

**Building productive capacities in Least Developed Countries (LDCs), Landlocked Developing Countries (LLDCs), Small Island Developing States (SIDS) as well as Middle-Income Countries (MICs) for more resilient recovery and sustainable development in the post-COVID-19 era**

20 October 2021, 10:00 am – 1:00 pm (New York time)  
CONCEPT NOTE

## Background

As the COVID-19 pandemic continues to disrupt the world, it is having devastating impacts on the economies and societies of Least Developed Countries (LDCs), Landlocked Developing Countries (LLDCs), Small Island Developing States (SIDS) as well as Middle-Income countries (MICs).

LDCs, LLDCs and SIDS' particular vulnerabilities, lack of fiscal space and the unique structure of their economies have maximized the impact of the pandemic on people's lives and livelihoods. Indeed in 2020, the COVID-19 pandemic and the resulting global recession engulfed the most vulnerable economies which realized their worst performance in 30 years. This undermined their prospects for a fast and inclusive economic and social recovery accompanied by progress towards the SDGs and the Programmes of Action for LDCs, LLDCs and SIDS.

The GDP of small island economies shrunk by approximately 4.7% in 2020 when compared with the global contraction of around 3%, pummeled by falling tourism revenue, remittances, capital flows and pressures of high and growing debt servicing costs, underscoring their extreme vulnerability to global economic shocks.

Recent UNCTAD studies uncovered that LDCs will take several years to recover the level of GDP per capita they had in 2019. Unlike most developed countries, the median LDC would take roughly three years to climb back to pre-COVID levels<sup>1</sup>.

Progress towards the SDGs has been deeply affected due to the pandemic, sometimes reversing years of development progress.

The pandemic has also deepened many of the pre-existing vulnerabilities that plagued MICs. Poverty and hunger have also worsened in these group of countries, as income-earning opportunities have been lost. Inequalities have widened, between the advanced economies and MICs, and within MICs themselves. Many MICs may face persistently higher unemployment rates and a regression of female labor market participation. The pandemic has also led to a worsening of the MICs debt situation. Many MICs will find it difficult to undertake the investments in productive capacity and human capital needed to diversify domestic economies and strengthen resilience to future trade shocks.

The State of the Least Developed Countries 2021<sup>2</sup> highlights that limited productive capacities constrain LDCs' ability to sustain economic growth, diversify their economies, boost resilience to shocks and achieve effective integration into the global economy. The Istanbul Programme of Action called on LDCs to build "a critical mass of viable and competitive productive capacity" in key sectors of the economy through investments in four priority areas: physical infrastructure, energy, technology and innovation, and private sector development.

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<sup>1</sup> UNCTAD 2021 The Least Developed Countries Report ([www.unctad.org/ldcr2021](http://www.unctad.org/ldcr2021))

<sup>2</sup> OHRLLS - [https://www.un.org/ldc5/sites/www.un.org.ldc5/files/statelddc\\_2021.pdf](https://www.un.org/ldc5/sites/www.un.org.ldc5/files/statelddc_2021.pdf)

The United Nations Committee on Development Policy (CDP) has underscored that strengthening the link between a country's production structure and the level of human development is crucial in efforts to achieve the SDGs. A country's production structure is the strongest determinant of its level of income, its income distribution, the quality of employment, the quality of the environment, the development of its institutions and its prospects for future growth and inclusive development.

More specifically, the COVID-19 pandemic has also underlined the importance of reliable and seamless energy access, from health services to the use of information and communication technologies. LDCs, LLDCs and SIDS lack the capacity to mobilize the large amounts of financing that are required to invest in major power generation projects. Access to energy, in particular its generation, transmission, and utilization, continues to remain a major impediment to productive capacity development in LDCs, LLDCs and SIDS. Poor access to electricity and frequent power outages are seriously affecting these countries in their pursuit of industrialization and structural transformation. Resources deployed for COVID responses and immediate health priorities have further constrained the already limited fiscal capacity and increase the risk of energy insecurity in these countries.

Infrastructure projects have been delayed by the pandemic, especially in resource constrained economies, and private investors are likely to be reluctant to finance such projects as their risk appetite diminishes in times of uncertainty. The economic infrastructure deficit is acute and severely hinders private sector development in LDCs, LLDCs and SIDS.

Science, technology, and innovation, including enabling innovation eco-system, environmentally sound technologies as well as information and communications technologies are major drivers in accelerating the pace of economic diversification and transformation, and improving productivity and competitiveness to enable the full participation of LDCs, LLDCs and SIDS as well as MICs in the global economy. Developing a modern and inclusive ICT infrastructure, including affordable mobile broadband and internet connectivity, and promoting the digitalization of services are critical components of building productive capacities. Due to limited internet availability and affordability and poor digital infrastructure, LDCs, LLDCs and SIDS could not avail the benefits of e-commerce and online education. The COVID-19 pandemic has showed that it is urgent to accelerate investment in their digital transition and strengthen efforts to bridge the digital divide, especially for women, and build an open, free and secure digital world.

SIDS and LLDCs also need to strengthen and often reorient their productive capacities, such as to ensure the reliance of their economies on a larger number of diverse economic sectors, which are less susceptible to external shocks, including higher value-added manufacturing activities and services. This is an important step in breaking the commodity dependence of many developing countries or their reliance on tourism sector in the case of many SIDS. Furthermore, efficient transport infrastructure, which is critical for enhancing LLDCs' productive capacities, reducing trade costs and competitively integrating into global markets was significantly impacted by COVID-19 related restrictions, underscoring the need to build transit systems that are resilient to shocks such as pandemics and climate change.

For developing countries, building, maintaining, and utilizing productive capacities generates employment, enhances technological learning, boosts productivity, and increases household income. For vulnerable economies, productive capacities play an important part in catching up with more advanced economies. LDCs, LLDCs and SIDS need the support of their development partners to bolster their efforts to develop and implement appropriate policies and programmes to accelerate productive capacity building as an important step to accelerate structural economic transformation and build long term resilience to shocks, in the context of COVID-19. Developing capacities to produce the COVID-19 vaccine in MICs and countries in special situation is also critical.

Unsustainable debt levels and a lack of economic competitiveness have hindered MICs development and their recovery from the impact of COVID-19. Expanding MICs productive capacities is essential for these countries to avoid the middle-income trap by allowing them to structurally transform their economies away from resource-driven economic growth, with low-cost labor and capital, to productivity-driven growth<sup>3</sup>. This, along with access to the vaccine, is essential for MICs to embark on a sustainable and inclusive recovery path.

To measure progress and identify obstacles to the development of productive capacities in developing countries, a Productive Capacities Index (PCI) has been developed by UNCTAD as the first comprehensive attempt to measure productive capacities in all economies. This multidimensional index can provide country-specific insights and diagnostics of productive capacity development. The Index could guide technical support to the most vulnerable countries in developing key aspects of their trade and productive structures. It also could help in understanding the sources of a country's systemic vulnerabilities and the identification of the enablers of economic growth, including progress towards the SDGs.<sup>4</sup>

It is urgently needed for LDCs, LLDCs and SIDS as well as for MICs to rapidly scale up investment for structural transformation through productive capacity development in agricultural, manufacturing, cultural and creative industries, and services sectors including tourism; building and maintaining sustainable, resilient and quality infrastructure to improve movement of goods and services; expanding energy access and broadband connectivity; tapping into emerging technologies; mainstreaming technology driven entrepreneurship, developing innovative digital ecosystems; delivering digital services and applications and ensuring full and productive employment and decent work for all women and men.

Through this pathway they can realign incentive structures and policies, including the formulation of a new generation of International Support Measures (ISMs), to revive socioeconomic progress and address persistent vulnerabilities to internal and external shocks, whether economic, health-related like COVID-19 or other social or environmental shocks.<sup>5</sup>

Building productive capacities can also leverage the demographic dividend by engaging meaningfully with the growing young populations in LDCs, LLDCs, SIDS as well as in MICs. Although impacted disproportionately by the pandemic, youth have demonstrated resilience, commitment and creativity to find innovative responses to rebuilding back better. A conducive environment to develop productive capacities accompanied by proper investments in youth will ensure a more sustainable and inclusive recovery.

Innovative strategies are also needed to help LDCs make durable progress towards and beyond graduation. This will require the active support and engagement of bilateral and multilateral development partners as well as the private sector and foundations. Those will need to draw on their decades of targeted interventions, technical assistance and policy guidance to vulnerable developing countries. Innovative strategies are also needed for LLDCs and SIDS to help these countries recover from the COVID crisis as they seek to implement the Vienna Programme of Action and the SAMOA Pathway respectively.

If the vulnerable economies of LDCs are to recover from the COVID crisis and enhance their resilience to fight against future shocks, the next Programme of Action for LDCs to be adopted at the upcoming 5<sup>th</sup>

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<sup>3</sup> <https://unctad.org/news/debt-relief-and-productive-capacities-key-recovery-middle-income-countries>

<sup>4</sup> UNCTAD has developed the National Productive Capacities Gap Assessment (NPGCA) to help countries develop strategies towards and beyond graduation as well as target policy programmes and support where there are needed most.

<sup>5</sup> UNCTAD (2021) The Least Developed Countries Report ([www.unctad.org/ldcr2021](http://www.unctad.org/ldcr2021))

United Nations Conference on the Least Developed Countries (LDC5) must be comprehensive, ambitious and forward-looking.

## **Objective**

The 2021 joint meeting of the United Nations Economic and Social Council (ECOSOC) and the Economic and Financial Committee of the General Assembly (Second Committee) will focus on the opportunities, challenges, key policies and investments needed to build productive capacities in LDCs, LLDCs, SIDS as well as MICs as a critical step for recovering better and getting back on track towards achieving the SDGs, in the decade of action and delivery. It will aim notably to explore innovative solutions and enabling policies to facilitate and augment LDC's, LLDC's, SIDS' as well as MICs' resilience through building productive capacities.

## **Format and participation**

Brief opening remarks will be delivered by the Chair of the Second Committee and the President of the Economic and Social Council. Addresses will be delivered by the Secretary-General of UNCTAD and the High Representative for LDCs, LLDCs, and SIDS, which will be followed by two panel discussions moderated by the Chair and the President, respectively.

The joint meeting will include a policy dialogue with a panel of speakers from LDCs, LLDCs and SIDS as well as MICs addressing priorities for action for building productive capacities post-COVID-19. The floor will be opened for interventions from Member States.

After the discussions, the Chair of the Second Committee, the President of ECOSOC and UNDESA Under Secretary-General will deliver closing remarks.

## **Outcome**

The outcome of the joint meeting will be a joint informal summary by the President of ECOSOC and Chair of the Second Committee highlighting the key messages, ideas and innovative policies emanating from the discussions.

The joint summary could serve as a contribution to the Fifth United Nations Conference on the Least Developed Countries (LDC5) taking place in Doha, Qatar from 23 to 27 January 2022. Other processes relating to LLDCs, SIDS as well as MICs could also benefit from the intergovernmental discussions and guidance at the joint event.

## **Guiding questions**

1. Why are productive capacities important for the development process in LDCs, LLDCs, SIDS as well as MICs?
2. What are the key interventions and investments needed to enhance the productive capacities in recovering and rebuilding from the pandemic and accelerating economic growth and sustainable development?
3. What are some lessons learned and good practices to enhance productive capacities?
4. How can the existing sources of finance including the innovating ones, multilateral system as well as regional and south-south cooperation be harnessed more effectively to support the development of productive capacities in LDCs, LLDCs and SIDS as well as MICs?