



LDC Watch Position Paper

BUILDING PRODUCTIVE CAPACITY IN LDCs: ISSUES, CONCERNS AND CALLS TO ACTION



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Our vision of a genuine and meaningful sustainable development entail productive capacity as a set of capabilities enabling a country to produce adequately, efficiently and sustainably for a just and equitable society. Building productive capacity is intrinsically linked with human and social development to contribute towards poverty eradication and a people-centred, sustainable inclusive development based on human rights, equity and planetary boundaries. This holds true to the most marginalised and vulnerable 48 UN-defined least developed countries (LDCs) with the majority 34 in Sub-Saharan Africa, 10 in Asia and 4 in the Pacific.

Context: Istanbul Programme of Action for the LDCs

The Istanbul Programme of Action for the Least Developed Countries for the Decade 2011-2020 (IPoA), adopted by the Fourth UN Conference on the LDCs (LDC-IV) in May 2011 in Istanbul, comprises 'Productive Capacity' as one of its first among eight priority areas for action. Paragraph 43 A identifies productive capacity with a focus on infrastructure; energy; science, technology and innovation; private sector development.

Paragraph 44 recognises that LDCs' economies are marked by "limited productive capacities, which constrain their ability to produce efficiently and effectively and to diversify their economies. This handicap translates into binding supply constraints and ultimately into weak export and economic potentials and limited productive employment generation and social development prospects". The IPoA aims to build a critical mass of viable and competitive productive capacity in agriculture, manufacturing and services as essential to increase resilience to shocks, sustain inclusive and equitable growth, eradicate poverty, achieve structural transformation and generate full and productive employment and decent work for all.

Paragraphs 44-55 contain actions committed by both LDCs and development partner governments to meet the seven goals and targets of building productive capacity in LDCs. The implementation of these actions contributes to the overarching goal of the IPoA to overcome the structural challenges faced by the LDCs in order to eradicate poverty, achieve internationally agreed development goals such as the Millennium Development Goals (MDGs) and enable graduation of half of the 48 LDCs by 2020.

Goals and targets of building productive capacity, in accordance with national development policies and strategies:

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



LEAST DEVELOPED COUNTRIES (LDCs)

Status and Trend: IPoA Focal Issues

1. Infrastructure

Transport: The IPoA has set a target of increasing rail and paved road mileage and sea and air networks by 2020. Progress in expanding these modes of transport is rather mixed. According to the 2012 South and South-West Asia Development Report by the UN Economic and Social Commission for Asia and the Pacific (UN ESCAP), the current state of trunk road networks, in particular trading corridors connecting inland to coastal ports has shown mixed results. Asian

LDCs - Afghanistan, Bangladesh, Bhutan, Cambodia, Laos, Myanmar, Nepal - have the potential to benefit from the Great Asian Highway, which now covers 32 countries and encompasses 142,000 km of highways.

Also, as explained in a report on the regional integration produced by the UN Economic Commission for Africa (UNECA) in 2012; the Trans-African Highway, a regional initiative to develop integrated transport corridors connecting all African countries and providing landlocked ones with access to seaports, has yet to be realised. There are many missing links and existing portions that are poorly maintained, it is reported.

NEPAL

Transformation into Environmentally Sustainable Energy

Nepal has a huge hydropower potential for energy generation. In fact, the perennial nature of Nepali rivers and the steep gradient of the country's topography provide ideal conditions for electricity generation. Current estimates are that Nepal has approximately 40,000 MW of economically feasible hydropower potential.

The power shortage of Nepal has, at times, led to an unprecedented 20 hours of load shedding per day. It's been almost a decade that the country is suffering a heavy power shortage problem.



According to the national body Nepal Electricity Authority, total installed capacity of electric power in Nepal is around 748 MW as of 2013. But maximum demand is about 1026.6 MW. There is a total gap of more than 300 MW in general. Major crisis is in the spring and winter seasons where production of hydropower plant even fall to the more minimum level up to 500MW because most of plant are run off river type.

An environmentally sustainable and cost-effective solution to meet the rising demand in electricity in the country is production of micro- and mini- hydro power which have been able to prove their worth by electrifying the rural communities in Nepal, especially where there is no access of the national grid. The availability of enough streams and rivers and the country's hilly terrain has enhanced this technology to generate electrical power for lighting and other productive activities in thousands of scattered rural villages.



Photo source: Rural Reconstruction Nepal (RRN)

A locally installed wooden bridge over the Tamor River in Nepal

The 2014 UN Secretary-General's Progress Report on the Implementation of the IPoA states that the data on the state of railway systems do not indicate any improvement occurred over the last decade. Thus, passenger and freight traffic declined or at best stagnated in the majority of LDCs for which data are available.

The 2011 UN ESCAP Economic and Social Survey of Asia and the Pacific reports that LDCs like Bangladesh, the Lao People's Democratic Republic, Myanmar and Nepal are signatories to the International Agreement on the Trans-Asian Railway Network, supported by the UN ESCAP; but there has hardly been any work that has since been done for the cause of the proposed railway network.

The findings of the 2013 "State Of The Least Developed Countries" Report by the UN Office of the

High Representative for the Least Developed Countries, Landlocked Developing Countries and the Small Island Development States (UN-OHRLLS) reveal the failure of national and regional airlines, affecting regional and international connectivity in many West African and Central African LDCs, reducing air traffic. Overall, air transport markets in the majority of LDCs continued to be confronted with safety issues and limited competition, which kept prices high. Airport infrastructure challenges in many LDCs include runways in poor condition, outdated traffic control communication and limited facilities for transit passengers.

In the case of Maritime transport, the 2012 UN ESCAP South and South-West Asia Development Report calculated that the Liner Shipping Connectivity Index, which helps gauge how well countries are linked to

KIRIBATI

Geographical and Economic Remoteness of Small Island LDCs

There are many challenges facing Kiribati as a Pacific SIDS LDC, in particular, in reference to its coverage, its islands are scattered over 3.5 million square kilometres, yet less than one per cent of the country is land mass.

This disparity is caused by several factors, including the high costs of transportation and freight due to the great extension of its territorial area, the costs of adapting and mitigating climate change effects, and dependency on external qualified human, technical and policy resources. These factors make it unlikely for Kiribati to graduate from its current status any time soon. Compared to its national GDP, estimated at USD 152 million in 2010, Kiribati's cost of living is very high.

Island countries, due to their special geographic characteristics combined with challenges arising from low level of development, have low capacity to benefit from global expansion and suffer adverse effects during recessions and crises.



Photo source: www.leisurewheels.co.za

Poor state of road transportation in Democratic Republic of Congo

global shipping networks, the average for all LDCs on the index rose to 7.3 in 2011, up from 7.1 in 2010—on a 0-to-100 scale where 100 is the value assigned to a country with the most efficient shipping landscape. However, it was also reported that maritime infrastructure and services lag far behind international standards.

Information and Communications Technology: According to “Measuring the Information Society 2012” report by the International Telecommunication Union (ITU), infrastructure development of this particular sector is not sufficient. Only about 5 in 10 people in the LDCs were mobile/cellular telephone subscribers in 2012. The number of Internet users was only about 1 per 100 inhabitants in Burundi, the Democratic Republic of the Congo, Eritrea, Ethiopia, Guinea, Myanmar, the Niger, Sierra Leone, Somalia

and Timor-Leste in 2012. In many cases, low Internet usage coincided with sub-par quality of services and high tariffs. Of the 39 countries qualified by the ITU as the “world’s least connected countries,” 31 are LDCs.

2. Energy

The UN-OHRLLS states that out of the 1.3 billion people who do not have access to electricity, more than half live in the LDCs. Currently, 79 per cent of people in LDCs lack access to electricity and 91 per cent of people lack access to modern fuels. In LDCs, only 27 per cent of urban dwellers have access to modern fuels compared to a mere 3 per cent of rural dwellers.

According to the 2014 UN Secretary-General’s Progress Report on the Implementation of the IPOA; although electricity generation in LDCs had increased over the past decade, the level of power supply was still far below the growing needs of this group of countries. Less than a third of the combined total population of the LDCs is connected to a power supply, with access levels ranging from 1.5 per cent in South Sudan to 76.3 per cent in Nepal.

The International Energy Agency (IEA) reported that more than half of the African population does not have access to grid electricity. In some LDCs, such as Tanzania and the Democratic Republic of Congo, the figure is over 80 per cent. The agency also opined that making renewable energy available to the LDCs could have wide positive impacts, including improvement in health, equity and empowerment for women, better opportunities for livelihoods and greater environmental sustainability.

Internet users per 100 inhabitants, 2000–2010



Source: ITU World Telecommunication/ICT Indicators database



Photo source: www.mining-technology.com

Bisha mine is a large, high-grade volcanogenic massive sulphide (VMS) deposit located 150km west of Asmara, Eritrea.

The lack of access to energy contrasts with the fact that the majority of the LDCs have vast energy resources that have yet to be fully tapped. The 2013 UN-OHRLLS “State Of The Least Developed Countries” Report states that only a few countries, including Bhutan, Ethiopia and the Lao People’s Democratic Republic, have made progress, mainly due to investments launched prior to the IPoA. Hydropower generation expanded significantly in Bhutan, financed by India, its main investor and trading partner. The country has produced 1,480 megawatts of power, 75 per cent of which has been exported to India. Efforts are underway to expand power generation capacity to 10,000 megawatts by 2020 through the building of 10 additional hydropower plants.

3. Science, technology and innovation

The 2013 UN-OHRLLS “State Of The Least Developed Countries” report states that LDCs generated very little knowledge and very few modern technologies and also are not successfully able to make the best use of existing flexibilities in Intellectual Property Rights (IPR) regimes and the Trade-Related Aspects of Intellectual Property Rights Agreement (TRIPS) of the World Trade Organisation (WTO) in order to gain access to essential technologies that are used to produce essential goods and services for their populations. The report also mentions that one of the shortcomings of the TRIPS Article 66.1 relating to the waiver agreement is its temporary nature. LDCs were given an initial 10-year transition period to comply; an exemption extended two times. The most recent exemption, an eight-year extension, was adopted in July 2013.

4. Private sector development

At present, the private sector development runs into barriers in access to financing, shortages of skills and poor physical infrastructure. The 2014 UN Secretary-General’s Progress Report on the Implementation of the IPoA states that there are three particularly important issues; namely the low number of medium sized enterprises, second being the large informal sector and third issue is limited export competitiveness. Very few local firms are connected to global value chains, and therefore miss opportunities for rapid technological learning and improved productivity.

At the UN ESCAP Asia-Pacific Regional Meeting on the Implementation of the IPoA held in Siem Reap, Cambodia on 17-19 December 2012; it was concluded that reaching the graduation goal of the Asia-Pacific LDCs would require effective and timely delivery of several key products and services within the regional partnership framework covering knowledge and capacity development, expertise, resources, advocacy, and regional cooperation in delivering regional public goods.

The global review of the International Conference on Population and Development beyond 2014 marks the issue of youth employment and empowerment as increasing in LDCs. Some of these issues have increasingly found echoes in a growing number of LDCs where youth comprise 60 per cent of the population with 40 per cent youth unemployment.

Issues and Concerns: LDC Civil Society Perspectives

The lack of an integrated focus on human and social development is a key limitation as building productive capacity is equally about enjoying the basic rights of a decent life with dignity which enhances social cohesion necessary for effective sustainable development. Promotion and provision of the basic right to food, education, health, water and sanitation, housing and social protection as the building blocks of human development is critical to building productive capacity of the growing LDC populations which substantially comprises the marginalised women and youth dependent in the informal sector.

The prime focus on expansion of production and export-supply capacities risks unsustainable production and consumption of LDCs' rich natural resources including detrimental consequences to agriculture and fisheries, being the mainstay of their economies. LDCs are already disproportionately bearing the catastrophic effects of climate change fuelled by unsustainable growth-led development. The visible trend of FDI concentrating on the extractive sectors warns caution as it fails to generate full and productive employment and decent work for all. The prevailing trend of commodity-based LDC exports in world trade which stands at 1.1 per cent in 2012, falls short of people-centred, inclusive and equitable development.

The key means of implementation – finance and technology transfer - is imperative to achieving building productive capacity in LDCs. Bilateral official development assistance (ODA) to LDCs fell 12.8 per cent in real terms, to about \$26 billion in 2012 which is the largest decline since 1997. In LDCs, ODA as integral public finance represents about half of all external financing available to close their savings gap. The target of 0.15-0.20 per cent of GNI as ODA to LDCs has been promised since the Brussels Programme of Action, reinforced in the IPoA by 2015 and reaffirmed by the 2012 Rio+20 Conference. However, the gap between OECD DAC partners' ODA to LDCs and the lower bound target of 0.15 per cent has widened to 0.05 per cent. In terms of technology transfer, Article 66.2 of the TRIPS Agreement, as a supportive international framework to LDCs, which stipulates that developed countries in the WTO "shall provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to least-developed country Members in order to enable them to create a sound and viable technological base" has been largely not implemented.

Energy production systems concentrating on mega water dam projects with major FDI inflows are not sustainable, exacerbating environmental degradation as well as the increase in environmental refugees.

Private sector development focusing on public-private partnerships (PPPs) is a fundamental concern given the fact that the cost paid by the public from PPPs has often been huge. Trustworthy evaluations of PPPs that take into account financial, social, environmental, as well as affordability and access impacts, simply do not exist for majority of them. The results of expected 'trickle-down effects' have been slow. In situations where public services become privatised and profit-driven, the poor are always the most vulnerable. With their lack of paying capacity, combined with little or no safety nets and social protection, the poor and the marginalised are further deprived of basic social services. Additionally, tax revenue as integral domestic resource mobilisation is also lost through investors in PPPs taking funds offshore to tax havens.

Way Forward: LDC Civil Society Calls to Action

Human and social development as the fifth priority area for action in the IPoA must be implemented in an integrated and coherent manner so as to build holistic productive capacity towards a people-centred, just and sustainable development.

The development finance target of 0.15-0.20 per cent of GNI as ODA to LDCs reiterated in the IPoA by the 2015 deadline must be realised without any further excuses. ODA must be fully untied to the greatest extent possible, as stipulated by the 2001 DAC recommendation to untie ODA to LDCs. ODA is premised upon historic debt and redistributive justice.

BURKINA FASO

Transit Transport Challenges of Landlocked LDCs

Burkina Faso's landlocked nature, together with its location in West Africa, makes it a hub of regional corridors. Not only does its landlocked condition substantially raises import and export costs, but Burkina Faso's distances from trade exit points are longer than average (about 1,000 kilometres to an exit port). Also, Burkina Faso's infrastructure funding gap amounts to a \$44 million in the transport sector which compounds the problem.

Diversification and structural transformation targeting manufacturing and services needs priority attention for a balanced and meaningful development in LDCs. The emerging trend of an increase in greenfield FDI mainly in the services sector which leads to infrastructure development and local employment generation must be further advanced and promoted in the manufacturing sector.

The long overdue LDC package, adopted in Bali at the 9th WTO Ministerial Conference in 2013, comprising duty-free-quota-free (DFQF) market access; preferential rules of origin; services waiver and DFQF market access for cotton; must be immediately implemented with binding commitments by the developed countries.

The Trade Facilitation Agreement as an “early harvest” of the WTO Doha Round negotiations should not take precedence until all development issues of the LDCs including of the developing countries are concluded as a balanced outcome.

Article 66.2 of the TRIPS Agreement as a supportive international framework to LDCs must be urgently implemented. Fair, accessible, cost-effective technologies free from intellectual property barriers that are environmentally sound and safe to humans must be ensured. Technologies must be promoted in accordance with the objectives of the UNFCCC to adapt to climate change, as well as in line with national needs and goals. Indigenous and traditional technologies are environmentally friendly as well as socially and culturally appropriate and therefore, must be promoted and conserved including integrated with newly introduced technologies. The operationalisation of the Technology Bank and Science, Technology and Innovation Supporting Mechanism, as committed in the IPoA must receive priority attention.

The IPoA recognises that despite benefiting from debt relief through the HIPC and MDRI initiatives, LDCs still struggle with high debt burden. The HIPC and MDRI initiatives comes with policy conditionalities of structural adjustment by the IMF and the WB, directly linked to the PRSPs. According to UNCTAD 2013 LDC Report, the total external debt of the LDCs expanded in 2012 to an estimated \$183 billion, up USD 170 billion in 2011. Total and unconditional cancellation of LDC debt- premised upon illegitimate and onerous debt - is imperative to divert significant amounts of

LDC budget towards social sectors and social protection programmes which otherwise finance debt-servicing.

Transformation from energy production and consumption systems based on fossil fuels and hazardous energy such as mega dams, coal, fracking, nuclear energy, geo-engineering which results in unsustainable exploitation of nature. The principle of fair transition must guide the transformation ensured by unconditional financing and technological transfer; premised upon historical responsibility and common but differentiated responsibilities and respective capabilities of the UN Framework Convention on Climate Change (UNFCCC). Community-based and controlled renewable energy production and consumption must be promoted.

New sources of financing such as PPPs are complementary and not a substitute for traditional means of implementation ensuring the public sector at the center of sustainable development financing. PPPs should be based on accountability, transparency, democratic ownership and adherence to human rights. Major investments in infrastructure should carry out mandatory and transparent environmental and social impact assessments. Civil society and affected communities by adverse consequences of PPPs must be involved in the planning, design, implementation and monitoring of PPP projects.

South-South cooperation must include sharing of knowledge, capacities, resources, skills and technology transfer focused on development priorities such as health, education, food security, social protection, sustainable energy, climate change and related infrastructure. Currently, cooperation has been pursued largely towards trade and investment based on loans and FDI which prioritises profits and interests of the corporate giants rather than of small- and medium-sized enterprises. South-South and regional cooperation inclining towards a replication of the dominant top-down North-South partnership goes against the very fundamental horizontal nature of South-South partnership. Greater and effective South-South and regional cooperation in turn contributes to stronger policy- and decision-making in the interests of the LDCs and the global South in multi-lateral negotiations including global governance.

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Cover photo: Women are extensively engaged in the informal sector in LDCs (Sierra Leone). *Photo by:* Perna Bomzan