity of national development banks in the least developed countries to support the growth of the local entrepreneurial base and productive capacities
- Equipping the least developed countries with relevant statistical capabilities to benchmark and monitor development progress and accurately measure the impact of development spending allocations

Such policy action and support could ultimately help strengthen least developed country productive capacities. All successful development experiences have occurred in the presence of a State whose capacities have co-evolved with those of the productive sphere. There is no reason to expect that the requirement is any different among the least developed countries.

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