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**ECOSOC HIGH-LEVEL SEGMENT, 2007:  
MINISTERIAL BREAKFAST HOSTED BY ILO/OHRLLS**

*Geneva, Tuesday 3 July 2007,  
Restaurant, Palais des Nations, 8.15-9.30*

**Overcoming poverty through productive employment and decent work for  
income generation in Least Developed Countries**

*Discussion Note:  
Struggling to overcome economic and  
social exclusion in a globalizing world <sup>1</sup>*

**LDCs: Basic economic and social facts**

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Population	750 million in 50 LDCs, 12 % of world population
Population growth	2.4 % per year (1980-2004: 2.6%)
Income: Less than \$1 a day	50 %
Less than \$2 a day	80 %
GDP growth	~2.4% per year
Total per capita income growth, average all LDCs 1980-2004	\$6 or 1.7 % (\$343-\$349)
Per capita income growth, 2004	3.4 %
Life expectancy at birth	51 (All developing countries: 64; industrialized countries: 76)
Proportion of women attended by physician during childbirth	One-third (All developed countries: two-thirds)
Literacy	Adults: ~50 % Youth: ~66 % Average, all developing countries: 85 %
Total exports:	primary commodities, 2002-03 66 % low-skill labour-intensive goods, 2002-03 33 % (1980-1983: 13%), concentrated in a few LDCs

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LDCs are vulnerable to sharp swings in economic growth; most have suffered serious setbacks in the last twenty five years. As a result, and despite a pick up in growth since 2000, average per capita incomes rose over the 25 years between 1980 and 2004 by just \$6 – from \$343 to \$349.

Investment in physical and human capital lags well behind that needed to accelerate growth and begin to catch up with higher income countries. Domestic savings and investment are weak. Official Development Assistance accounted in 2004 for some \$24.9 billion of the \$26.6 billion of net financial inflows to LDCs. FDI is increasing but is 85 per cent is going to only 10 of 50 LDCs. Furthermore, LDCs got only 1-2 per cent of global and 2-6 per cent of developing country inward Foreign Direct Investment between 1986-2004. In 2000, one in five of the LDCs' workers with tertiary education was working in an industrialized country.

<sup>1</sup> Figures taken from the *Least Developed Countries Report 2006* (UNCTAD), [http://www.unctad.org/en/docs/ldc2006p2ch7\\_en.pdf](http://www.unctad.org/en/docs/ldc2006p2ch7_en.pdf)

## Slow pace of structural change holds back poverty reduction

The share of agriculture in GDP in the LDCs is declining slowly (from 37 per cent in 1980-1983 to 33 per cent in 2000-2003), while agriculture employs around 70 per cent of the labour force. Both industrial and service activities are expanding, from 23 per cent to 26 per cent of GDP and from 39 per cent to 42 per cent of GDP respectively. But much of the increase in industrial value added is concentrated in a few LDCs, and the activities that are expanding most in the LDCs are mining industries, the exploitation of crude oil and the generation of hydroelectric power rather than manufacturing. Moreover, the types of services which are expanding most are low value-added and survivalist petty trade and commercial services.

This very slow pace of structural change results in slow productivity growth. On average, in 2002-2003 it took five workers in the LDCs to produce what one worker produces in other developing countries, and 94 LDC workers to produce what one worker produces in developed countries. Worse still, the productivity gap is widening. Labour productivity in the LDCs as a group in 2000-03 was just 12 per cent higher than in 1980-83, while it increased by 55 per cent on average in other developing countries. Significantly, non-agricultural value added per non-agricultural worker actually declined by 9 per cent between 1980-83 and 2000-03. Furthermore non-agricultural labour productivity declined in four-fifths of the LDCs for which data are available, which points to a widespread and major problem in productively absorbing labour outside agriculture.

The labour force is an important productive resource in LDCs, and a key challenge that they face in developing their productive capacities is to ensure that it is more fully and productively employed. In almost all the LDCs there is an imbalance between the rapid rate of growth of the labour force – 29 per cent between 1996 and 2004 – and the rate of capital accumulation and technological progress is generally slow. As a result, most workers have to earn their living using their raw labour, with rudimentary tools and equipment, little education and training, and poor infrastructure. Labour productivity is low and there is widespread underemployment. This is the basic cause of persistent mass poverty in the LDCs. In 2006 86 per cent of working women and men lived in families with a per capita income of less than \$2 a day – a rate virtually unchanged on a decade earlier.

<b>Labour Market Trends in Least Developed Countries</b>			
	<b>1996</b>	<b>2006</b>	<b>% change between 1996 and 2006</b>
Labour force total (in million)	257.7	334.1	29.7
Labour force participation rate	74.9	73.7	
Employment total (in million)	242.7	313.1	29.0
Employment Youth (in million)	71.2	91.3	28.2
Employment-to-population ratio total	70.5	69.0	
Employment-to-population ratio youth	59.4	57.6	
Unemployment rates total	5.8	6.3	
Unemployment rates youth	12.1	12.4	
Working poor US\$1 a day total (in million)	119.5	146.6	22.7
Working poor US\$2 a day total (in million)	212.4	271.1	27.6
Working poor as share of total employment US\$1	49.3	46.8	
Working poor as share of total employment US\$2	87.5	86.6	
Employment share agriculture	72.3	61.5	
Employment share industry	7.8	10.8	
Employment share services	19.8	27.8	

Source: ILO, Global Employment Trends Model 2006

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## Moving from rural to urban economies

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Total labour force of LDCs		334 million (2006)
Labour force growth	1996-2006	76.4 million
	2000-2010 (projected)	89 million (2010: 401 million)
	Bangladesh, 2000-2010 (projected)	22 %
Agricultural labour force 2006		61.5 %
Rural population 2000		75 %
Urbanization rate	1980:	17 %
	2000:	25 %
Population in non-agricultural activities	1980:	21 %
	2006:	38.5 %

In 1990, in two-thirds of all LDCs less than one-third of the population lived in urban areas, and less than one-third of their economically active population worked outside agriculture. By 2010 less than one-third of LDCs will have this kind of economy and society.

Within almost all LDCs, the population is not only growing rapidly but also urbanizing rapidly from very low levels. The combination of these factors is making the current decade critical. More people than ever before are seeking work with an increasing proportion working or seeking work outside agriculture.

Average farm size has generally been falling as the population working in agriculture has expanded faster than the area under cultivation. In most cases, the growth of yields, though slow, has been fast enough to offset the decline in land per person working in agriculture. Already in some LDCs the productive absorption of labour within agriculture is not occurring. Moreover, in the future it is going to become increasingly difficult for more and more LDCs to absorb labour productively within agriculture.

Trade liberalization LDC farmers also have to compete with more efficient farmers elsewhere in the world. Given the huge gaps in agricultural land per person working in agriculture between the LDCs, other developing countries and developed countries, and widening productivity gaps, this is a daunting prospect. The capacities of players in these different worlds to compete differ widely.

The number of people seeking work outside agriculture is increasing, but labour productivity outside agriculture is declining. In most LDCs the most likely explanation is that employment opportunities in formal economy enterprises are not expanding fast enough to absorb the growing non-agricultural labour force, and as a consequence employment in informal economy enterprises as a share of non-agricultural employment is increasing while Labour productivity within informal economy enterprises is on average lower than labour productivity within formal economy enterprises.

Most employment within informal economy enterprises consists in very small survivalist activities with low entry requirements in terms of capital and professional qualifications. The scale of operation is small; capital equipment is rudimentary and skills are basic; and often the enterprise is run by the person who started it, sometimes with unpaid family members who share their earnings. Often the work involves petty services of various kinds, buying and reselling tiny quantities of goods, usually catering to the poorer sections of the population. For most LDCs, employment in informal economy enterprises constitutes 70-80 per cent of non-agricultural employment. In output terms, the informal economy contributes 40-50 per cent of non-agricultural GDP.

### **Productive employment and decent work: key to poverty reduction and harnessing the potential of globalization**

If growth and development are to accelerate and lead to a faster pace of poverty reduction and hunger, a major effort is needed to generate productive employment and decent work. As the ECOSOC Ministerial Declaration of 2006 reaffirmed:

... with three-quarters of the world's poor living in rural and agricultural regions mostly in developing countries, rural and agricultural development should be an integral part of national and international development policies, and working out of poverty requires urgent efforts to improve productivity and raise incomes in rural farm and non-farm sectors given the importance of livelihood security for subsistence farmers in developing countries. ... We encourage Governments to continue to pursue the creation of a conducive environment for

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enterprise development in both rural and urban areas. Particular attention should be given to policies that promote micro, small and medium-sized enterprises and women's participation and entrepreneurship in formal and informal sectors through, inter alia, simplified and improved administrative regimes for the registration of small businesses, access to microcredit, social security systems and information on markets and new technology, as well as better regulations. Such policies should contribute to the integration of informal economic activity into the mainstream economy.

Pursuing such a strategy will require improved collaboration between international development actors in support of national development strategies together with a major improvement in the quantity and quality of international development assistance, continued reductions in debt burdens and a favourable outcome to international trade negotiations

At its recent African Regional Meeting (April 2007), the ILO adopted a Decent Work Agenda in Africa 2007–15, committing the ILO's national tripartite constituencies and the Office to a series of ambitious targets for the development of integrated Decent Work Country Programmes (DWCPs) and to increased collaboration with partner agencies to accelerate progress towards the agreed international development goals, including the Millennium Development Goals (MDGs). The Regional Meeting endorsed the mechanism of ILO DWCPs for the development and implementation of integrated national strategies for poverty reduction and sustainable development. It further welcomed the policy portfolio set out in the Decent Work Agenda in Africa 2007–15 as the compilation of the policy approaches and tools needed to build DWCPs. The DWCPs must be developed with the full involvement of the ILO's constituents. They are the ILO's specific contribution to the multilateral partnerships to implement agreed international development goals, including the MDGs, as well as to national growth and poverty reduction strategies and United Nations Development Assistance Frameworks (UNDAFs).

The approach agreed by the ILO's African constituents, the majority of which come from LDCs, offers a framework for developing interagency cooperation to realize the objectives of the 2001 Brussels Declaration and Programme of Action for the Least Developed Countries. It integrates the decent work approach into policies and programmes for the achievement of the MDGs, making full use of the Toolkit for Mainstreaming Employment and Decent Work recently endorsed by the Secretary-General's Chief Executives Board. Some of the main features of a Decent Work Agenda for LDCs calling for improved policy coherence across the multilateral system would hence include the following:

- Mainstreaming assessments of the impact on the generation and maintenance of decent work opportunities into poverty-reducing development strategies, and adopting national targets for the creation of sufficient decent jobs to absorb new labour market entrants and reduce by half the numbers of working poor.
- Integrated strategies for sustainable enterprise development and the generation of decent work opportunities, with a special focus on assisting women entrepreneurs.
- National policies and programmes to respond to the rapid and large rise in the numbers of young jobseekers, to ensure that sufficient decent work opportunities are available to bring a fall in the numbers of young unemployed workers and the working poor.
- National policies and strategies for education and training for all to facilitate (re)integration into the labour market and the provision of free universal primary education, and (re)training opportunities for the working poor, especially young people and women.
- Reconstruction and recovery programmes should incorporate local economic development and employment-intensive investment.
- Coherent national social security strategies, including for the introduction or extension of a basic social security package that includes essential health care, maternity protection, child support for school-age children, disability protection and a minimum pension.
- National action plans for the elimination of the worst forms of child labour and all forms of forced labour.
- Legislation and policies to promote equality of opportunity and treatment in respect of employment and occupation.
- Strategies to formalize the informal economy and extend protection to informal economy workers. Such strategies should integrate, among other things, policies for the increased registration of informal businesses, skills development, improved and safer working conditions, the extension of

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social protection coverage and the encouragement of freely chosen associations of informal economy workers and employers.

- Modernization of labour legislation in accordance with fundamental principles and rights at work and other relevant ILO standards, and the promotion of social dialogue between governments, employers organizations and trade unions.
- The establishment of participatory mechanisms for the development and implementation of poverty reduction strategies including representative civil society organizations including ILO constituents.