Remarks of

David Jackson, Director
Local Development Programme, UNCDF

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"A world without LDCs: toward a better framework to support structural transformation and graduation from Least Developed Country status"

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Thank you very much indeed for the kind introduction. In fact, UNCDF was founded as a result of an UNCTAD conference. We are one of the special measures for the Least Developed Countries and the investment of our resources focusses on the LDCs. I would like to mention firstly the political aspect to graduation, secondly the technical component, thirdly the local dimension and then finally I'd like to talk a little bit about blended finance, the Addis Agenda and how structural transformation is required for sustainable graduation.

Firstly, on the political angle it's clear at the global level that the argument has been won. There is now an acceptance that the MDGs were incremental and the SDGs are transformational. It was possible to meet all MDG targets without structurally changing the nature of your economy. This is not the case for the SDGs. Similarly the MDGs were about the so called ‘developing’ countries, the SDGs are for everybody. These are important victories, I think.

Now, when it comes to LDCs and graduation from LDC status, it's important that this transformational aspect of graduation is taken into account and that graduation is not simply an incremental passing of the statistical measures that were mentioned by previous speakers (GNI per Capital, Human Assets Index and Economic Vulnerability Index). Instead, graduation should be a transformational process. This is a political issue within LDCs themselves because it requires government decisions to choose the economic and social policies that are inline with the global aspirations to transformation and the 'victory' mentioned earlier.

Please allow me to illuminate what this means. One example is large infrastructure projects. A lot of political capital is expended by LDC governments to establish special economic zones and attract large scale investment, perhaps linking them export deals and special tariff and customs arrangements. Yet, these deals are not necessarily transformational in the terms that have been expressed by earlier speakers, and in terms of their impact on the SDGs. For example, if one looks at the the least developed countries that have not yet met any of the graduation thresholds, some of them have very large projects. The world's second largest aluminum producing plant is in Mozambique but when one digs down and looks at the statistics, one finds very little linkages into the rest of the economy. Whilst the plant contributes to up to 5% of Mozambique's GDP it only represents a fraction of its fiscal revenue. What is the transformational impact of this investment? These are the type of political choices to be considered.

Another example is education. This plays a key part on the Human Assets Index criterion. If LDCs are going to transform their economies, it means moving the labor force up the value chain and education is a key part of that. It's not just school enrollment. It's quality of that education to provide a skilled labor force that enables the economy to quickly respond to transformational investment. These are political choices that need to be made at the level of LDCs themselves. We heard from Botswana, some of the choices that were made there in order to handle the transformational aspect of graduation.

Secondly, there is a technical aspect of transformational graduation from LDC status. The Economic Vulnerability Index is another criterion mentioned by earlier speakers. Here, one needs to really be able to analyze the forward and backward linkages, the externalities and how these are built in to economic policy. Similarly, in terms of climate change, how is this built into a country's investments and ones development path? There's a technical capacity, I think, required to make these measurements and support the decision making processes mentioned earlier so that when choices are made, there is sufficient information about their impact on sustainable and transformational graduation.

That brings me to the third point which is the local dimension. This is one of our focus areas at UNCDF. If you look at a lot of LDCs you will see that most of the capital investments and most of the economy, really, is based on a couple of larger cities and then some commodity export value chains. Other parts of the territory or other sectors of the economy are not really included. In addition, in the case of FDI, the risk return ratio from that FDI means that it is sponsoring investments that are not, also, necessarily transformational.

Yet, from the perspective of UNCDF, we draw attention to the 'remoteness' factor – which is a component of the Economic Vulnerability Index. Reducing a country's remoteness score requires investing in Local Development and empowering local governments to ensure that the economic and social development reaches all geographic regions of the country. It's important to expand the reach of the growth, and there has been extensive growth in many

LDCs, beyond these sectors and to localize it to all areas of the economy and all areas of the territory. We like to do that through local development finance. This includes fiscal decentralization for public investments and it includes getting capital resources invested in catalytic infrastructure projects and private sector projects in all areas of the country. It also means working through financial inclusion to ensure all citizens can access financial services. Through women's economic empowerment. Through youth empowerment. There are lots of ways to improve the effectiveness of the local public sector, spread the proceeds of growth, and broaden and deepen local markets including the capital markets. Including the issues of financial inclusion.

Finally, I'd like to talk a little bit about blended finance. Within the Addis Agenda, this is seen as one of the solutions, if you like, blending public and private finance together. However, blended finance itself is not the solution to transformational graduation to middle income status. It's a means to this end. Blended finance is not necessarily transformational. I mentioned earlier some large infrastructure projects that were paid for with blended finance, often involving public private partnerships, that don't necessarily have those linkages back into the economy. These investments don't necessarily create demand for local companies, don’t always utilize local labor and, importantly, don't necessarily unlock domestic capital and deepen domestic markets. For UNCDF blended finance, which is blending public and private finance, includes also unlocking domestic capital from the domestic financial sector. UNCDF also promotes the linkages between blended finance and local governments. We believe that this approach can be more effective at achieving sustainable graduation than a focus only on blending blend domestic public capital with external private capital.

How can you get LDCs encourage domestic banks that have excess liquidity to invest in the local economy? For example, there is $1 trillion in African pension funds but that tends to be invested in real estate, office blocks in capital cities and offshore. There are, of course, various rules about how pension funds can be invested but perhaps there can be a look at how some of these resources are invested into the local economy, into transformative projects outside of those sectors that I mentioned. Blended finance must involve the domestic banks, must involve the domestic private sector and must try to change their risk return ratios and encourage them to invest in productive infrastructure outside their comfort zone. We've done that to some extent in Tanzania, Uganda, Bangladesh, Benin and it's beginning to show fruits. Given the time limits, I think I will stop there. I'd love to be able to go on but thank you so much for the invitation. It's a real pleasure to be part of this partnership with UNCTAD. Thank you.