

## **Enhancing Productive Capacities and the Role of the Private Sector in the LDCs**

***ILO, 11 May 2011***

*Developing and developed countries are under pressure to recover from a succession of global crises that have left deep scars on jobs and incomes. As they struggle to sustain recovery, policy-makers are revisiting conventional approaches to economic and social policy, searching for innovative and pragmatic solutions.*

### **Overview:**

- [Introduction](#)
- [Relationship between growth and employment](#)
- [Macroeconomic policies](#)
- [Trade](#)
- [Agriculture](#)
- [Labour market institutions and informality](#)
- [Public investment and public employment](#)
- [Promoting catching-up growth in the LDCs](#)
- [Social protection](#)
- [Social dialogue and developmental governance](#)
- [Implementing international labour standards by the LDCs](#)
- [Further resources](#)

### **Introduction**

In a recent report ([ILO, 2011](#)), which addresses a number of key issues in growth and employment across the three main LDC regions, Africa, Asia and the Island countries, the ILO highlights the challenges and opportunities for structural transformation, job creation and poverty eradication, and offers a portfolio of policy options which can be tailored to individual country needs and circumstances.

Growth in LDCs in the last decade has been high, but volatile because it has been based on the export of primary commodities rather than a diversified production structure. Lack of diversification hinders the development of manufacturing, perpetuates low-productivity agriculture, and causes cereal deficits. Low investment rates perpetuates reliance on inflows and overseas development aid. And although macro fundamentals have improved, massive deficits in public infrastructure, education and skills have constrained a more sustainable and balanced growth strategy.

As a result of unbalanced growth and an uncertain policy environment, the increase in productive employment has been a weak, especially for young people. High levels of

working poverty persist, as do vulnerable employment, informality and low productivity.

The LDCs face ten major issues. Below are suggestions on how to address them.

## **The relationship between growth and employment**

After decades of economic stagnation, and before the crisis caused a slump, growth picked up to 7 per cent over 2002–07. The high and volatile growth in African LDCs was due to an export price-led investment boom in commodities, but with manufacturing stagnating. Lower and less volatile growth in Asian LDCs owes more to investment in export of manufactures. Island LDCs performed weakly on both counts, but manufacturing-led growth allowed lower unemployment levels and better decent work indicators, even though major gaps remain.



The ILO suggests two broad policy guidelines to improve the relationship between macro growth and employment. The first is to promote export and sectoral diversification, moving from commodities to manufacturing. The second is to increase investment in manufacturing and agriculture and to promote sustainable enterprises. This requires increasing both private and public investment, raising aggregate demand and putting in place an employment floor.

## **Macroeconomic policies**

Macro policy has not accommodated growth in the LDCs, and was not responsible for the pick-up in growth in the last decade. Macro fundamentals have improved in the LDCs, especially in terms of price volatility and budget balances, but the improved debt space did not provide the full measure of the fiscal space that was needed.

The ILO recommends that LDCs build a macroeconomic framework that explicitly takes into account job creation and poverty reduction. Fiscal space can be increased through a balanced fiscal diamond comprising four elements: domestic resources, official development assistance, deficit financing and expenditure efficiency. Monetary policy has to go beyond inflation targeting, recognize the borrowing cost constraints on growth and move towards financial inclusion. Exchange rate and capital account management regimes must aim for competitive and stable exchange rates that cope with capital flows and accommodate structural transformation.

## **Trade**

LDC's export concentration did not give way as income increased to export diversification. Instead, product concentration in exports has increased since the late

1990s. One of the main reasons appears to be the inability of LDCs to establish long-term trading relationships. Nor has the structure of LDC exports increased employment. Productivity growth has expanded exports, but with less employment, while increased growth volatility as a result of more trade has made the poor more vulnerable.

To counter these weaknesses, smarter industrialization policies are needed. A clear enterprise promotion and training strategy has to be at the centre of the trade strategy. Social protection and minimum wage policies are needed to cushion trade shocks and volatility and to protect the more vulnerable.

## Agriculture

Agriculture has been neglected and has stagnated as a consequence, especially in African LDCs. This has been due to a number of factors, including declining terms of



trade for agriculture which has inhibited investment, trade liberalization which exposed domestic agriculture to international competition, structural adjustment programmes that dismantled or discouraged public infrastructure in rural areas, and natural resource driven appreciating exchange rates which made domestic agriculture less competitive. Weak

manufacturing has also inhibited a healthy symbiotic relationship that demands agricultural products and vice versa.

The yield gap between domestic and median global agricultural production should be reduced, and investment is needed in rural infrastructure and services. Population pressures in rural areas require the development of rural non-farm enterprises and employment. Investment in a variety of agricultural techniques that maintain land productivity, returns and sustainability is crucial.

## Labour market institutions and informality

Informality has multiple causes and drivers in LDCs. Very low growth of formal employment, high population growth, high rates of poverty and very weak social protection drives surplus labour into informality. Self-employment and vulnerable employment, the major categories of the informally employed, have not benefitted from the high growth in LDCs.

Transition to formality is crucial for LDCs and requires an integrated approach that includes job-rich growth, improvements in regulations, strengthening the organization and representation of informal economy workers, promoting entrepreneurship, skills, finance, extension of social protection, and local development strategies.

## The need for public investment and public employment programmes

The infrastructure deficit in LDCs is high and particularly so in African LDCs, due to declining public investment. Poor infrastructure is estimated to reduce GDP growth by 2 percentage points per annum in African LDCs. Increasing public investment in infrastructure could increase employment by a factor of three to five compared to conventional infrastructure development if local resource-based methods are used.



In some LDCs, there have been major innovations in the design and implementation of effective public employment programmes. For example, India has an innovative employment guarantee scheme, which provides 100 days of employment per rural household on demand.

Foremost of the policy guidelines would be to enhance investment in infrastructure, and ensure that these investments are designed and implemented with the specific objective of boosting employment. The second is to take advantage of innovations in the design and implementation of effective public employment programmes that have been implemented.

## Promoting growth in the LDCs

Empirical evidence from successful catching-up countries shows that educational transformation precedes accelerated productive transformation. In other words, capabilities are an important condition for productive transformation. LDCs where average years of schooling exceeds 4.5 years tend to have higher shares of manufacturing in GDP. LDCs with a symmetrical schooling pyramid in primary and secondary education tend to have the highest shares in manufacturing.

All successful catching-up countries have also had some type of industrial policy, with a smart mix of incentives and sticks to prevent rent-seeking, and have nurtured infant industries. Trade liberalization has been gradual and sequenced so that the private sector can climb up the capability curve. FDI has often made an important contribution by allowing imports of technology and accelerating learning. The use and upgrade of the informal apprenticeship system has also made an important contribution to enhance capabilities.

The relevant policy guidelines are: first, to increase the level of education and to reduce the share of the population without schooling; second, to promote diversification into new technologies and higher value-added manufacturing for increased productivity; third, to take advantage of South-South cooperation to transfer appropriate technologies, importing cheaper capital goods and exporting low-technology goods; fourth, to attract domestic and foreign investment in non-traditional tradables and support learning networks between domestic and foreign firms, such as value chains, joint ventures, clusters, industrial parks or business incubators; fifth, to promote exports and use government procurement to enlarge

markets for locally produced goods; and sixth, to develop the potential of the informal apprenticeship system and strengthen the institutional capabilities.

## Social protection

Less than one-tenth of the economically active population in LDCs has access to social protection, including minimum income security and health care. Lack of access



to social security is largely related to the prevalence of informality. In fact, the three graduates from LDCs, Botswana, Cape Verde and the Maldives, have all gradually extended social protection. Limited access to social protection is an obstacle to achieving sustainable growth and productive employment because it undermines human capital and increases uncertainty.

It is thus crucial to extend social security, and establish national social protection floor policies. Social protection floors should be built on a careful analysis of existing structures and mechanisms to exploit synergies, increase efficiency and ensure smooth implementation. National social protection strategies in LDCs should be developed and monitored through a broad social dialogue, involving social partners and other stakeholders. The establishment of national social protection floors in LDCs should be based on a detailed assessment of existing fiscal space, and ways to expand it in the future.

## Social dialogue and developmental governance

Policy formulation and implementation should be built on broad-based social dialogue. From macro policies, to productive transformation, to social protection and transition to formality, experience shows that broad participation and ownership of policy frameworks is essential for effective policy design and implementation. Political, technical and institutional capabilities matter for positive outcomes, hence the importance of good governance. In LDCs, the good governance agenda should not be restricted to transparency and accountability, but should also include good development governance by building up the developmental capabilities of the State over time. The ILO recommends that governments and institutions formulate and implement these policies through broad-based social dialogue and improve the quality of governance and public services.

## International labour standards

Fundamental values of freedom, human dignity, social justice, security and non-discrimination are essential for sustainable economic and social development.



11 May 2011

Freedom of association, the right to collective bargaining, the right to equal treatment, the abolition of forced labour and child labour reflect not only fundamental human rights, but are essential conditions for stable and strong democracies and for sustainable social and economic development.

Many LDCs have not yet fully developed their governance structures and the institutions necessary for promoting the rule of law, implementing labour law reform and complying with international obligations, including ILO Conventions ratified by them. 15 of the 49 LDCs have not yet ratified one or more of the eight fundamental ILO Conventions, while 47 of the 49 countries



have not ratified one or more of the four ILO governance instruments. International labour standards provide an indispensable normative and rights-based foundation of the Decent Work Agenda and are central to strategies to foster more balanced economic and social development. They are an important component of a rights-based approach to development and should be integrated into Decent Work Country Programmes (DWCPs) and mainstreamed into national policies and development frameworks implemented by LDCs.

It is important to improve the promotion of the ratification and implementation in law and practice of labour standards, as well as to design innovative schemes for the extension of protection to workers in the informal economy, including through more effective labour inspection systems. LDCs should extend representation rights to all vulnerable categories of workers.

Although these guidelines need to be tailored to country needs and circumstances, they provide a comprehensive and useful checklist which countries can use to plan better policy rebalancing.

## References

ILO. 2011. [\*Growth, Employment and Decent Work in the Least Developed Countries \(pdf 2.16 MB\)\*](#). Report of the ILO for the Fourth UN Conference on the Least Developed Countries 9-13 May 2011 – Turkey. (Geneva) ([Back to text](#))

## Further resources

ILO Publications

ILO. 2011. [\*Social protection floor for a fair globalization: Policy coherence and international coordination \(pdf 232 KB\)\*](#) (Geneva)

- [Français \(pdf 317 KB\)](#) • [Español \(pdf 240 KB\)](#)

ILO. 2010. [Employment policies for social justice and a fair globalization : report VI \(pdf 1.55 MB\)](#) (Geneva).

- [Français \(pdf 1.40 MB\)](#) • [Español \(pdf 1.66 MB\)](#)

ILO. 2010. [Employment prospects : a global model of recovery and rebalancing \(pdf 868 KB\)](#) (Geneva)

ILO. 2010. [Global wage report 2010/11 : wage policies in times of crisis \(pdf 5.12 MB\)](#) (Geneva). ([back to text](#))

- [Français \(pdf 8.73 MB\)](#) • [Español \(pdf 10.12 MB\)](#)

Press Release: • [English](#) • [Français](#) • [Español](#)

ILO. 2010. [Recovery and growth with decent work: Report of the Director-General \(pdf 750 KB\)](#), Report I(C), International Labour Conference, 99th Session, Geneva, 2010 (Geneva).

- [Français \(pdf 922 KB\)](#) • [Español \(pdf 761 KB\)](#)

ILO. 2010. [Trade and Employment in the Global Crisis \(pdf 1.96 MB\)](#), Jansen, M., von Uexkull, E. (eds), Geneva, 2010.

Executive Summary: • [Français \(pdf 196 KB\)](#) • [Español \(pdf 212 KB\)](#)

ILO. 2010. [Trade contraction in the global crisis : employment and inequality effects in India and South Africa \(pdf 2.55 MB\)](#). Employment Working Paper No. 54. (Geneva)

ILO. 2010. [World social security report 2010/11: providing coverage in times of crisis and beyond \(pdf 6.20 MB\)](#) (Geneva).

Executive Summary: • [English \(pdf 204 KB\)](#) • [Français \(pdf 213 KB\)](#) • [Español \(pdf 208 KB\)](#)

Press Release: • [English](#) • [Français](#) • [Español](#)

ILO. 2009. [ILO Declaration on Social Justice for a Fair Globalization \(pdf 134.87 KB\)](#) (Geneva).

- [Français \(pdf 1.59 MB\)](#) • [Español \(pdf 144.50 KB\)](#)

ILO. 2009. [Recovering from the crisis : a global jobs pact \(pdf 93 KB\)](#) (Geneva)

- [Français \(pdf 105 KB\)](#) • [Español \(pdf 107 KB\)](#)

ILO. 2009. [The financial and economic crisis : a Decent Work response \(pdf 603 KB\)](#) (Geneva)

- [Français \(pdf 834 KB\)](#) • [Español \(pdf 759 KB\)](#)

ILO. 2008. [Report of the Director-General : Ninth Supplementary Report: Resolution regarding the Third United Nations Conference on the Least Developed Countries \(pdf 145 KB\)](#) (Geneva)

11 May 2011

- [Français \(pdf 150 KB\)](#) • [Español \(pdf 148 KB\)](#)

ILO. 2008. [Skills and productivity in the informal economy \(pdf 639 KB\)](#).  
Employment Working Paper No. 5. (Geneva)

ILO. 2007. [Agricultural workers and their contribution to sustainable agriculture and rural development \(pdf 5.88 MB\)](#) (Geneva)

## ILO Videos

[ILO Press Conference: Growth, employment and Decent Work in the Least Developed Countries](#) - 

[Video coverage of the panel discussion on "The promotion of job intensive development in the Least Developed Countries"](#) - 

## ILO Websites

- [Questions and answers on Growth, Productive Employment and Decent Work in the LDCs](#)
- [Employment promotion](#)
- [ILO Global Job Crisis Observatory: Employment promotion](#)
- [Skills, knowledge and employability](#)
- [ILO Global Job Crisis Observatory: Skills development](#)
- [Social security](#)
- [Decent Work](#)
- [Labour Law](#)