PRESS RELEASE

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Boost productive capacities, credit, infrastructure, and especially the private sector, to create jobs, report recommends

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Least Developed Countries Report 2013 says economic approach of poorest nations must shift to reflect large and expanding need for employment

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The world's 49 poorest countries should act decisively to upgrade national infrastructure, greatly expand credit, improve education, and – especially – unleash the potential of domestic firms and entrepreneurs, so that jobs are created, an UNCTAD report urges.

The **Least Developed Countries Report 2013**[1] says that strongly raising investment, improving such services as electricity supply and transport, and other related steps to enable LDC economies to increase the variety and value of the goods and services they produce – a process known as expanding productive capacities – are vital for creating as many as 16 million new jobs a year, as more and more young people in these nations reach working age (see press release UNCTAD/PRESS/PR/2013/44).

If this employment challenge is not met, the world risks being confronted with growing poverty in LDCs, social unrest, and mass international emigration, the report contends. It notes that some negative consequences of these trends are already being felt.

The report, which is subtitled **Growth with Employment for Inclusive and Sustainable Development**, was published today.

The economic policies pursued by most LDCs and their development partners to date have focused on macroeconomic stability, economic efficiency, and liberalization, to enable LDCs to link more effectively into the global economy. They have largely been disconnected from social policies, which have centred on poverty reduction. This strategy has led to growing international flows of goods, services and capital over the last 20 years, the report notes, but the approach has failed to generate jobs in the quantity and quality needed by LDCs' increasing populations. Job creation was disappointing even during the "boom" years from 2002 to 2008, when LDC economies averaged an economic growth rate of 8 per cent per year. Considering that poverty reduction was slow then, a new approach is clearly needed in order to boost employment, as LDC economic growth has decelerated in the wake of the global financial crisis (see press release UNCTAD/PRESS/PR/2013/45).

To avoid these risks, LDCs need to enact a new generation of policies to foster the development of productive capacities in such a way as to obtain "job-rich" growth, the report urges. It says that national policies should foster the structural transformation of these countries' economies to create new and more modern sectors of activity that generate better jobs, and improve productivity and labour earnings in traditional sectors.

Among the recommendations of the **Least Developed Countries Report 2013**:

- LDC fiscal policies should aim to accelerate public investment in infrastructure and to raise spending on education and training. Public investment is especially critical for creating favourable conditions for private investment, for example by expanding the availability of such services as energy supplies, transport, communications, and irrigation. These are critically lacking in LDCs, the report says, and hold back the creation of firms that could generate employment. Increasing public investment, meanwhile, requires a strengthening of government capacities for mobilizing and managing fiscal revenues, whether domestic or external;

- A more expansive credit policy is of crucial importance in the LDCs, particularly for micro, small and medium-sized enterprises, which are typically credit-constrained. Public development banks can play an important role by providing credit when private financial institutions fail to do so. "Private sector development is a sine qua non for large-scale employment generation in LDCs, since it generates the bulk of jobs, both today and tomorrow," UNCTAD Secretary-General Mukhisa Kituyi notes in the overview to the report.

- Industrial policies should be designed to steer LDC economies towards structural transformation by moving to higher-productivity activities. The report identifies two strategies that LDCs can pursue to bolster the employment intensity of growth. The first is to build on activities of existing comparative advantage, by fostering backward and forward linkages and technological upgrading in such sectors, which typically involve the harvesting of natural resources. LDCs might strive to add the production of copper products to the mining of copper, for example. Similarly, agriculture can be the basis for developing downstream industries, such as food processing, geared mainly to domestic and regional markets. A second type of strategy would aim at favouring investment in labour-intensive industries. Some LDCs will be able to take advantage of the window of opportunity opened by China's likely delocalization of the lower end of its manufacturing industry, the report notes. LDCs can strive to integrate domestic firms into manufacturing global value chains (GVCs) and to attract foreign direct investment to expand industrial sectors. Domestically, this strategy should be complemented by policies on clustering, technological upgrading of domestic firms, export promotion, and containing labour costs. Labour costs can be kept competitive by ensuring an adequate supply of wage goods and services, particularly food and transport, housing, and so on, the report says.

- Effective measures for stimulating the development of urban-based micro and small enterprises include improving their access to capital and helping them upgrade to formal status. Policymakers need to expand the financing available to these firms through national development banks or commercial banks. Public and private financial institutions should select those micro and small enterprises with high growth potential, the report recommends.

- LDCs need to invest heavily in rural infrastructure, especially irrigation, electricity, transport, storage (warehousing), and communication technology. Such improvements can boost rural productivity and better link farms to such higher-value-added activities as food processing. Rural extension services need to be established or rehabilitated to provide advice and training on cultivation techniques, water management, choice of seeds and/or crops, warehousing, improving land quality and water access, avoiding soil degradation, and adopting techniques for meeting market requirements. The report says that providing rural producers with access to capital and finance requires offering both seasonal and long-term financing to farmers and rural non-farm economic agents. This should be undertaken by agricultural development banks, State banks, post office financial services, community credit cooperatives (which have better knowledge of borrowers' creditworthiness), and commercial banks.

- While most efforts to spur employment-rich growth are national, LDCs need the support of their development partners. Therefore, the report calls for the establishment of an international support measure to foster the creation of start-up businesses by young people, supported by the collaboration of donors and national governments. Such businesses might be supported both technically and financially until they become viable firms.

- In addition to the involvement of the private sector, the State itself must play a role in generating jobs, either directly or indirectly, especially in the earlier phases of development. The report recommends that governments adopt labour-intensive production processes in infrastructure work, the bulk of which is generally financed in LDCs by the public sector. Labour-intensive improvements to infrastructure have several advantages over capital-intensive technologies: They generate more jobs, have lower costs, can contribute to local enterprise development and capacity-building, can generate foreign-exchange savings, and provide more readily available maintenance and repair services.