

CDP input to 2017 ECOSOC integration segment

The Committee for Development Policy (CDP) addressed poverty eradication within its work on lessons learned from developing productive capacities in countries graduated and graduating from the Least Developed Country (LDC) category. Expanding productive capacity in LDCs is key in making progress towards sustainable development, including the eradication of poverty. Increased productive capacities enable structural transformation towards more productive activities and sectors, ideally creating enough decent jobs to reduce poverty on a broad scale. At the same time structural transformation can also generate resources for social protection, aimed at those who are permanently or temporarily unable to escape poverty with their own resources. Given that poverty is most widespread and persistent in LDCs, eradicating poverty at the global level requires a focus on LDCs.

As previously highlighted by the CDP¹, developing productive capacity requires integrated policies in five areas: (I) development governance; (II) policies for creating positive synergies between social outcomes and productive capacity; (III) macroeconomic and financial policies that support productive capacity expansion and increase resilience to external shocks; (IV) industrial and sectoral policies and (V) international support measures in the areas of trade, official development assistance and international tax cooperation. Given the diversity among LDCs, one-size-fits all policies will not be successful. Instead, the various country groups require different national strategies and different support from the international community. Lessons learnt point out that there are at least three pathways leading to graduation with different implications for productive capacity and overall progress towards achieving sustainable development.

One pathway to graduation is through rapid income growth from natural resource exploitation. However, without sufficient investments in human assets and a lack of economic diversification, this pathway does not move countries towards achieving the sustainable development goals and often leaves large parts of the population in poverty. Weak development governance is the key constraint that prevents countries on this pathway from channelling natural resource revenues into social sectors. First, low transparency and lack of good development governance reduce the amount available for expanding productive capacity, even though substantial amount of investments can still be undertaken. Second, they create a mismatch between stated policy priorities (which understandable give high prominence to health and education) and actual public expenditure patterns, which favor mega infrastructure projects. Not counting expenditures for human assets formation as investment in budgetary rules further exacerbates a neglect of social sectors. Whereas fiscal rules that invest natural resource rents in physical assets can indeed assist in economic diversification, excluding health and education expenditures from investments leads to too few financial resources allocated to social sectors, in particular if natural resource rents dominate fiscal revenue. An important lesson for other resource-rich LDCs is to combine the building of a system of good governance with a planning process designed to match resources with social and productive sector public investments and monitor implementation regularly.

A number of mostly small countries are on a second pathway that combines income growth with investment in human assets. These economies typically specialize in sectors such as tourism or natural resources with low employment and limited backward and forward linkages to other sectors, reinforcing vulnerabilities and in some cases inequalities, though nevertheless successfully eradicating most forms of poverty. Good development governance underpins the success in these countries, based on state legitimacy and institution-building. This facilitates human assets development, prudent macroeconomic policies, as well as a pragmatic and strategic application of industrial and sectoral policies. Countries on this pathway place great emphasis on social policy from

¹ See ECOSOC, 2016, Supplement No. 13 (E/2016/33), Chapter II.

the beginning of their development trajectory, adopting policies aimed at ensuring food security, creating opportunities for education, including at the secondary level, easier access to health care services, and generally improving living standards by raising income. Some countries on this pathway harnessed official development assistance (ODA) for development by effective national coordination of donor support and adopted far-sighted diaspora and remittances policies.

A third pathway, typically associated with larger economies, is characterised by investments in human assets and structural transformation towards high-productivity manufacturing and services, contributing to a steady, albeit slow progress towards sustainable development, including the eradication of poverty. Productivity-enhancing agricultural reforms focusing on small-scale agriculture and massive investments in rural infrastructure are the launching pad of development. This requires agricultural reforms focusing on small scale farmers and massive investment in rural development. These reforms aim at rapid improvements in agricultural productivity and food security. Land use and tenure reforms that improve the rights of women as well as public support to farmers through agricultural extension services and subsidizing inputs have proven successful. This, in turn, increases human assets through reducing malnutrition as well as sustained growth and the transfer of labour from agriculture to more modern sectors. On this pathway, the state plays an active and crucial role in designing appropriate policies in all relevant areas and creating and constantly adapting development-focused governance structures. As in the second pathway, countries place strong emphasis on health and education, in line with the view that 'social policies' come first, rather than taken as objectives to be addressed after income growth and structural transformation. Successful policies are often 'unorthodox', closing gender gaps in health and education including through changing social norms by empowering women in the delivery of social services. This includes institutional setups under which non-government service providers deliver public health and education services, demonstrating advantages of an inclusive development strategy involving both governmental and non-governmental actors. Another positive example has been the deployment of 'health extension workers' throughout the country to achieve almost complete coverage with public health programmes.

In all pathways to graduation, peace and security are critical foundations for productive capacity and sustainable development. Strong national ownership of the development agenda and building of development oriented institutions enables countries to successfully develop and adopt unorthodox social and macroeconomic policies, enabling resource-poor countries to rapidly increase access to health and education and create employment opportunities, in particular for women.