Economic Transformation

Cooperation Framework Companion Piece

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Introduction

The 2030 Agenda for Sustainable Development called for transformative change aimed at sustainable development. This transformative change is a multi-dimensional process, of which economic transformation is an important component. However, economic transformation required to achieve the 2030 Agenda is not a stand-alone process; instead it should be in a synergistic combination with other dimensions of sustainable development, namely the social and environmental, and uphold the commitment to Leave No One Behind (LNOB)[1] of the 2030 Agenda and full respect for human rights. Achieving the SDGs requires a new type of economic transformation.

As the UN's main programming instrument at the country level, the UN Sustainable Development Cooperation Framework is a key vehicle for supporting economic transformation in order to help countries to achieve the SDGs. It calls on countries to reframe economic policies and practices for inclusive, diversified and job-intensive economic transformation that leaves no one behind, protects the planet and strengthens the ecological foundations of economies. The challenges in sustaining economic performance should be understood and addressed in specific country contexts against a fast-changing and uncertain backdrop of shocks and fluctuations, crime, conflict, and climate related risks that threaten hard-won development gains.

The Cooperation Framework reflects the UN's work with countries to help strengthen economic resilience through appropriate macroeconomic and structural policies, and individual resilience through social protection and redistributive policies that reduce vulnerability and preserve gains against poverty and inequality. It articulates a focus on enabling investments that foster patterns of economic growth to improve the distribution of incomes, increase economic diversification, and take full advantage of appropriate technologies and innovations. This includes bringing the informal economy into the formal economy as well as valuing properly and fully the many non-monetized economic activities, such as unpaid care work, informal labour and the externalities in the provision of essential services, and preventing and addressing the deleterious impact of economic crime. In effect, it requires a departure from past practices in production and consumption, the embrace of new technologies and patterns of behaviour that sustain low-carbon and resource- and energy-efficient growth, as well as valuing the ecosystem services.

This companion piece first provides a conceptual framework that explains "why" and "what" type of economic transformation is needed in the light of the 2030 Agenda and offers a unifying definition.

[1] See the LNOB analysis section of the Companion Piece on the UN Common Country Analysis as well as the LNOB Operational Guide.

This companion piece provides "how-to" guidance to help United Nations Country Teams (UNCTs) to conduct analysis on economic transformation (as part of the forward-looking Common Country Analysis) and identify major entry points, possible responses, resources available from within the wider United Nations system and beyond as well as partnerships needed to have a stronger engagement to support countries' economic transformation processes. (It is informed by, and complements, other companion pieces.)

II. Why a New Type of Economic Transformation?

Economic transformation, for a long time, was thought of primarily in terms of structural change, referring to changes in the sectoral composition of the GDP. However, over time, structural change also became a theory of development suggesting shift of labour from low productivity sectors to high productivity sectors in the economy. Based on the historical experience of the developed countries, this was generally meant to imply a switch from agriculture to manufacturing and then to high productivity services.

Experience, however, has shown that structural change did not always follow the above linear sequence. Many specific factors, such as resource endowments, natural capital, geographical location, institutional capacity, the rule of law, and political leadership influenced the course of structural change in individual countries. In particular, the closed-economy view of structural change underwent changes as a result of deeper globalization since the 1980s. Offshoring and production under Global Value Chains (GVCs) led to many contradictory outcomes. Some countries could reach a high share of the manufacturing sector in their GDP and maintain this high share for a long time. Others witnessed a process of stalled industrialization and even "premature de-industrialization". Yet experiences in other countries showed that industrialization need not be equated with manufacturing, and that modern technologies can be applied to raise the productivity of agriculture and services sectors and to increase their shares in the GDP. In some developed countries, globalization contributed to "manufacturing hollowing out."[2] In many developing economies, commodity dependence remains a source of volatility.

Also, while previously the focus was on changes in the share of broadly defined sectors, production under GVCs brought to fore the importance of *intra*-sector changes. Since GVCs allow countries to specialize in the production of particular parts of an overall product, the focus in many countries shifted to graduating from producing low productivity parts to producing high productivity parts of a product under GVCs.

The advent of new digital technologies – often under the rubric of the Fourth Industrial Revolution (4IR) – has added further complexity to the set of possibilities for structural change

[2] See Islam and Winkel (2018) for details. [3] See for details United Nations (2008).

and economic transformation. On the one hand, it has expanded the set of opportunities for technological leapfrogging. On the other hand, by reducing labour requirement of various production processes and potentially triggering the re-shoring phenomenon, it can make the route to development via expansion of export-oriented and labour-intensive manufacturing more uncertain for many developing countries. In addition, the new technologies are often conducive to concentration of investment, trade flows and wealth in countries and regions that are leading the development and use of these technologies, widening inequalities and the technological divide. New business models using Web-platforms (gig economy) have often led to new type of informalization and precarisation of labour.

Recent decades have also seen a process of "over-financialization," resulting in financial assets far exceeding the production and trade volumes of the real economy. As a result, sudden fluctuations in asset prices now exert much greater and often disruptive influence on real economic activity.

More importantly, the focus on economic growth in the past decades often led to inadequate attention to the social and environmental consequences. As a result, income inequality, for example, has risen in many countries, often acting as a constraint on economic growth and serving as a barrier to social development. Employment expansion has often been insufficient, and the types of jobs created have not led to decent living for many. Insecurity – both perennial and episodic -- has also increased, in part due to the boom-bust cycle of production, often caused by sudden large-scale cross-border capital flows.[3] Illicit financial flows related to the proceeds of crime have come to dominate economic activity in some middle and low income countries and fragile states – blunting the effectiveness of monetary and fiscal policy tools and leading to the inability of productive sectors and basic formal financial sector intermediation to develop in a manner that supports equitable growth.

Moreover, in almost all countries there are "horizontal inequalities" with certain groups more disadvantaged than others in opportunities and access to resources and services based on identities such as age, gender, ethnicity, race, geography or religious affiliation. The unequal distribution of costs and benefits of globalization has been eroding trust in governments and institutions and fuelling alienation and crime in many societies. Wide differences in quality of life across countries have also become less tenable in a more integrated world, leading to a rise in unregulated migration.

Inadequate attention to environmental consequences of rising production and consumption has led to breaches in planetary boundaries. In particular, safe limits of atmospheric carbon concentration have been crossed, resulting in climate change with potentially catastrophic consequences. Irreversible losses of biodiversity are accelerating, and freshwater resources are shrinking and getting degraded in many parts of the world. The climate crisis is another

manifestation of global inequality as a large number of developing countries, who suffer from the consequences of climate change the most, had very little role in causing it.

III. What is the New Type of Economic Transformation Needed for the 2030 Agenda?

Economic transformation is broader than structural change. It has to pay attention to a wider range of issues and processes, including spatial distribution of population (urbanization, settlement patterns, etc.), demographic transition, changes in institutions, improvements in infra- and supra-structures, etc., that should accompany productivity increase brought about by structural change. However, economic transformation *under the 2030 Agenda* has to be of even broader scope so that it can be integrated with social development and protection of environment. Employment is the lynchpin of the links between economic growth and social development. It is through creation of decent jobs that productivity gains can be translated into improvement of quality of life of the vast majority of the population.

In view of the above, economic transformation under the 2030 Agenda may be defined as follows:

> *Economic transformation comprises fundamental changes in the economy that raise the overall productivity level while ensuring adequate quantity and quality of employment, equitable distribution of income and wealth, access to quality public services, and protection of environment.*

In interpreting this definition, it is important to pay attention to the two-way relationship between economic changes, on the one hand, and social development and environmental protection, on the other. In other words, taking care of the social and environmental consequences should not be viewed as an afterthought or as an add-on to the economic growth process. Instead, emphasis should be placed on the feedback relationship and on exploring ways in which positive changes along social and environmental dimensions can help in achieving successful economic transformation, and vice versa.[3] When viewed in this integrated manner, economic transformation can be a powerful locomotive of the transformational change envisaged by the 2030 Agenda.

It is also critical to pay attention to the political economy and identify potential winners and losers at different stages in order to put in place policies and institutions to ensure just transitions and

[3] For example, the fact that equitable distribution can lead to expansion of domestic demand, providing incentives for production expansion, needs to be factored in while thinking about economic transformation. Similarly, the fact that power generation using renewable energy sources can create more jobs than power generation using fossil fuels needs to be taken into account in planning economic transformation.

prevent societies from descending into crisis[4] - see also the political economy analysis of the CCA companion piece.

Proceeding from the above definition, economic transformation under the 2030 Agenda needs to focus on the following concrete objectives:

- Raising productivity by investing in human capital and facilitating the movement of labour and entrepreneurship from lower value-added to higher value-added economic activities; promoting modernization and upgrading of technologies; improving the business environment, including rule of law, and delivering other long-lasting economic changes that are consistent with and advance other dimensions of sustainable development;
- Diversifying the economy both horizontally and vertically, making it competitive, and improving macroeconomic frameworks to make it resilient to a wide range of economic shocks, such as sudden downturns in global economy, rapid outflow of capital, collapse of commodity prices, etc.;
- Creating decent jobs taking into account demographic (population growth and the potential youth bulge, ageing, migration, urbanization), technological and inequality trends and investing in skills that better match present and future employment needs; ending informalization and precarisation of labour; ensuring gender parity in employment and wages; valuing unpaid labour; breaking sectoral and occupational segregation; and paying particular attention to youth employment and training;
- Making the economy resilient to climate change and its adverse effects, including sea level rise, desertification, extreme weather events, natural resource depletion, etc.;
- Decoupling economic growth from environmental degradation; decreasing the carbon intensity of output; ending dependence on fossil fuels; achieving carbon neutrality by 2050; decreasing resource intensity and increasing efficiency in production; adopting clean technologies across all types of economic activities; promoting sustainable use of all economic and natural resources; encouraging the circular economy to minimize virgin resource use and the creation of waste products;
- Ensuring equal opportunities and equitable distribution of income and access to public services and resources; and providing adequate fiscal space for provision of social protection, investments in quality education and health, basic service delivery, and critical infrastructure to tackle both vertical and horizontal inequalities;
- Promoting the development and proper use of new technologies, mitigating risks and harnessing their benefits; ensuring compensation for loss of jobs during transitions; ending technological and digital divides across and within countries;

[4] As the UN Secretary-General stresses in his vision on prevention, "the best way to prevent societies from descending into crisis is to ensure they are resilient through investment in inclusive and sustainable development."

- Making the best use of the advantages of global trade opportunities; harnessing the potential benefits of FDI, promoting participation in regional and global value chains; and creating opportunities for MSMEs to participate in the global economy;
- Deepening national capital markets and promoting access to financial services for underserved areas and sectors with potential for sustainable growth;
- Noting that the concrete configuration of the economic transformation process will differ across different country groups (such as middle-income countries (MICs), least developed countries (LDCs), landlocked developing countries (LLDCs), small island developing states (SIDS), and others) and across individual countries;
- Protecting and promoting human rights; paying attention to issues of peace and security, which are a pre-requisite for successful economic transformation; and noting that in conflict and post-conflict countries, the process of economic transformation has to be in sync with the processes of building peace, rehabilitation, and reconstruction.[5]

Having set forth the why and what of the new type of economic transformation required by the 2030 Agenda for sustainable development, the remainder of this companion piece focuses on how UN Country Teams (UNCTs) can support such a transformation. A detailed review of policy options that are widely considered to be in support of economic transformation is provided in the Annex 1 together with an initial set of potentially relevant indicators reported in Annex 2.

IV. Guidelines for UN Country Teams: Steps in the economic transformation analysis

This section puts forward a four-step process for the formulation of a country-specific analysis for an economic transformation that is compatible with the 2030 Agenda, which should be part of the Common Country Analysis (CCA) and inform the Cooperation Framework. The analysis proposed below does not necessarily start anew. Instead it can draw upon the analytical work done in the recent past by UN agencies, IFIs, academia, various quarters of the specific country, and others.[6] It should focus on understanding interlinkages, how to address trade-offs up front and identifying integrated policies that would help achieve sustainable development.

1) **Background analysis:** The process needs to start with a background analysis, aimed at developing an in-depth understanding of the following aspects:

[5] See for details United Nations and World Bank (2018) and UNFPA and PBSO (2018).

[6] The utilization of country comparators should be encouraged. The comparators should have similar (current or past) structural characteristics such as income level, demography, factor endowments, and comparative advantages, in addition to contextual characteristics such as geography and history.

- major factors explaining the country's past growth and poverty reduction trends and underlying inequality – including horizontal – patterns,
- specific macroeconomic and structural vulnerabilities – also based on the country being an LDC, LLDC, SIDS,
- country-level demographic trends,
- gender disparities,
- endowment and distribution of, and trends in, physical, human, social and natural capital,
- overall productivity and employment dynamics in the country,
- key issues of the sectoral structure of production (natural resourced based, manufacturing, services),
- extent of the informal economy and self-subsistence agriculture,
- dynamics and structures of trade (type of products, main trading partners),
- fiscal and monetary framework, including the allocation of government expenditures and sources of revenue as well as debt service,
- strengths and weaknesses of the financial system,
- economic and financial crimes,
- overall regulatory environment and investment attractiveness,
- allocation of property rights and quality of governance systems,
- dynamism of business-support organizations,
- institutional development: for example, degree of political and fiscal decentralization, degree of independence of the monetary authority and objective (s) of monetary policy, autonomy and power of the supervisory apparatus of market competition, mechanisms for transparency of information, development of official statistical institutions,
- major environmental challenges, with likely socioeconomic implications, and
- potential impacts of global and regional megatrends and emerging issues.

The above aspects should also be analysed in terms of their potential impact on women and youth and on relevant vulnerable groups. It should be based on existing sources of analysis from both within and outside the UN system.

2) **Review of country's existing strategies and policies:** The second step may comprise a review of the country's medium- and long-term strategies, and the coherence and consistency of its relevant laws and policies, including international and regional commitments, and institutional capacity to design and implement strategies and relevant policies. Specific attention should be given to the capacities and weaknesses of planning institutions and instruments, as the economic transition perspective requires a high degree of inter-institutional coordination. In some countries an overview of existing multi- and bilateral cooperation activities would be useful in order to assess the cooperation policy's alignment with the SDGs and with economic transition.

This review should help identify policy gaps and the areas needing the most attention, bearing in mind their potential policy complementarities and trade-offs, their cumulative short-term costs vis-à-vis long-term gains, and identifying their likely social, distributional and environmental impacts.

3) **Identification of potentialities and constraints:** The third step comprises identification of potentialities, constraints and opportunities in specific sectors and products in light of the analysis provided in the previous two steps. This may build on diagnostic tools that have already been utilised in the country that aim to provide sound methodologies and more detailed analysis.[7, 8] This step may help identify the country's competitiveness potential and alternative transformation pathways, and identify what kind of sectoral and spatial reallocation of labour and capital may be necessary for a successful economic transformation.

4) **Recommendations on forward-looking strategies and policies:** The final step comprises recommendations of a limited number of key priority areas for economic transformation reforms, programs and formulation of policy options, based on the logical conclusions reached from the three previous steps of the analysis.[9] Importantly, the priority actions should be divided in short-term and medium/long-term ones including clear sequencing whenever possible, and advice on how to avoid or mitigate any potential negative social, distributional or environmental impacts.

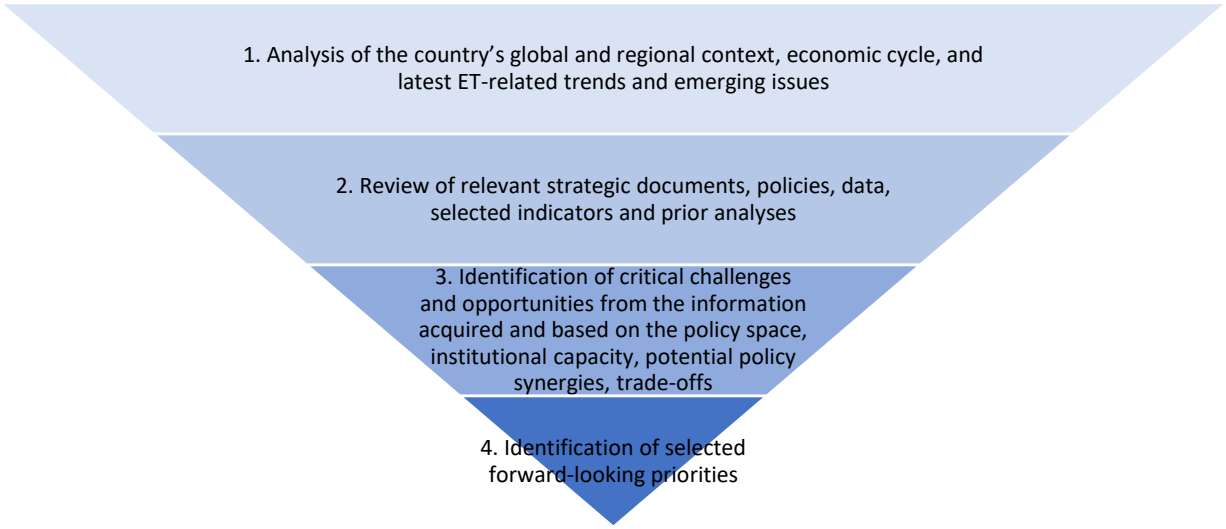
The figure below provides a visual portrayal of this 4-step analysis process.

[7] For example, i) at the macro level, the Growth Diagnostics designed at the Harvard University is a framework that provides a decision tree which starts asking what keeps growth low – i.e. inadequate returns to investment, inadequate private appropriability of the returns, or inadequate access to finance – and then provides policy options to address the main constraints. The UNCTAD Productive Capacities Index is another tool that helps countries to define the productive resources, entrepreneurial capabilities and production linkages. This multidimensional index is composed of 8 components to enable measuring and benchmarking: natural capital, human capital, transport, energy, ICTs, structural transformation, institutions and private sector; ii) at the sector and product level, the following methods have been developed to promote export expansion and structural transformation: a) the growth identification and facilitation framework; b) the economic complexity and product space method; c) the ITC export potential and product diversification indicators; and d) market system and value chain analysis. While doing the analysis, one should rely on both direct and indirect evidence to identify bottlenecks to and potential sources of economic transformation, using macro-data, as well as industry and firm level data, and household surveys. Normally, the right level of granularity of the sectoral analysis by HS, ISIC or SITC standards needs to be taken into account.

[8] The analysis can also greatly benefit from more specific analytical work conducted by the IMF and other development partners. For instance, Article IV reports and the World Bank's sector-specific reports, UNDG MAPS, ECA Country STEPS, ITC national export strategies, etc. contain a wealth of relevant information for the analysis on economic transformation.

[9] While the prioritization process should be as much evidence-based as possible, a crucial element of judgment and expert opinion is unavoidable.

Figure 1. Four-step analysis for economic transformation



It should lead to a candid analysis of the underlying knowledge and evidence – including their limitations –upon which its recommendations should be based. The analysis should also identify areas where in-depth analytical work is lacking or outdated– including data gaps –and point to the work that can be done to address these weaknesses during the ongoing UN programming cycle in order to improve the analysis for the next cycle.

Importantly, noting that economic transformation engenders winners and losers, the preparation of the analysis should include multi-stakeholder consultations with relevant actors including the private sector, civil society, academia, the development community and other interested parties.

Given that economic transformation is a gradual and continuing process, the analysis should track changes over a relatively long period – ideally, over the last 20-30 years – while being forward-looking with a medium- and long-term horizon. The analysis can be updated periodically (every 5 years or so) or whenever a new situation or major findings justify it,[10] including in the context of periodic updating of the CCA, which shifts from a one-off event to a "real-time" core analytical function reflective of the evolving country context.

[10] A new situation could arise from the following: i) a significant and protracted change in commodity prices if the economy is based on natural resources, ii) the discovery of a large and untapped mineral resource, iii) a sudden and drastic change in the FDI and trade patterns, iv) a major deterioration of the country's debt sustainability, v) a successful end of civil unrests or finalization of a peace deal with neighbouring countries, vi) rapid increased vulnerability to disasters, vii) rapid deterioration in living conditions arising from hyperinflation, rapid drop in government spending or other austerity measures; just to mention some among the most common cases.

Some practical considerations:

Entry points:

In addition to the preparation of the CCA and the Cooperation Framework, there are various entry points in a country policy cycle for the Resident Coordinators (RCs) and UNCTs to systematically engage with key economic transformation-related processes and priorities, including:

- The formulation of long-term development visions and preparation of the National Sustainable Development Strategy or the medium-term National Plan. This should be seen as a two-way exchange, since both processes can benefit from identification of the key bottlenecks and engines of long-term transformation;
- The preparation of sectoral and industrial strategies identifying production and trade potential, solutions for sustainable development, and providing implementation management guidance;
- The preparation of the government's Medium-Term Expenditure Framework (MTEF) can be an opportunity to ensure that the country's identified priorities are translated into a consistent and conducive resource allocation;
- The preparation of country-led Integrated National Financing Frameworks, as Member States called for in the Addis Ababa Action Agenda on Financing for Development;
- The World Bank's Systematic Country Diagnostic (SCD), which is usually prepared every 4-6 years, depending on the country context. The World Bank's country strategy is based on the SCD and the Country Partnership Framework (CPF), which roughly correspond to the UN's CCA and Cooperation Framework. The analyses conducted by the UN System and the World Bank can greatly benefit from one another. Similar processes are also followed by other Multilateral Development Banks (MDBs). Depending on the country and the relevance of specific MDBs, the UNCT may seek the opportunity of enhanced partnership and stronger engagement in the relevant MDB processes;
- The IMF's Article IV consultations can also provide important entry points for the UN to strengthen engagement with the IMF in order to contribute to SDG-informed Article IV processes.

In terms of the desirable mix of expertise and composition, the team that will undertake the economic transformation analysis could include staff with strong macroeconomic and microeconomic background (including market regulation and value chain experts, if needed) as well as sectoral expertise. When some of the required skills are not readily available from within the UN, partnering with other non-UN entities or hiring external experts could be an option, when possible. Importantly, the core team will need to be able to connect and incorporate the

inputs received from the rest of the UNCT and UNDS on related critical social and environmental issues.

Some good examples of interventions by UN entities:

This part is intended to be a "living document" that will be complemented by more case studies and examples over time as UNCTs collect additional examples and good practices. In Annex 3, we list resources that will be available to guide UNCTs, including from UN entities that are not present in the country according to the main policy pillars reported in Annex 1.

Good Examples

Partnership for Action on Green Economy (PAGE)

Since its inception at Rio+20 Conference, PAGE has grown into a prominent alliance of five UN agencies (UNEP, ILO, UNDP, UNIDO and UNITAR), eight funding partners and 20 countries that work together for a just, fast and fair transition to an economy that is low carbon, resource efficient, and equitable – that is, an inclusive green economy.

PAGE is increasingly being recognized as an example of Reformed UN that delivers coordinated support to countries, on demand driven basis, to foster economic growth, create income and jobs, reduce poverty and inequality, and strengthen the ecological foundations of their economies.

Currently, 18 countries are receiving support for deeper economic reframing. More than 60 countries are benefiting from capacity building services and over 95 countries have participated in knowledge events of PAGE. Details are available in the 2018 PAGE Annual Report.

Joint employment diagnostics

The ILO and the Asian Development Bank (ADB) have collaborated on joint employment diagnostics, including in Bangladesh, Cambodia, Fiji, Nepal and Sri Lanka. The joint diagnostics are aimed at identifying key labour market trends, opportunities and challenge and make recommendations for national partners. In the case of Fiji for example, the diagnostic has been the basis for the development of the National Employment Policy 2018 (Available at: http://www.employment.gov.fj/images/National%20Employment%20Policy%20Booklet.pdf).

Production transformation policy reviews

This is not only a pillar of support to middle income countries and countries in the process of graduating from ODA, but also a successful example of interagency collaboration between UNCTAD, ECLAC, UNIDO and the OECD Development Centre, which aims at disseminating the most significant lessons learnt to sustain developing countries' efforts to improve their governance and policymaking – especially in light of challenges with respect to social cohesion – in support of structural transformation. Here is a short description of the related work and methodology of the recent production transformation review in Chile: https://unctad.org/en/pages/MeetingDetails.aspx?meetingid=1691

Development of "green" enterprises and entrepreneurship: Selected country examples

In the Philippines, the Green Jobs Act (2016) provides tax exemptions for businesses that incur expenses in connection with investing in green technology and in green skills training for staff. The ILO project Greener Business Asia, which ran from 2009 to 2014, sought to promote resource and energy efficiency, notably in the tourism industry. This project demonstrated how it is possible to reduce costs and increase profits in hotels through staff involvement and training, and by investing in green technology and green business practices. In Kenya, Uganda and the United Republic of Tanzania, the ILO's "Start and Improve Your Green Construction Business" training programme led to green business start-ups becoming the most popular career option and created more than 20,000 youth entrepreneurship opportunities between 2010 and 2015. In Zambia, an ILO-led One United Nations country programme covering the period 2012–2018 promoted MSMEs and value chain development as part of the expansion of the green construction sector. The programme succeeded in creating more than 5,000 jobs by upgrading skills, providing access to finance and encouraging MSMEs to adopt modern, local and green technology (e.g. compressed earth blocks, solar water heaters, photovoltaic panels, water harvesting tanks and improved green cooking solutions).

The "Better Work" programme: Improving working conditions in the global garment industry

The global garment industry often serves as an entry point to industrialization for developing countries and offers opportunities for wage employment, especially for young workers, women and migrants. It is also a sector characterized by difficulties in ensuring labour standard compliance, with developing countries engaging in a "race to the bottom" by virtue of their low labour costs. The "Better Work" programme – a partnership between the **ILO** and the **International Finance Corporation** – seeks to improve working conditions in the garment industry while promoting competitiveness at the same time. For compliance with labour standards does not come at the expense of competitiveness – on the contrary, such compliance, ensured through a mix of factory- and national-level interventions, can be an engine for business success. The "Better Work" programme has led to improved compliance with core international labour standards and national legislation in Bangladesh, Cambodia, Haiti, Indonesia, Jordan, Nicaragua and Viet Nam. Compliance, however, is not an end in itself: workers report higher levels of life satisfaction and well-being if they work in factories complying with regulations that limit working time and prohibit child labour, discrimination and forced labour. The well-being of workers is higher in factories with an adequate working environment, i.e. where workers feel safe from accidents, indoor air quality is good and temperatures are comfortable. Dialogue mechanisms such as bipartite committees, based on fair elections and gender representation, can help make workplaces better in many respects.

By improving compliance with labour standards, companies operating textile factories in Viet Nam and Cambodia have managed to increase labour productivity (measured in terms of efficiency rates and the speed with which workers reach their daily production targets), profitability and competitiveness. Survey data from Viet Nam, Jordan, Cambodia and Indonesia show that the greater expenses caused by ensuring compliance were offset by higher revenue. This increase in revenue was the result of higher worker productivity and, more importantly, of better positioning in the textile supply chain in terms of the volume of orders received.

Sources:
ILO/IFC, September 2019. The Business Benefits of Better Factories Cambodia, Thematic brief.
https://betterwork.org/blog/portfolio/impact-assessment/

Alliances for Action – Partnerships for transformation in agriculture
The Alliances for Action initiative, led by ITC, in partnership with IFAD, FAO and diverse stakeholders, brings together private and public actors to empower smallholder farmers, processors and manufacturers in Africa, the Caribbean and the Pacific for economic transformation in agriculture. With recent successes in the regional coconut industry in the Caribbean and the cocoa industry in West Africa, and new initiatives under development for the Pacific, Alliances for Action enables smallholder farmers and MSMEs to be more competitive internationally, diversify their income-risk and address challenges associated with climate change. These partnerships are commercially driven and prioritise systems-based solutions incorporating diverse actors.
$40 million of investment commitments were made in 2018 for the Caribbean regional coconut industry through the Alliances for Action initiative. These investments target new processing facilities for value addition, financing mechanisms for smallholder farmers.
http://www.intracen.org/sectors/Inclusive-agribusiness-value-chains/

Youth Empowerment Programme – supporting economic transformation through youth entrepreneurship, skills development and employment
Through the Youth Empowerment Project (YEP) in the Gambia, and INTEGRA in Guinea, ITC works with partners including IOM, ILO and UNCDF, to address the root causes of irregular migration and displaced persons by generating jobs, employability and entrepreneurship.
These initiatives focus on long-term sustainable solutions as they are market-led (by linking to international, regional and local value chains) and respond to the aspirations of young people. The initiatives provide technical, vocational and business skills training to youth interested in key sectors for economic transformation; build the capacities of MSMEs in strategic sectors to comply with the quality standards of international markets; enable local value addition in agribusiness, business services and tourism sectors and connect entrepreneurs to local, regional and international markets.
In Gambia alone, this initiative contributed to creating and improving 4,000 jobs and upskilling 4,600 youth in 2018 through entrepreneurship support and access to finance.

Facilitating economic transformation through South-South trade, investment and technology transfer – South-South Trade and Investment Initiative, ITC

Economic transformation at scale requires investment, know-how and access to markets. ITC's research has shown that South-South trade opportunities enable firms to move up the value chain faster and allow greater knowledge transfer. ITC's South-South Trade and Investment Programme, with initiatives such as Supporting Indian Trade and Investment for Africa (SITA) and the Partnership for Investment and Growth in Africa (PIGA) uses trade and investment as vehicle for value addition and sustained economic growth and development.

Through these initiatives, ITC connects African micro, small and medium-sized enterprises (MSMEs) to Indian and Chinese trade, investment and knowledge opportunities; strengthens local and regional institutions for as a support ecosystem for African companies; and provides policy advice to governments for an enabling business environment that support sustainable development.

So far, SITA has supported more than 800 enterprises to find new business opportunities and created an increase of more than $43 million USD in trade value.

http://www.intracen.org/sita/; http://www.intracen.org/piga/

UNDP Aid for Trade in Central Asia

*T*he Aid for Trade project supports trade and productive capacities that prioritise employment and sustainable development in Kyrgyzstan, Tajikistan and Uzbekistan. At the macro level. the project focused on developing visions for trade policy, on the meso level the project supported business and trade support institutions to develop better services to serve their clients, and on the micro level the project directly supported entrepreneurs to expand their businesses and to create employment. Underlying to these three levels of interventions are two cross-cutting issues, that of environmental sustainability and that of equality. Since the start of its activities in 2014, the project was able to support the creation of over 4 000 new jobs. The project also supported USD 560 million in exports - the majority of which stem from the Uzbekistan output at over USD 300 million. In Kyrgyzstan, the project supported USD 58 million in export finance.

https://www.eurasia.undp.org/content/rbec/en/home/sustainable-development/Inclusive-and-sustainable-growth/Aid-for-trade.html

ECA's Support to Economic Transformation in Cameroon and Chad

Like many African countries, Cameroon and Chad are resource-dependent, mainly on oil, making both countries vulnerable to external shocks. Since 2014, they have experienced a severe economic downturn, such that in 2017, they had to adhere to an IMF's growth and fiscal consolidation programme. To address the structural nature of their vulnerabilities, they have prioritized economic diversification and sought ECA's support to break the dependency on oil, strengthen economic resilience by allowing other sectors to emerge, foster a broad-based and more inclusive economic growth, and contribute to decent jobs creation outside the oil sector.

In response to these requests, ECA has developed a number of knowledge products and conducted high-level policy dialogues with State and non-State actors, on the current status, recent progress, opportunities and challenges in the areas of economic diversification and structural transformation. The body of work and practice developed by ECA in Chad and Cameroun will facilitate peer learning to countries facing similar constraints problems, especially on how to pursue long-term structural changes, build bottom-up processes for policy making thorough evidence-based analysis and explore context specific options in a difficult political economy and macro-economic environment characterized by fiscal consolidation.

Annex 1: How to Bring about the New Type of Economic Transformation? Some Policy Options

Bearing in mind the definition proposed in this companion piece, policies in multiple areas are needed in order to advance economic transformation. A useful way of classifying these policy areas is to distinguish between cross-sectoral policies and sectoral policies. The former policies are directed to the economy as a whole and are generally regarded to be "horizontal" and "sector-neutral", while the latter are directed to particular sectors.

Successful economic transformation is the result of ever-changing **interactions among a broader set of critical factors** such as the state, institutions, markets, environment and people where productivity growth, decent jobs, inclusive growth and environmental protection are all equally important goals in the process. While these are all critical elements for ET, these interactions change based on the country context and the stage in which a country is in. Moreover, policy options have increasingly been affected by the challenging global trends, with technology reshaping comparative advantages and trade policy uncertainty rising. With the increasing pace of technological change, the types of tasks that can be newly generated or substituted by machines and software beg fundamental questions that the economic transformation analysis should try to address.

The following sections list some critical policy areas that can have broad impacts on the 2030 Agenda and the economic transformation path of a given country. It also reports some potential policy options which are not meant to be prescriptive but rather to help UNCTs ask the right set of policy questions that might help them frame their country analysis and programming. The sections adopt "cross-sectoral" vs. "sectoral" as the main line of distinction. They first consider the cross-sectoral policies and discuss sectoral policies next.

1. Cross-sectoral policies as enablers of economic transformation

Below is a list of cross-sectoral policy areas that appear to be important in light of the experience of many successful developing countries[11].

- **Macroeconomic stability:** It generally refers to inflation control, current account and budget balance, and management of the underlying real exchange rate. Given the ongoing global trends and the constraints it generates on economic transformation, debt sustainability has also become an important part of this policy area;
- **Fiscal policy:** On the revenue side, the tax system should be in line with the system of incentives and disincentives that policymakers aim to put in place between and within key economic sectors and agents, and with other policies that aim to trigger economic

[11] These considerations do not take into account the time needed to implement comprehensive structural reforms that normally take many years.

transformation, bearing in mind that indirect taxation tends to be regressive while direct income taxation can be more progressive. This is often achieved through revenue base broadening, taxing privileged – so-called rentier – positions, while minimizing negative market distortions. On the expenditure side, public procurement can be an important policy area while government spending decisions can reduce inequality if additional resources are channeled into highly progressive spending categories such as rural infrastructures or well-targeted cash transfers. Fiscal policy may also seek to improve the efficiency of public spending and to create room for growth-enhancing spending. Countercyclical fiscal policies could also smooth economic cycles aiming to minimize the costs associated with economic volatility. Fiscal policies can also be used to exploit the synergy between economic, social, and environmental dimensions of sustainable development. For example, policies directed at reducing subsidies on fossil fuels can help both to reduce government deficit and to promote renewable energy use. Moreover, to the extent that the upper income groups generally benefit more from fossil fuel subsidies, their reduction and channelling the money toward programs that can produce socially more equitable outcomes would be important;

- **Education:** Proper education policies are a pre-condition for developing a country's human capital, which is crucial for its economic transformation, particularly in the context of the rapidly developing technology. Education policies should normally aim to support universal quality early childhood and primary education at early stages of development, and then focus more on secondary, TVET and tertiary education to meet the shifting demands for skills. Life-long learning also needs to be promoted in light of 4IR[12];
- **Health:** this policy area should aim at universal coverage and maintaining a minimum standard of healthcare services (including preventive healthcare). Policies should also aim at ensuring food and nutrition security. Appreciation and use of the reverse link from environment to healthcare is important, as pollution is often a major cause of poor health condition of the masses in many countries;
- **Decent work:** decent jobs are the vital link between economic growth and social welfare. Policies trying to ensure that this link works properly would adopt measures that aim at eliminating distortions of the factor market while helping the transition towards formal, full and productive employment. Policies are also needed to monitor and enforce proper labour laws and regulations to protect workers' rights, working conditions, health and safety of workers, maximum hours and minimum wage. Special attention needs to be given to ensure gender equality and employment of the youth. Appropriate unemployment benefits may work both as a counter-cyclical measure and as a way to protect workers' skills. According to the empirical literature, labour market deregulation may deploy a negative effect particularly in period of economic slack – i.e. they can be

[12] Primary and secondary education matter more for a country's ability to imitate technology, while tertiary education has a larger impact on a country's capability of innovating and catching up to the global technology frontier.

procyclical – if not accompanied with fiscal stimulus packages, including reduction of labour tax wedges and additional spending on active labour market policies. Moreover, decentralized bargaining may contribute to higher inequality in certain contexts;

- **Social protection:** Social protection should be a core component of economic transformation, allowing workers to adapt to changing economic and employment conditions, brought, in part, by rapid technological changes or trade openness. In sum, this area is a critical shock absorber, which can also help the society to adjust to the transition entailed under a people-centred economic transformation. Particular attention would need to be given to the needs of the children, older persons, persons with disabilities, and other vulnerable sections of the population. Other policy measures may include conditional or unconditional cash transfers, social pensions for the poor, improving access to family planning services, social housing, and increasing investments in urban services or in marginalized areas. It is critical that social protection schemes are well targeted to the intended beneficiaries so as to maximize impact and efficiency;
- **Financial sector development:** Poor access to and high cost of capital have disproportionally penalized (informal) MSMEs, as compared to large and state-owned enterprises. This poor financial intermediation is often the result of the small size of the banking sector, poor financial governance, and inadequate financial infrastructure, such as absence of unified, up-to-date and accessible credit registries. Specific policies would be highly context-dependent and may include: i) interest rate gradual liberalization, ii) selective use of credit guarantees (often in support of SMEs), iii) gradual loosening of credit controls and subsidized lending, (iv) untightening of restrictions on bank competition, such as barriers to entering for foreign banks, (v) privatization of state-owned banks, (vi) development of micro credit and digital finance, and (vii) better banking supervision and regulation, including power and independence of bank supervisors. Moreover, robust Anti Money Laundering / Counter Financing of Terrorism and corruption prevention frameworks can help safeguard domestic resources, strengthen the financial sector and improve formal financial intermediation and financial inclusion. However, the empirical literature has shown that financial and capital account liberalization in developing countries often increase growth but also inequality, particularly in countries characterized by limited financial inclusion;
- **Infrastructure investment:** Network infrastructures such as electricity, transportation, and water supply are critical for economic transformation. Transit routes are vital for LLDCs whose limited access to international trade routes constrains economic growth. In LLDCs, businesses face higher obstacles to trade in terms of unit costs and time to import and export. In addition to traditional infrastructure, particular attention needs to be given to information and communications technology (ICT) related infrastructure. Without the latter, a country may find it difficult to achieve the desired economic transformation. Investment in urban infrastructures is also key, particularly in rapidly expanding cities and

slums. Investment in network infrastructures tend to increase growth but also inequality, if not well designed and implemented. Moreover, the positive growth effect of a surge in public investment can be constrained by limited absorptive capacity and by limited fiscal space. This policy area seems to be particularly susceptible to the broader institutional quality with impact of investment on growth muted in poor institutional contexts;

- **Trade openness and regional integration:** Trade openness is key to accessing GVCs while regional integration can give rise to regional value chains. Trade facilitation – including lowering non-tariff barriers and standardizing procedures, certification and sanitary and phytosanitary (SPS) standards – is critical too if governments want to tap into the full potential of VCs. Moreover, trade openness and integration in GVCs can also be accelerators of FDI and technological transfer. Trade and FDI linkages with countries closer to the technological frontier can facilitate sustained technological transfer in the long-term, if countries develop sufficient production capabilities. Regional integration is also a potentially powerful engine of welfare-enhancing growth. The development of transborder physical and digital infrastructure, the harmonization of norms, the mutual recognition of educational systems, and of social security contributions are some examples of policies with a potentially positive impact on economic transformation. However, while dominant trade theories suggest that trade liberalization would both contribute to growth and lower inequality in "labour-surplus" countries, the empirical literature has shown that current account liberalization and removal of other non-tariff barriers in developing countries may increase growth – provided that the country may stand international competition – but also inequality, at least in the short-term;
- **Business environment:** A crucial role in bringing about the desired economic transformation belongs to the private sector. An economic transformation-conducive business environment aims at removal of entry barriers while promoting long-term investment, competitiveness and de-risking. Removing monopolies and monopsonies gradually and creating a level-playing field can lower entry barriers, increase competition, lower price mark-ups and reduce rents of few protected firms at the expense of the many, while allowing cheaper and better products, thereby also benefiting consumers. Indeed, this type of reforms can be one of the most powerful triggers for regional integration and economic transformation, particularly in the service sector that in many countries tends to be unnecessarily over-regulated. According to the empirical literature, these reforms exert a positive effect even in periods of economic slack;

- **Protection of the natural environment and promotion of circular economy[13]:** In the past, industrial development has taken place at a high environmental cost. Criminal The shift towards environmental degradation has led to abusing legitimate financial systems and decreasing opportunities for legitimate economic development and job creation. Going forward, following the integrated nature of the 2030 Agenda, it will be important to pay attention to the ways in which pro-environment policies can be helpful for the economic progress. Setting and enforcing adequate environmental standards, sustainable management of natural resources, promotion of circular economy should be at the heart of economic transformation.[14] In particular, addressing energy and water pricing to reflect their environmental externalities and improving resilience to climate-related adverse effects are key for ensuring an environmentally sustainable economic transformation. Moreover, transition to renewable energy system, cleaning up of polluted production sites, conservation of natural resources can be some important ways of expanding productive employment and investment opportunities;
- **Technology, research and innovation:** Many developing countries still lag behind in the use of digital technologies that are reshaping international competitiveness and the productive landscape. Policies that foster the integration of innovation and new low-carbon technologies in production processes are key for sustainable development. The diffusion of new technologies and its integration in the production processes is also expected to have positive effect on aggregate productivity growth and on economic transformation. Other relevant policies include public spending in R&D, modernization of STEM university curricula, and facilitating FDI investment in technology-intensive sectors. These policies should be designed and implemented while acknowledging that the main growth driver for developing countries that are farther away from the technological frontier is adoption, adaptation, and improvement of existing technologies, and in the process building capacity to devise new technologies of their own. The closer a country gets to the global technological frontier, the more the importance of devoting more resources to cutting edge, sophisticated technologies will increase;
- **Governance and institutional quality:** The quality and independence of the state's administration and regulators is perhaps the key enabler. Policies in this regard should be

[13] The circular economy replaces the end-of-life concept with restoration, shifts towards the use of renewable energy, eliminates the use of toxic chemicals, which impair reuse and return to the biosphere, and aims for the elimination of waste through the superior design of materials, products, systems and business models.
The shift towards the circular economy promises new income streams, jobs and an efficient way to combat climate change through resource efficiency and valorization of waste.

[14] According to the New Climate Economy Report 2018, bold climate action could trigger US$26 trillion in economic benefits by 2030, create over 65 million new jobs and avoid 700,000 premature deaths from air pollution. According to the Global Commission on Adaptation Report (2019), investing US$1.8 trillion from 2020 to 2030 in strengthening early warning systems, making new infrastructure resilient, improving agriculture and crop production, protecting mangroves and making water sources management more resilient, could generate US$7.1 trillion in total net benefits by 2030.

directed to ensuring an efficient and non-discriminatory rule of law, anti-corruption system, regulatory certainty, and high quality and coordination capacity of policymaking institutions that are able to resist rentier systems and state capture. Better land management is an important issue for many countries. A transparent, digitalized and efficient land registry system can help minimize difficulties with using land ownership as collaterals for borrowing, increase propensity for long-term investment, and reduce transaction costs when renting or selling land thereby promoting its more efficient allocation. This is a critical policy area that has the enormous potential to amplify or mute the impact of economic transformation policy reforms in other areas. In addition, unlike many other areas of reforms, this is an area where there seems to be no growth-equality trade-off and the positive impact can become apparent already in the short term. However, they can be politically more challenging compared to other types of reforms;

- **Human rights:** The promotion and protection of human rights, including economic and social rights, should be a critical part of economic transformation. The integration of the human rights approach into economic analysis, policies and planning can help to reduce inequalities and facilitate more equitable economic development through promoting equality and non-discrimination and avoiding the discriminatory allocation of resources against marginalized groups. Governments also have legal obligations on economic, social and cultural rights and the duty to ensure progressive realisation through maximizing the available resources to invest in rights such as education, health and decent work, which also means avoiding retrogression of these rights. It is therefore important to take account of the legal framework governing public policy making, including information on the ratification of human rights treaties relevant to economic and social rights and reflected in domestic constitutions, laws and regulations.

2. Sectoral policies

Sectoral policies have generally been deployed to promote specific economic sectors or subsectors that were believed to have greater export, job, and knowledge creation potential. Often these would be new to the economy and promote innovative activities with strong linkages to the rest of the economy. These policies have tried to look beyond static comparative advantages to discover and realize country-specific latent and dynamic comparative advantages [15] associated with a country's natural resource, geographic and demographic endowments. While sectoral policies have taken many forms and pursued a broad range of goals,

[15] These are the comparative advantages that an economy has in certain products but fails to realize them due to obstacles such as high transaction costs arising from poor logistics, infrastructure, institutions, or market failures. To identify latent comparative advantage, Lin and Monga (2010) propose to look at the goods produced for 20 years in growing economies with similar endowments and a per capita income that is twice than that of the economy that is being analysed. Among these goods, one may give priority to those with existing domestic production. Government should support structural transformation by identifying and removing the constraints limiting competitiveness in these industries. If there are no firms producing these goods in the economy, a range of complementary interventions could help trigger the process.

they often have focused on selected fiscal, trade-related, and direct state interventions to protect nascent industries or to produce specific goods and services.

Moreover, experience shows that countries that have been successful in economic development implemented both horizontal and sectoral policies, and when they have not produced desired results it was largely due to limited state capacity, state capture, rent seeking behaviours, and information asymmetries. In adopting and implementing sectoral policies it is therefore necessary to be particularly aware of these risks and base the policies on careful analysis of the concrete situation of a country at a specific point in time. More recently, given the increasing interlinkages between sectors under the influence of value chains and the fourth industrial revolution, the approach has also been moving towards the creation of inter-sectoral policy measures.

The following provides a brief review of the type of sectoral policies that could be considered in advancing economic transformation.

Primary sector: Contrary to the initial notions of the structural change, agriculture itself can be industrialized and raised to higher technological and productivity levels, as it is the case in many developed countries. Making use of the world market, many developing countries have indeed followed this route and graduated to a high productivity agriculture, with high levels of export, making agriculture a dynamic sector of the economy. Thus, agricultural policies[16] in developing countries can play a critical role in economic transformation and serve many purposes at the same time: they can unleash untapped productivity potential, improve food security, reduce the pressure on cities arising from urban migration, sustain the balance of payments, and trigger industrialization. In addition, most of the acceleration in economic growth in many resource-rich countries has been based on high prices of primary commodities, with relatively little upgrading within the commodity sectors themselves. As such, the recent fall in commodity prices, likely to last into the medium term, is dimming the prospect of growth of many commodity-based economies in the short- to medium-term if their commodity sectors are not reformed so as to be conducive to economic transformation. In sum, the primary sector is critical to both initiate economic transformation and help manage it throughout the process. However, the effect of reforms on inequality depends importantly on their impact on workers, ability to link to and upgrade functions in the VC, and their ability to move across economic sectors. This, in turn, would critically depend on the complementary policies already mentioned, including the adoption of environmentally sustainable production practices[17].

[16] Some of the most common policies include: i) distribution of improved seed varieties, ii) reforming inefficient subsidies and price controls, iii) provision of extension services, iv) agriculture financing, v) rural infrastructure investments.

[17] For example, investment in electrification and irrigation can boost agricultural productivity with beneficial effects on both growth and inequality. Moreover, if administrative capacity and fiscal considerations are not a constraint, governments could consider targeted cash transfers to the rural poor to help mitigate the potential negative distributional impact of reforms during the reform transition.

Secondary sector: while there is no unique blueprint to follow, there is a broad consensus that its potential economies of scale, higher income elasticity of its demand, and high backward and forward linkages still offer opportunities for the sector to play a critical role in economic transformation. Many low-income developing countries adopted policies to specialize in a limited number of labour-intensive product lines based on their revealed comparative advantages. These policies were then followed by policies aimed at building comparative advantage in new and technologically more sophisticated production lines. Over time, the economy would move toward increasing complexity of the product space while gradually moving from government-centred policies to a more articulated dialogue with the private sector bearing also in mind the social and environmental implications.[18] Finally, the evidence from empirical studies of reforms of utilities in developing countries suggests that their gains in the utilities sector – electricity and water – have tended to be limited. One of the main factors explaining this variation seems to be regulatory quality.

Tertiary sector: In most developing countries, the services sector is the most heterogenous one, with some parts employing modern technologies and enjoying high labour productivity while many other parts comprising low productivity activities. Thus, increase in the share of services sector in the economy does not always represent the culmination of the process that initial notions of structural change envisaged. In tandem with the co-existence of low and high productivity parts, the services sector is also generally characterized by the co-existence of formal and informal parts. In fact, a large part of the "precarious" employment is located in the services sector. Thus, transformation of the service sector through raising the productivity of all its parts, improving the labour conditions in its informal parts, and promoting the tradable sectors are important for economic transformation. Moreover, increased links between service and manufacturing activities (noted above) – the so-called tertiarization of manufacturing – is prompting governments of many countries to formulate policies directed at the intersection of these two sectors, so as to cross-fertilize their impact. To conclude, the evidence from empirical studies of privatization in developing countries suggests that the performance of banks improved significantly after privatization in many cases. However, concerning the telecommunications sector, the impact of privatization on efficiency and coverage varies by region. This appears to confirm that such reforms are context- as well as sector-specific.

3. Complexity of these policy reforms

In considering policy options for economic transformation, it will be important to bear in mind that, in many contexts, the relationships between politicians, regulators, bureaucrats, interest groups, and other stakeholders is often grounded on an equilibrium that aims to preserve the status quo and could be impermeable to fundamental socioeconomic changes. Moreover,

[18] It is important to note that even success in industrializing and achieving high productivity in agriculture and services sectors (see below) require a minimum level of manufacturing capability.

policies often generate short-term **trade-offs** and long-term **non-linear effects** on economic efficiency and growth, the environment, and social and economic human rights. In addition, their impact and associated transition costs [19] are shaped by many other country-specific characteristics such as firm-size (with smaller firms tending to have lower labour productivity); export orientation (with exporting firms being on average more productive than non-exporting ones); labour intensive sectors; importance of informal parts in the economy (with informal firms tending to have lower productivity and also to erode tax base as well as government's effectiveness and economy-wide impact of policy reforms[20]); and types of market distortions (distorted markets tend to mute benefits or concentrate them in just a few firms). In reality, the transition costs and mitigation strategies are often haphazard or even neglected in the haste of policy reforms. On the contrary, the approach to economic transformation reported in this companion piece puts emphasis on context-specific sequencing, policy coherence and gradualism. This is why a system-wide approach to a country's economic transformation and its underlying policy options needs to be central in the UN work as reflected in the UN Cooperation Framework.

Indeed, the impact of policies can vary in the **short-term as compared to that in the long-term**, often displaying a J curve in terms of economic growth, employment, and other key indicators.

The supply side gains from reforms largely accrue over the medium- to long-term as they can involve initial adjustment costs arising from the slow reallocation of labour and capital and firm restructuring that will inevitably ensue.

Multiple transmission channels, **interactions, second-round effects,** and **the pace of reforms** matter a lot, in addition to sequencing and **time-lag between reform implementation and their payoffs**. Other **political economy** constraints are also important in determining which policies can be adopted and when. Often, reforms may be more acceptable to the public at the beginning of the mandate of a new government. Favourable outcomes of initial reforms, that materialize soon, may help to build momentum and garner public support for successive and more wide-ranging reforms. Ultimately, the success will depend crucially on the credibility of the government and its commitment to a well-designed and coherent package of reforms and its implementation[21].

[19] There are various types of transition costs: i) costs borne by those benefitting from the current status quo, ii) costs for adapting to the transition – including coordination and learning costs, iii) costs deriving from the reallocation of human and financial resources, and finally iv) costs reflecting deeply embedded practices or cultural patterns. Based on the extent and distribution of these costs, change can be resisted to a different extent and in different ways.

[20] This, in turn, tends to increase tax rates in order to achieve government revenue targets resulting in greater efficiency losses. But this, in turn, motivates the shifting towards using indirect taxes, which can be more regressive in developing countries thereby increasing inequality. To close this vicious circle, informality is promoted through taxation as it is less exposed to it and can mute its regressivity.

[21] On the capacity of implementation, some scholars suggest that the location of competence should be prioritized over the choice of policy instruments, as it is better to use a second-best industrial policy instrument in an efficient setting than a first-best instrument ineffectively. For For example, according to Rodrik, if a development bank is more competent than a tax office, then subsidized credits should be preferred over tax incentives.

Finally, the new economic transformation proposed in this document, with its complex web of interactions, would require a conducive system of **global governance** that would be proactive in moderating technology and digital divide across countries, promoting tax cooperation, free and fair trade, a sustainable integration into GVCs for lagging countries, and limiting the impact of climate change particularly on the most vulnerable. A lot remains to be done to this effect.

Annex 2: Selected Indicators

The analysis proposed above will require adequate indicators based on reliable data. Data should originate from both national and international sources. The following provides a preliminary list of possible data requirements and sources of data. It builds on a similar table prepared earlier by the ECA (2017) and shows potential sources of data clustered in terms of some of the main analytical categories.

Indicators	Source
EMPLOYMENT	
Employment by sector (%), sex-disaggregated	LFS, HS, PC, ILO, UNIDO
Labour productivity by sector (LCU and % growth)	Computed
Labour productivity per worker, by sector	ILO, WB
Contribution of labour shifts to productivity growth (%)	Computed
Employment (%), sex-disaggregated	LFS, HS, PC, ILO, UNIDO
Employment by economic sector (%), sex-disaggregated	ILO
Youth unemployment rate (%), sex-disaggregated	LFS, HS, PC, ILO
Unemployment rate (%), sex-disaggregated	ILO
Ratio of female to male labour force participation rate	LFS, HS, PC, ILO
Vulnerable workers (%), sex-disaggregated	ILO
EDUCATION & SKILLS	
Youth literacy rate (%), sex-disaggregated	NSO, UNESCO
Enrolment in secondary education (%), sex-disaggregated	NSO, UNESCO
Mean years of schooling, sex-disaggregated	NSO, UNESCO
Human Capital Index	WB
Global Knowledge Index	UNDP
OTHER SOCIAL INDICATORS	
Total fertility rate	DHS, UNDESA
Child dependency ratio	PC, UNDESA
Urban dwellers living in slums (%)	NSO, UN-Habitat
Children stunted, sex-disaggregated	DHS, WHO
Premature mortality due to noncommunicable diseases (%)	DHS, WHO
Healthy life expectancy at birth, sex-disaggregated	DHS, WHO
Poverty headcount ratio (national poverty line), sex-disaggregated	HS, WB
Gini coefficient	HS, WB
Palma ratio	HS, WB
NEETs (youth who are not in employment, education or training) (%), sex-disaggregated	ILO
Social expenditure (% of GDP / % total public expenditure)	RECs
People without social protection (%)	ILO
Multidimensional Poverty Index (MPI)	UNDP
Human Development Index (HDI)	UNDP
PRODUCTION	
Gross value added by sector (% GVA)	NA, UNdata, UNIDO
Fixed capital formation (% GDP)	NA, UNdata, UNIDO
Product space	OEC, AEC
Medium- and high-tech manufacturing value added (% MVA)	UNIDO
Total Factor Productivity	Computed, IMF
Size of the informal economy (%)	Computed

MACROECONOMIC INDICATORS	
Fiscal revenues, expenditure, interest payments, public debt, sources of financing of fiscal deficit	RECs, IMF
Inflation rate	RECs, IMF
Exchange rate	RECs, IMF
TRADE and REGIONAL INTEGRATION	
Herfindahl-Hirschman Index of export concentration	Computed
Tariff preference margin	ITC
Applied tariff, trade-weighted average	ITC
Merchandise exports by product (%)	NSO, UNCTAD
Foreign value added (% exports)	WB
Merchandise trade in intermediate goods (%)	UNComtrade, WB
FDI by sector (% FDI)	UNCTAD
Country's regional trade (% of total)	RECs
ENVIRONMENT	
Carbon dioxide emissions (per unit of value added)	UNEP, WB, UNIDO
Energy intensity (per unit of value added)	UNEP, WB
% of renewable energy out of total energy produced	UNEP, WB
Environmental footprint	UNEP, WB
Fuel subsidies (% of GDP)	UNEP, WB
INNOVATION	
Expenditure in R&D - public and private (% of GDP)	WB, UNESCO
Number of patents produced (in terms of GDP or population)	WB, UNESCO
Number of research (% of population)	WB, UNESCO
Science, Technology, Engineering and Mathematics (STEM) graduates (% of total graduates)	WB, UNESCO
Population covered by mobile-cellular and by mobile broadband networks	ITU
Population with regular access to the internet	ITU
Access to broadband connection	ITU
GOVERNANCE & BUSINESS ENVIRONMENT	
WGI	WB
Ease of Doing Business	WB
Competitiveness Index	WEF

Notes: AEC: Atlas of Economic Complexity, DHS: Demographic and Health Surveys, HS: Other Household Survey, ITC: International Trade Centre, ITU: International Telecommunication Union, LFS: Labour Force Survey, NA: National Accounts, NSO: National Statistics Office, OEC: Observatory of Economic Complexity, PC: Population Census, RECs: Regional Economic Commissions, WB: World Bank, WEF: World Economic Forum.

Annex 3: Additional Resources

Below is a tentative list of relevant resources divided by the two main policy pillars reported in this companion piece, which report hyperlinks to the original website.

- **Cross-sectoral policies:**
  - UNCTAD Toolbox: Delivering Results[22]
  - Regional Commissions' Reports on Regional Progress and Challenges in Relation to the 2030 Agenda for Sustainable Development
  - ECA publication on Macroeconomic Frameworks for Structural Transformation
  - ILO technical guidelines for decent work country diagnostics
  - Guide for the design of national employment policies
  - ECE studies on Regulatory and Procedural Barriers to trade
  - ECA annual publication on Regional Integration in Africa
  - ECE Environmental performance Reviews
  - Tools and Services to advance a transition to Green Economy by the UN Partnership for Action on Green Economy
  - ECE Innovation for Sustainable Development Reviews
  - ECA publications on Governance in Africa
  - MAPS
  - Production transformation policy review
  - ITC Export Potential and Strategies
  - UN System Framework for Action on inequalities/LNOB
  - UN OHCHR Human Rights Indicators
  - UNCAC Implementation Review Mechanism.

Non-UN resources:

  - IMF Article IV and other relevant country publications
  - Growth diagnostics
  - Atlas of Economic Complexity
  - World Bank systematic country diagnostics and analyses
  - Growth Identification and Facilitation Framework.

[22] The Toolbox contains products under the following groups: 1. Transforming economies, fostering sustainable development (10 products: Investment policy review, Services Policy Review, Trade policy, STI policy review, e-commerce and digital economy, Investment guide, Non-tariff measures, Trade negotiations, Sustainable trade and the environment, Investment promotion and Facilitation; 2. Fostering economic efficiency and governance (9 products: Competition and consumer protection policies and frameworks, Voluntary peer reviews of competition, Business facilitation, Trade facilitation, ASYCUDA- Automated system for custom data, Statistics, Corporate accounting and reporting, Investment and public health, International investment agreements; 3. Tackling vulnerabilities and building resilience (6 products: Support to graduation of LDCs; Debt management and financial analysis system, UNCTAD contribution to Enhanced Integrated Framework, Market access: rules of origin and geographical indicators for LDCs, Breaking the chains of commodity dependence, Sustainable and resilient transport; 4. Empowering people (3 products: Trade, gender and development, Entrepreneurship development, Train for Trade).

- **Sectoral Policies:**
    - ECA publication on industrial policy in Africa (also training course)
    - ITC Sector Strategies
    - UNCTAD Toolbox: Delivering Results.

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