

Economic and Social Council
High-Level Segment of the 2012 Substantive Session
General debate

**Presentation to ECOSOC of the 2012 Report of
the Committee for Development Policy (CDP) on the 2012 theme of the Annual
Ministerial Review, “promoting productive capacity, employment and decent work
to eradicate poverty in the context of inclusive, sustainable and equitable economic
growth at all levels for achieving the Millennium Development Goals”**

by

**Professor Frances Stewart
Chairperson of the CDP
New York, 3 July 2012**

Mr. President, Distinguished Delegates, Ladies and Gentlemen,

It is a great honour to introduce to you the report of the Committee for Development Policy on its 14th Session, which was held in New York from 12 to 16 March this year.

As in the past, the Committee examined several issues; today, I would like to focus my statement on our analysis on the promotion of productive capacity and employment- the topic of this year’s Annual Ministerial Review.

The choice of the theme could not have been timelier. Many countries are still grappling with high unemployment brought about by the global financial crisis. And new threats to employment are arising from the current problems in Europe, while other countries are yet to find solutions to persistent underemployment and low productivity employment.

Productive employment is critical both from the individual and the social point of view. It promotes social inclusion, responsible participation in society and a sense of self-respect. It is critical for reducing poverty and increasing welfare. Simply put, insufficient productive employment opportunities represent a waste of societies’ most valuable resource, their people -- a waste societies cannot afford as well as imposing heavy human costs.

With the global financial crisis, the employment situation has deteriorated, but the impact of the crisis has varied among countries. The world economy continues to suffer from insufficient capacity to generate sufficient employment opportunities. At the end of 2011 some 197 million people were in open unemployment around the world.

We have then a problem of quantity of jobs. We also have a problem of inequality. Some groups find it much harder than others to tap opportunities in the labour markets. Young people, aged between 15 and 24 years old, have been suffering the most. The

unemployment rate among the youth has been three times as high as the corresponding rate for the adult population. And unemployment destroys the possibility of skill development among young adults. It compromises their earning capacity in the long run as well as the short; it impacts negatively on economic growth; and, it can undermine social cohesion and give rise to enhanced criminality. High youth unemployment is one of the conditions that can lead to the mobilization of youth for violence.

Youth unemployment is not the only challenge in terms of unequal opportunities. Gender imbalances are found in every sector in most regions. The employment-to-population rate is lower among women than men. A stubborn gender wage gap still exists even after we adjust for education and experience. Additionally, in many developing countries, women are-- more often than men -- engaged in agriculture, lack access to credit, land and inputs, all of which results in lower productivity and a greater vulnerability to poverty. Imbalances are also to be found across ethnic groups, with some much more afflicted than others.

But the employment challenge is not confined to issues of insufficient quantity and unequal opportunities. We also have a problem of quality. Even when employed, both women and men in developing countries are often self-employed in the informal sector, non-paid family workers or engaged in low productive activities with limited growth potential, while some can only find work for limited hours. Working poverty, defined by a poverty line below \$2 a day, reached 900 million people in 2011. An estimated 456 million lived in extreme poverty, with less than \$1.25 a day.

Persistence of high unemployment and underemployment are the result of slow output growth and low employment intensity of growth. Naturally, the recent increase in unemployment has a lot to do with the global financial and economic crises and the lack of adequate policy responses. But, even before 2008, economic policies were not sufficiently supportive of job creation. In fact, the dominant macroeconomic policy framework stresses the importance of maintaining low inflation and containing budget deficits, but pays limited attention to growth, employment and productive investment. As a result, many countries experienced a slow process of dynamic structural transformation which is needed to accelerate job creation. Investment has been inadequate in many developing countries.

Volatility of aggregate demand— recently largely associated with sudden reversals in capital inflows— acts as a further deterrent to investment growth. Why would entrepreneurs expand productive capacity if they believe that demand will not be sustained? Thus, investment is not forthcoming; capacity is not expanded and additional employment is not created. Ultimately, long term growth is compromised.

The CDP calls for Governments to implement counter-cyclical policies, prudent regulation of their financial systems and capital flows as well as financial reforms. These are required to reduce the volatility of financial flows, offset adverse impacts on global demand and thus reduce macroeconomic volatility. A stable and growing global economic environment is essential for sustained employment generation.

But macroeconomic policy alone is not enough to accelerate job creation. Policy makers should also take a proactive strategy in support of a dynamic structural diversification of the economy. One major difficulty is to identify those economic activities that could be operated profitably and sustained over a longer period of time. We consider it important to develop private-public institutional arrangements for the identification and build-up of such industries – in manufacturing, in services and in agriculture. More specifically, the partnerships – which may go beyond individual nations to include regional and global elements - can be very useful in identifying the obstacles that prevent profitable activities from emerging or expanding. They can also be helpful in finding solutions to these problems jointly

Government support may be needed to facilitate coordination and the clustering of producers or to develop production linkages across the economy. In addition, performance standards need to be clearly set and assistance should be conditional on performance. The involvement of returned migrants is also important as they often have access to knowledge and information not readily available in the domestic economy.

But that is not all. Structural diversification, in today's world, also requires that we take climate change into account. Thus technological change and innovations leading to structural transformation need to rely on clean energy. They also need to support adaption of the economy to the anticipated consequences of climate change. Greater investment in green technologies and in cleaner industries would help the economy to shift towards environmentally sustainable production patterns, as well as creating employment.

Developed countries are leading technological developments in most areas, although the innovatory capacity of developing countries is growing. Developed countries should be ready to support developing countries through improved technology transfer schemes and financial assistance for sustainable development.

The CDP also stresses the central role small- and medium-sized enterprises (SMEs) and the agriculture sector has for job creation. However, we cannot expect significant creation of quality employment in these sectors, if do not address the severe constraints to productivity growth confronted by these sectors. We need to strengthen investment in research in food production and infrastructure in the rural areas, and to provide small farmers, in particular female farmers, with improved access to land, agricultural inputs, credit and appropriate technology. In general, small scale enterprises find it difficult to access formal credit.

Public employment schemes also can play an important role in employment creation in the short-term, while contributing to the development and maintenance of infrastructure. This is especially relevant to countries coming out of conflict, where it is essential to provide youth with opportunities.

Another important component for job creation in many economies is efficient, supportive global economy, which requires international cooperation and coordination. It should be

clear by now that efforts to secure debt sustainability through fiscal austerity have been ineffective in addressing the current difficulties many countries face. The world economy has been drifting into a downward spiral, partly due to the austerity programmes. This unmistakably demonstrates the urgent need for international coordination to support adjustment with growth.

Before I close my statement, I would like to highlight, very briefly, three other themes addressed in our report.

The first refers to the main principles for the United Nations development agenda beyond 2015. But I will not elaborate on this issue here. We already had the opportunity to engage in a very fruitful exchange of ideas earlier this year, and I am very pleased to note that further exchanges on this topic will take place later in the month, during the general segment. As you know, the Council and the Committee are scheduled to have an informal panel discussion on the UN Development Strategy on 23 July, under your and Ambassador de Alba's leadership. We are looking forward to that occasion.

Mr. President,

One very important issue the Committee addressed this year was the triennial review of the list of LDCs. LDCs are low-income countries, suffering from severe structural impediments to sustainable development. The identification of LDCs is based on three criteria – gross national income per capita, the human assets index and the economic vulnerability index.

With regard to inclusion, the Committee recommends the Republic of South Sudan to be added to the list of LDCs, subject to the country's agreement.

With regard to graduation, the Committee reviewed the cases of Tuvalu and Vanuatu. Both countries had met the graduation criteria in 2006 and 2009. Their eligibility for graduation was reconfirmed at the 2012 triennial review.

Besides verifying whether the countries met the thresholds for graduation, the Committee and its Expert Group carefully reviewed the ex-ante impact assessments prepared by DESA, the vulnerability profiles by UNCTAD, as well as the written and oral presentations by both countries.

Both countries are recommended for graduation.

In making this decision, the Committee has taken into account the reservations expressed by the Government of Tuvalu. We noted that the country has satisfied the graduation criteria in the past three reviews by an increasingly wide margin. We also stressed the need to abide to the long standing principle of equal treatment over time and across countries.

In this regard, I would like to take this opportunity to further encourage development and trading partners to maintain their support for both countries after graduation and to implement concrete measures to facilitate their smooth transition from the LDC category. In the case of Tuvalu, given its extreme vulnerability to climate change, there is need to ensure that the country will continue to have access to technical assistance and concessional finance to confront the severe consequences of climate change for its development.

The triennial review also indicated that Angola and Kiribati are found to be eligible for graduation for the first time and will be considered for graduation at next triennial review in 2015. The Committee also noted the continued positive development progress of two graduated countries, Cape Verde and Maldives, and graduating Samoa. The Committee, however, remains concerned that the General Assembly has not taken note of the recommendation to graduate Equatorial Guinea made in 2009. Such prolonged inaction can be prejudicial to the category.

Mr. President,

In last several years, more LDCs have been found eligible for graduation. Cape Verde and the Maldives already graduated and Samoa is scheduled to graduate in 2014. The CDP recommended the graduation of Equatorial Guinea, Tuvalu and Vanuatu. In contrast, Botswana was the only LDC that graduated from the category in the first 30 years since the establishment of the LDC category in the UN.

This is a positive development. Social outcomes were enhanced and incomes increased in many current and former least developed countries. They have managed to ease some of their structural impediments for development with their own efforts and the support of the international community.

But the experiences of countries that graduated or are graduating from the LDC category tell us that we need to improve and clarify the rules of engagement with development partners after graduation. We reviewed the existing smooth transition mechanisms--the final issue addressed in the Report --and put forward a series of recommendations. Several of these suggestions are already included in the report of the Ad-hoc Working Group of the General Assembly to Further Study and Strengthen the Smooth Transition Process for the Countries Graduating from the LDC Category. That report will be considered by the upcoming Assembly this September. We are very pleased to have contributed positively to that process and we remain at the disposal of the Assembly to examine these questions further should it find necessary.

Mr. President and distinguished delegates,

To conclude, let me stress that the world economy is confronting a severe job crisis. No single country, alone, can effectively implement the counter-cyclical macroeconomic policies and the structural productive transformation that are necessary to create jobs. Effective international cooperation and coordination are urgently called for. We, at the

CDP, hope that your deliberations on this year's AMR theme on productive capacity and employment will mark a vital step towards improved international policy coordination for sustainable growth with employment creation. It has been an honour for the Committee to assist you in this quest.

Thank you.