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Inclusive and Sustainable Industrial Development

LDC Ministerial Conference 2013

From the Istanbul Programme of Action to the world we want in 2015 and beyond: Implementing the UNIDO operational strategy

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Issues Paper

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Acronyms

BRICS	Brazil, Russia, India, China and South Africa
DAC	Development Assistance Committee
ECA	Economic Commission for Africa
ECOSOC	Economic and Social Council
ESCAP	Economic and Social Commission for Asia and the Pacific
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
LDCs	Least Developed Countries
IPoA	Istanbul Plan of Action
ISID	Sustainable and Inclusive Development
MDGs	Millennium Development Goals
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PSD	Private Sector Development
SSIC	South-South Industrial Cooperation
UN OHRLLS	UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States

1. Introduction

1. With respectively only two and seven years to the target date of the Millennium Development Goals (MDGs) and the Istanbul Programme of Action (IPoA), progress needs to be accelerated in the Least Developed Countries (LDCs). The report of the Secretary-General on the Implementation of the Programme of Action for the LDCs states that most of the countries continue to face acute poverty, serious structural obstacles to growth, low levels of human development and high exposure to shocks and disasters. Member States from LDCs recognized the challenges and welcomed the conclusions and recommendations expressed during the LDC Ministerial Conference convened in New York on 27 September 2012, under the auspices of the UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS). The Economic and Social Council (ECOSOC) resolution E/2012/L.29 of 27 July 2012 [1]on the implementation of the Programme of Action for the Decade 2011-2020 was also recalled.

2. Areas of the Programme of Action listed as key priorities to be reflected in the post-2015 development include the following: (a) productive capacity-building, including through rapid development of infrastructure and energy; (b) green economy policies to achieve sustained, equitable and inclusive economic growth; (c) structural transformation; (d) food security; (e) poverty eradication; (f) resilience-building; and (g) sufficient policy space to pursue the agenda of structural transformation and productive employment. The progress report also stresses the importance of including the integration of the Least Developed Countries in global value chains and their industrialization. It further underscores the access of women and youth to factors of production, including employability skills and finance, as essential dimensions. Strengthening South-South and triangular cooperation are also considered as fundamental aspects in the LDC development roadmap.

3. The regional meetings (Asia-Pacific and Africa) convened on the post-2015 development initiatives echoed similar key recommendations. Thus, in the outcome document of the meeting of the Economic and Social Commission for Asia and the Pacific (ESCAP) on the "perspectives from the Asia-Pacific LDCs[2]", which took place in Siem Reap Cambodia, in December 2012, it has been agreed, among other priorities, that the Asia-Pacific LDCs need to (i) focus on enhancing productive capacities to produce new and more value added goods and services; (ii) put in place broad-based industrial policy; (iii) take measures to benefit from supportive global partnership with a focus on greater Foreign Direct Investment (FDI) and Official Development Assistance (ODA), increased preferential foreign market access as well

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[1] *http://www.un.org/News/Press/docs/2012/ecosoc6545.doc.htm*

[2] Afghanistan, Bangladesh, Bhutan, Cambodia, Lao People's Dem. Rep., Maldives, Myanmar, Nepal, Kiribati, Samoa, Solomon Islands, Timor-Leste, Tuvalu, Vanuatu

as aid for trade, and (iv) more effective South-South, triangular and regional cooperation; using lessons learned from countries transforming their economies even in the absence of resource-based comparative advantages; and creating rapidly growing manufacturing sectors.

4. As far as African LDCs[3] are concerned, the provisions of the Economic Commission for Africa (ECA) meeting convened in March 2013 in Abidjan, Ivory Coast, stress the needs to coordinate long-term development plans and industrial strategies to address constraints and harness emerging opportunities from increased South-South Cooperation and other development partners for economic and social development.

5. Against this backdrop, the current issues paper intends to provide a basis for interactive discussions on how to accelerate the effective implementation of the provisions of the Istanbul Plan of Action's progress report by 2015 and beyond -- through the UNIDO Operational Strategy for LDCs 2012-2020. At a time of growing concerns about prospects for resources mobilization, the upcoming LDC ministerial conference will examine the complementary potentialities of the BRICS (Brazil, Russian Federation, India, China and South Africa) and the other emerging donors in the South-South multilateral cooperation framework in advancing the industrial development agenda of the Least Developed Countries. It will also highlight the crucial role of women in the agri value chain development in the LDC economies. The conference will further provide a platform to present the Inclusive and Sustainable Development (ISID) for LDCs.

2. Overview of the current situation on Official Development Assistance (ODA) and Foreign direct investment (FDI)

6. Although average gross domestic savings in the Least Developed Countries increased from 18.3 per cent in 2010 to 19.7 per cent in 2011, LDC domestic resources remain scarce, with a predominance of the informal sector - which accounts for 70 to 80% of their economies. Resources for investment in LDCs' economies are mainly foreign, including ODA and FDI. Consequently, the deteriorating global economic landscape is being channelled to the LDCs through decreasing financial flows.

7. **ODA:** Development aid fell by 4 per cent in real terms in 2012, following a 2 per cent fall in 2011. It is to be noted that there is a shift in aid allocations away from the poorest countries and towards middle-income countries. [4] Of the 23 members States of the Development Assistance Committee (DAC) of the Organization for Economic

[3] Angola, Benin, Burkina Faso, Burundi, Cape Verde, Central African Republic, Chad, Comoros, D. R. of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, South Sudan, Sudan, Togo, Uganda, U.R. of Tanzania, and Zambia

[4] *http://www.oecd.org/dac/stats/aidtopoorcountriesslipsfurtherasgovernmentstightenbudgets.htm*

Cooperation and Development (OECD), only 10 met the low-end ODA target of 0.15 per cent reaffirmed in the Istanbul Programme of Action.

8. **FDI:** None of the LDCs are ranked among the top 30 priority destinations by investors surveyed in the World Investment Prospects Survey. From the Asian newly-industrialized economies, it is demonstrated that FDI has played a key role in facilitating economic growth and industrial development. In the LDCs, FDI flows remain concentrated on a geographical and sectoral basis. The new dynamism of the South has also been evidenced by increased South-South investment, transfer of technology and enterprise-level interactions. For example Chinese FDI stock in Africa stood at US$16 billion by the end of 2011 (investment in LDCs such as Sudan and Zambia). [5]

3. Role of BRICS and other Emerging Economies for Inclusive Sustainable Growth of the LDCs

9. The BRICS (Brazil, Russia, India, China and South Africa) are the world's leading emerging economies. Especially in the last decade, they have been characterized by rapid economic growth and industrialization. According to many experts, economic and political power has been shifting towards the developing world and emerging economies due to high and sustained growth rates, particularly China, India and Brazil. Their changing role in the development finance is noticeable, as they are reverting from recipients of aid to important donors. However a significant share of FDI in African LDCs is registered in the mining and oil sectors; which generate low spill over effects in terms of employment, technology and know-how to the benefit of the rest of the economy. From that point of view, one of the recommendations is to orient the increased levels of ODA and FDI into infrastructure and productive capacity of the LDCs.

10. Thus, the plenary session aims at intensifying cooperation between the BRICS, other emerging economies and the LDCs to enable a strengthened coordination between them to promote sustainable growth opportunities through appropriate value chain linkages - as equitable partners in the global production system and in the trade regime. Moreover, it will serve to provide answers to the following questions:

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[5] *http://unctad.org/en/PublicationsLibrary/webdiaeia2013d6_en.pdf*

Issues for discussion

- Which BRICS policies could help ensure that investment in LDCs is conducive to inclusive and sustainable development?
- What might contribute to the partnership between LDCs and emerging economies?
- Which lessons can LDCs learn from the industrialization experiences of BRICS and other emerging economies?
- What role does technology transfer from BRICS and other emerging economies to LDCs play, and what are future perspectives?
- Which trade trends currently prevail between the emerging economies and the LDCs?
- How can LDCs promote sustainable value creation and economic diversification?
- What is the experience of BRICS and other emerging economies in women empowerment processes?
- What is the experience of BRICS and other emerging economies in youth employment generation?
- How can BRICS and other emerging economies support LDCs in struggling with environmental vulnerability?

4. South-South Industrial Cooperation: Southern enterprises in LDCs

11. The significance of South–South relations is increasing, thereby providing major additional opportunities and tested solutions to development challenges faced by LDCs.

12. South-South Industrial Cooperation (SSIC) has many factors, including investment, trade, financial flows, labour migration and remittances, technology transfer and development cooperation. Furthermore, SSIC has an intra-continental dimension (e.g. within Latin America, Asia or Africa) and an inter-continental dimension (e.g. between Latin America and Africa). SSIC is much more holistic than Official Development Assistance (ODA), with the development cooperation vector being more a by-product rather than a driving force.

13. The actors in SSIC are the public and the private sector. Both undertake investments and trade with other Southern countries; governments often do so through their state-owned enterprises. In addition, the development cooperation vector mainly falls within the domain of the public sector. However, a large part of actual SSIC is attributed to private businesses. They engage on a day-to-day basis in SSIC by investing, trading, and financing as well as by transferring technologies and moving labour from one Southern country to another. There are two dimensions of the role of the private sector in SSIC; first, SSIC aims at developing the private sector in LDCs - this is commonly referred to a 'private sector development' (PSD), which is largely a concern for the

public sector and development partners, and which is achieved through technical cooperation. The second dimension focuses on the private sector as a key actor contributing to industrial development in LDCs, where the emphasis is put on partnering and leveraging the private sector's resources (including financial and technical resources as well as knowledge) for industrial development.

14. The importance of a strong and competitive domestic private sector with dynamic enterprises cannot be under-estimated, also to address national and international development concerns. The Istanbul Programme of Action (IPoA) refers to these dimensions by acknowledging the critical role of PSD for development. LDCs should "continue promoting an enabling environment for private sector development including for small and medium-sized enterprises through a transparent and rule based regulatory framework" (IPoA 2011). But the document also recognizes and calls upon the private sector to contribute to the achievement of development goals. The role of the private sector in the IPoA cuts across many thematic issues and development challenges. Among others, the private sector through Foreign Direct Investment (FDI) plays a complementary and catalytic role "in building and strengthening productive capacity as they lead to tangible and intangible benefits, including export growth, technology and skills transfer, employment generation and poverty eradication." (ibid.) However, the IPoA does not distinguish between Northern and Southern private sector actors and does not address the differentiated roles, benefits, and aims that may exist between the two parties. More issues for discussion are listed in the box below:

Issues for discussion

- What are the determinants of successful South-South cooperation for industrial development and poverty reduction? What role should LDC governments play in enhancing sustainable South-South Industrial cooperation (SSIC)?
- What is the role of the private sector in SSIC?
- Is integration into Southern value chains for LDC enterprises an option for growth and development?
- How should governments respond to increasing SSIC? And what approach should they adopt to maximize the benefits of working with Southern private sector actors?
- In making South-South Industrial Cooperation complementary to North-South Cooperation, what should be the role of LDC governments?
- Can public private-partnership effectively address finance-related matters within the framework of South-South cooperation?
- How should LDCs prepare to seize the opportunity of increasing SSIC in terms of skills development and technology transfer?
- How can South-South Industrial Cooperation generate income and employment opportunities in LDCs?

5. Converting commodities into products: the role of women in LDCs

15. This session will explore the role of women in the overall agri value chain approach in Least Developed Countries (LDCs). This will also give Member States from Least Developed Countries the opportunity to share their specific experiences.

16. Academics and development practitioners outline that women's participation in agricultural value chains is overwhelmingly concentrated as work force at the producer and processing levels. As producers, women have weak property and contractual rights to land, water, forest services and other natural resources. Many countries still hold legal restrictions on women's equal rights to own, control and inherit property, but even when legal frameworks ensuring women's rights are in place, social constraints and bureaucratic resistance often prevent them from being applied. Insecure access to land has several consequences for female producers because it impedes their access to water, extension services, credit and productive inputs. Studies suggest that it is the lack of labour and fertilizers, and the low substitutability of factors of production in women's plots that explain lower productivity, rather than the owner being male or female.

17. In the labour market, female workers are generally segregated in certain nodes of the chain—either as own account workers or as contributing family workers—characterized by lower wages and limited opportunities to acquire new technical and entrepreneurial skills. Both men and women face market risks, such as high transaction costs and asymmetric information, and are particularly vulnerable when poverty hinders them from saving for their own protection and responding against contingencies.

18. Women are further constrained by higher incidence of illiteracy and innumeracy, as well as by cultural norms that restrict modes of transportation and mobility. Competing demands on women's time also play a role in widening the gap between women and markets as they have less time to invest in high-quality products.

19. As entrepreneurs, women as much as men may face complex, time consuming and expensive processes in setting up a business. Women often face these challenges equipped with poorer skills, lower mobility and more vulnerability, as they are considered soft targets for bribes and harassment. Chain supporters—individuals and organizations that support the main chain actors providing them with services—play a relevant role in enabling women to join value chains.

20. Several dimensions of women's empowerment in agricultural value chains also require an enabling context comprised of a gender-aware legislation, the enforcement of law, legal services, communication processes and adequate transport networks and infrastructure.If action is not taken in various fronts, this may seriously hinder efforts toward poverty reduction and value chain development with social-equality.

Issues for discussion

- What are the opportunities within the LDCs to enhance women's position in the agricultural value chain development processes? What are good practices at the national or regional level with respect to gender policies/strategies?
- How are LDC governments dealing specifically with women's unequal access to land, credit, training and business opportunities?
- Are value chain contexts at national level—including the legal systems, financial and extension services and transport networks— appropriate for women to take advantage of the opportunities provided? What are the main constraints for women?
- Taking into account that gender equality promotes economic growth, how are LDC governments fulfilling their commitments to eliminate all forms of discrimination against women, particularly in overcoming resistance to change based on cultural obstacles that prevent women from engaging in agricultural value chains? What needs to be done?
- How can the role of women in the agricultural value chain be promoted through South-South cooperation?

6. Overview of the concept of Inclusive and sustainable industrial development

The international community has recognized that poverty eradication is the all-important global goal to be achieved within the next generation. This can only be achieved through strong, inclusive, sustainable and resilient economic and industrial growth, and the effective integration of the economic, social and environmental dimensions of sustainable development. In this context, UNIDO focuses on achieving *inclusive and sustainable industrial development* (ISID), to allow every country to achieve a higher level of industrialization, and to benefit from the globalization of markets for industrial goods and services.
ISID means that no one is left behind in benefiting from industrial growth, and prosperity is shared among all parts of society in all countries. It also means that broader economic and industrial growth is supported within an environmentally sustainable framework, ensuring competitiveness through energy and resource efficiency, cleaner production, and reduced industrial emissions. UNIDO will further forge multisector partnerships in all countries for achieving ISID as all countries and their relevant development actors should contribute to the achievement of ISID, as they should all benefit from it.