



Development Challenges facing LDCs in the coming decade

A critical issue for the UNLDC IV Conference in Istanbul is the nature of the development challenges LDCs will face in the coming decade. There could be different answers to this question but UNCTAD believes that the major challenge will be an employment challenge, and the central policy issues relate to how to address this in a global environment characterized by accelerating globalization and climate change and with governance deficits at the national and global levels. This policy brief will look at each of these dimensions in turn.

The Employment Challenge

The central employment challenge in the LDCs is to create productive jobs and livelihoods for the millions of young people who are entering the labour force each year. The scale of this challenge will be greater in the coming years than in the past. ILO statistics indicate that during the period 2005 to 2015, the labour force - i.e., the people seeking work, not those with work - will increase by 10.2 million people per year. During the period 1990-2005, it was 7 million per year.

It is worth illustrating what this increasing trend actually means for individual LDCs. Using demographic projections, in Mali the new entrants to the labour force in 2005 were 171,800, which will increase to a peak of 447,800 per annum in 2045. After that, the annual additional labour force will start to decline. Similarly in Madagascar, the new entrants to the labour force in 2005 were estimated to be 286,200 and their number will increase to 473,400 per annum by 2035. These are the numbers of productive and 'decent' jobs and livelihoods, which have to be created in these countries each year if people are to be able to live in dignity. The alternatives, if this is not achieved, are either grinding poverty and increasing immiserization, on the one hand, or increasing international outmigration on the other hand.

It is also clear that the magnitude of the employment challenge is not only growing, but also becoming increasingly complex to address. In the past, the main way in which the growing labour force was absorbed in LDCs was in agriculture, largely through people cultivating new land. But with population growth, agricultural farm sizes are declining and farms are now more likely to be located on marginal land. Mass poverty also means that many cannot afford the means for sustainable intensification of agricultural production. Thus more and more people are seeking work outside agriculture and urbanization is accelerating, and this trend will accelerate in the coming decade.

The problem is that LDCs have not been able to generate sufficient productive off-farm jobs to absorb the growing labour force seeking work outside agriculture. Most find work in survival urban

informal activities. The failure to increase agricultural productivity coupled with the failure to develop sufficient productive off-farm jobs in local industries and services is the main reason for the slow pace of poverty reduction.

The Globalization and Climate Change Challenge

The employment challenge must also be addressed in a highly competitive global environment in which new product standards and minimum scales of production are being required, global investors are seeking fast money with low risk, and the ability to access, use and create knowledge and technology are increasingly important bases for competition. Productivity levels in LDCs are far below those of competitors. Preliminary data for 2009 in the Millennium Development Goals Report show that GDP per person employed was \$2974 in LDCs, compared with \$11,559 in developing regions and \$69,841 in developed regions (in 2005 US PPP dollars). The LDCs, which constitute one-eighth of the world's population, produce just one-one hundredth of the world's output.

The LDCs have undertaken deep and fast trade liberalization since the 1990s, but local industries have found it difficult to withstand the competition. Moreover, rising food imports show that in many LDCs local farmers also find it difficult to compete in global markets. The LDCs are now highly integrated into a global economy which is characterized by increasing market volatility. Recent food and fuel prices hikes have underlined their vulnerability to external shocks, rooted in both high exposure to shocks and low domestic resources and capacities to deal with their consequences.

Climate change is going to add a further twist to the new global context of the LDCs. It is apparent that the frequency and magnitude of natural disasters is increasing in LDCs. Moreover, loss of water supplies could adversely impact agriculture further accelerating urbanization trends and out-migration pressures.

The Governance Deficit Challenge

Addressing the employment challenge in this global context requires good governance at both national and international levels. What this means in



practice is inevitably contested. But what needs to be stressed is that the simple economics of being a poor country means that it is increasingly difficult for LDCs to achieve the governance standards of rich countries.

We can see the simple economics of national governance challenges by examining national accounts statistics. They show that the average GDP per capita per day in LDCs in 2009 was \$1.59 and that household consumption per capita per day was \$1.14. What this means is that on average the LDCs had 45 cents per person per day as domestic resources available for financing both public and private investment and also for running the government, including paying the wages and salaries of all government workers and also to purchase the goods and services required to operate the economy smoothly. These numbers are in market prices and at current exchange rates and obviously there are purchasing power differences which allow money to go further. But there is only 45 cents per person per day for all investment needs as well running the police, judicial system, and administration at local and national levels.

In practice, the national accounts show that government final consumption expenditure (i.e. expenditures on wages and salaries of government workers and purchases of goods and services) in the LDCs in 2009 was actually 20 cents per person per day in LDCs compared with \$20 per person per day in developed countries. The developed countries spent a higher percentage of their GDP (19%) on governance than the LDCs (12%). But even if the LDCs increased the share of GDP spent on governance to the developed country level, this would only mean that they would be able to spend 30 cent per person per day. What kind of good governance can this amount buy?

Inevitably, LDCs must rely on external resources both for domestic investment and also governance. But here the question of the 'goodness' of global governance arises.

Since 1981, three special Programmes of Action have been agreed by the international community for the LDCs. Neither the first, agreed at the first UNLDC I Conference in Paris, nor the second agreed at UNLDC II in the same city, worked. The first was ideologically sidelined because it was based on a State-led development model which became obsolete after the introduction and implementation of structural adjustment programmes in the 1980s. The second was characterized by highly asymmetrical implementation. LDCs undertook deep economic liberalization and market reforms in the expectation of increasing aid and debt relief. But in practice, real aid per capita fell 45% between 1990 and 2000, and the debt relief was simply too little too late.

The Brussels Programme of Action has been characterized by much more effective partnership. Aid doubled in real terms from 2000 to 2008, and LDCs continued to implement economic reforms and improve governance. A series of LDC-specific international support measures were also put in place or

reinforced, including aid targets (0.15 or 0.20% of donor country GNI, which were inscribed as MDG8), commitments to untie aid to LDCs, the (Enhanced) Integrated Framework for trade-related technical cooperation, the LDC Climate Fund for adaptation projects, TRIPs Article 66.2 obliging rich countries to provide incentives to their enterprises to transfer technology to LDCs, market access preferences and special consideration for WTO accession.

But in practice, the terms of development partnership continued to be skewed towards donor concerns and it proved very difficult for both donors and recipients to enable genuine country ownership of national development strategies. LDCs were particularly concerned with getting aid into production sectors and economic infrastructure but donors were focusing more and more on social sectors.

The implementation of the impressive array of LDC-specific international support measures was also weak, particularly where financial resources were required, and LDC-specific constraints were not adequately addressed. UNCTAD's evaluation of these measures in its Least Developed Countries Report 2010 shows that they have had largely symbolic rather than practical developmental effects. Similarly the Committee of Development Policy of ECOSOC found that they 'generated limited results'.

The UN system has increasingly focused its activities on LDCs. Expenditure on operational activities for LDCs rose from \$2.4 billion in 2000 to \$7 billion in 2008, and the share of UN in-country expenditure on operational activities in LDCs, including peace-keeping operations, went up from 39% in 2003 to 50% in 2008. But whilst the LDC category has been strongly recognized by the UN system and also in the international trade and climate change regimes, there is incomplete recognition of the category. Neither the World Bank nor the IMF use the category in their resource allocations and instead have focused on low-income countries and fragile states. The overall global economic regimes have not been development friendly for the LDCs and there have been key missing elements in relation to the global commodity economy and also technology transfer.

UNCTAD has called for a New International Development Architecture for LDCs in order to reverse the marginalization of the LDCs in the global economy and to help them in their catching-up efforts, to support a pattern of accelerated growth that would improve the general welfare and well-being of all people in LDCs, and to help LDCs graduate from LDC status. The UNLDC IV Conference provides another opportunity to correct past mistakes and agree on a Programme of Action that will enable the LDCs deal with the challenges which they will face in the coming decade, in particular the need to generate enough productive jobs for the thousands of people entering the labour force each year.

