CHEICK SIDI DIARRA was appointed the United Nations’ Under-Secretary-General and High Representative for the Least Developed Countries, Landlocked Developing Countries, and Small Island Developing States, in 2007. At the time of this appointment, Mr Diarra was serving as the Permanent Representative of Mali to the United Nations in New York. During his long diplomatic career, Mr. Diarra has been actively involved in furthering African integration efforts and the African development agenda at the international level. He has served as one of the lead negotiators on these issues at the African Union summits since 1982.
As the world’s Least Developed Countries (LDCs) increasingly feel the effects of the global economic crisis, the UN’s CHEICK SIDI DIARRA argues that, in order to build up their resilience, these countries should – and can – increase their productive capacity. By strengthening three core elements, productive resources, entrepreneurial capabilities, and production linkages, the LDCs can produce more – and better quality – goods and services. But, for this process to succeed, they also need to implement new policies, devise new forms of development governance, and receive more effective multilateral support.
Before the global economic crisis in 2008/2009, the group of least developed countries (LDCs) registered impressive economic advances with real GDP growth averaging 6% per annum over the preceding five years. The recent financial crisis had its immediate reverberations in developing countries, which were closely linked to the global financial markets, as capital took refuge in safe havens and there was a rapid flight of capital from emerging markets to the advanced economies, and particularly the United States. The initial impact on the LDCs, however, was somewhat muted given that many, if not all, were not as integrated into the global financial market. However, with the deepening of the financial crisis, freezing of credit, and the sharp fall in the market value of private wealth, the LDCs were drawn into a global crisis of the real economy.

According to the United Nations Conference on Trade and Development (UNCTAD), the value of exports from the LDCs to major importing countries declined by over 43% in 2009, compared to the first half of 2008, whereas the global value of exports declined by only around 32% during the same period. This sharp decline in export earnings is largely due to a decline in commodity prices and is associated with declining government revenues and investment. According to the World Bank, remittances to developing countries were down by 6% in 2009, although a slight recovery is possible in 2010. Of particular concern is the long-term impact the crisis is likely to have on the LDCs, given their inherent economic vulnerability and susceptibility to external shocks.

Productive capacity matters

In this context, it is generally agreed that a key strategy towards building the internal resilience of LDCs is the strengthening of productive capacity. Productive capacities, as defined by UNCTAD, are the productive resources, entrepreneurial capabilities, and productive linkages, which together determine the capacity of a country to produce goods and services, and enable it to grow and develop. In May 2001, the Third United Nations Conference of the Least Developed Countries adopted the Brussels Programme of Action for the decade 2001-2010, a comprehensive results-oriented poverty reduction strategy, tailored to the special needs of the LDCs. The Brussels Programme of Action identified the building of productive capacities, in order to ensure that LDCs benefit from globalization, as one of seven key commitments between LDCs and their development partners.

By developing their productive capacities, LDCs can rely increasingly on domestic resource mobilization to finance their economic growth, lessen their dependence on aid, and attract private capital inflows of a type that can support their development process. Enhanced productive capacities will also allow LDCs to compete in international markets for goods and services which go beyond primary commodities and which are not dependent on special market access preferences.

Productive capacity is also of great importance in the struggle to reduce poverty in the LDCs. There is a growing amount of evidence indicating that aid transfers to the LDCs are
increasingly being used to alleviate human suffering, but substantial and sustained poverty reduction cannot be achieved with such expressions of international solidarity alone. This outcome will require wealth creation in the LDCs, and the development of domestic productive capacities in a way in which productive employment opportunities expand.

How LDCs can strengthen productive capacity

Given the magnitude of the challenges faced by LDCs in terms of capacity building, there is an urgent need for development partners to further their engagement in the form of private sector development, industrial upgrading, and the enhancing of an enabling environment, such as quality infrastructure and services. At the same time, LDCs must tackle the challenge of improving their physical infrastructure, especially energy, transport, and communications. Energy supply is critical, as, together with transport and communications, it facilitates the internal and international connectivity of economic agents.

Another major component in capacity building is social infrastructure, especially for health and education, which directly relates to the sufficiency of human resources supply, skills, and managerial capabilities. Moreover, establishing functional financial systems, and securing sufficient investment in research and development, technological learning, and innovation systems, are crucial to enable LDCs to confront the crisis and accelerate modernization.

For LDCs to expand production, they need to strengthen three core elements: productive resources, entrepreneurial capabilities, and production linkages.

- Firstly, LDCs need to effectively utilize and expand productive resources that include human, physical, financial, and natural capital. Investment in human development is a critical part of developing productive capacities.
- Secondly, a better utilization of the entrepreneurial capabilities and of enterprises’ core competencies in skills, knowledge, and information, can facilitate the mobilization of productive resources in order to transform inputs into outputs, and to invest in, innovate, and upgrade products and improve their quality, and even to create markets.
- Thirdly, the successful mobilization of productive resources and better utilization of entrepreneurial capabilities should be married to diversified production linkages. These include linkages between enterprises of different and similar sizes, and can take the form of outsourcing and sub-contracting relations.

In the actual process of developing productivity capacity, the foremost stage is to accumulate capital. The accumulation of capital essentially relies on an elevated scale of foreign investment and private savings, both domestic and foreign. Therefore, LDCs need a set of incentives for savings and investment, as well as an effective financial system that can attract and mobilize financial resources and develop domestic enterprises.

Further measures are also required to promote technology transfers and increase the productivity of the labour resource. Enhanced
technological capabilities enable products from LDCs to compete in international markets, and they can also generate more productive employment and build linkages with the global economy.

The role of agriculture and industry
In addition, the strategies for developing productive capacities devised by the LDCs, especially those in Africa, which comprise 33 of the 49 LDCs, should encompass agriculture. Agriculture will have to receive new domestic and international policy attention for it requires increased investment and technological upgrading. The new generation of agricultural policies should not focus solely on agricultural production, but will have to be developed in the context of agribusiness and value chain development. A balance will have to be struck between staples and cash crops, in order to allow a strengthening of food security, while also permitting the growth of exports;

With a set of pre-conditions and enhanced adaptive capabilities to use modern technology and commercialize new knowledge, LDCs can leapfrog several stages of development and move into higher degree of industrialization. The challenge is to reach the threshold of competitiveness in the global market, and in this context much depends on the path that the LDCs take to benefit from regional integration.

How can aid be more effective?
During their industrial development process, the capacity of LDCs to incur financial obligations and mobilize adequate domestic public and private resources remains seriously handicapped by various structural constraints. These include the low diversification of the economic base and the ensuing high economic vulnerability, persistent poverty levels, the inadequacy of basic infrastructure, geographic disadvantages, and most importantly, the ominously high resource gap. Hence the international community has been providing aid and loans that have been playing a vital role in financing national investment in order to attain the Millennium Development Goals (MDGs) in those countries.

To attain a higher level of effective aid management and utilization of aid resources, all stakeholders should address the aid effectiveness issues. To make aid work for the MDGs, donors should indicate their long-term commitment to assist LDCs, and recognize that financial support is the most deliverable long-term strategy to assist these countries. To support the development of productive capacity, aid and other assistance should increase in volume, be more effectively delivered, and be more demand-driven, including taking into account the concerns of the private sector and civil society.

As each country has its own conditions, independent monitoring and evaluation of aid performance at the level of the recipient country is necessary. In addition, LDC-specific measures and a country-oriented approach are needed to promote country ownership, channel aid to sectors where its impact is greatest, and enhance the efficiency of utilization of such aid.
Furthermore, LDCs need to strengthen their productive capacities for planning and project implementation, improve monitoring and evaluation, and ensure better institutional coordination among various government agencies involved in negotiating and utilizing aid.

Additionally, the Aid for Trade initiative and the Enhanced Integrated Framework (EIF) should become effective vehicles for developing LDCs’ productive capacities. LDCs should be granted duty-free and quota-free access for goods in major markets. Such measures must be complemented by favourable rules of origin and the elimination of non-tariff barriers. LDC governments also need to have policy flexibility to adopt agricultural, trade, and industrial policies which promote local value added and technological learning. LDCs should also be granted enhanced access conditions for the temporary movement of services providers.

**Changing development policies**

A sustainable reduction of poverty requires high and sustained rates of economic growth, which create productive employment opportunities for the poor and help to increase their household incomes. The only way to achieve these objectives is through the development of productive capacities. It should be a core concern of both policymakers and development partners in LDCs. The development of productive capacities, however, requires a considerable change in development policies. It requires a new strategic orientation of development and poverty reduction strategies that are LDC-specific, and it thus also requires a new strategic orientation of development assistance.

Firstly, there is even more reason now to refocus policy attention on developing productive capacities. This means that policies should be oriented towards stimulating productive investment, building technological capabilities, and strengthening linkages within and across sectors and between different enterprises. Strengthening domestic productive capacities should also be aimed at producing a wider range of more sophisticated products.

Secondly, it is necessary to build a new developmental state. This is not a matter of going back to old-style development planning, but rather a question of finding new forms of development governance appropriate for the 21st century. Such development governance would be founded on a strategic collaboration between the State and the private sector that will encourage the structural transformation of LDCs from agrarian to post-agrarian economies.

Thirdly, it is necessary to ensure effective multilateral support to LDCs. This is not simply a question of more and better aid. The rules that govern international economic relationships with regard to trade, finance, investment and technology flows must be designed in ways that support development in LDCs. It is also critical that support for LDCs does not impose unnecessary limits on the measures that governments can take to promote development, structural transformation, and poverty reduction.