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Present and future of work in the Least Developed Countries

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Preface

Currently, as the preparations for the Fifth United Nations Conference on the Least Developed Countries (LDCs) are taking place, the world is slowly recovering from the biggest health, economic and social crisis in a century. But this recovery is unequal between people and between countries. The COVID-19 pandemic and its economic and social repercussions are having devastating effects on the health and livelihoods of billions of people across the world. Those effects are particularly acute in the LDCs, which still face substantial extreme poverty, decent work deficits, large gaps in social protection and weak resilience.

Lockdowns, mobility restrictions and a steep decline in external demand have plunged the LDCs into their worst recession in decades — reversing the slow improvement achieved prior to the pandemic. Hundreds of millions of people have either lost their jobs or experienced reduced earnings; and even a few weeks without earnings has severe economic implications for people who work informally, have few cash reserves, no paid sick leave, no access to teleworking and nothing to fall back on. In the LDCs, these people represent most of the workforce. The ILO estimates that the LDCs' employment rate fell by 2.6 per cent in 2020, and current projections suggest that employment will not reach pre-crisis levels in 2022. This crisis hampers the necessary structural transformation in the LDCs, as endorsed in the Istanbul Programme of Action in 2011 and re-emphasized in the 2030 Agenda for Sustainable Development.

The crisis stands to have extremely detrimental long-term effects on the LDCs' development prospects. Governments face fiscal and financial sustainability challenges, while enterprises face economic and financial uncertainties that are deterring the investments needed for structural transformation. There are even pronounced concerns as to whether recent LDC graduate countries or currently graduating LDCs have built up enough resilience to weather the health crisis and remain on track with their development.

Ultimately, surmounting the challenges and building forward better for the LDCs means undertaking a human-centred recovery that establishes a sustainable development path towards a brighter and more inclusive future for their world of work. This requires international support and policies that combine urgently needed social protection and health-related measures with development of the institutions of work and targeted policies to assist structural transformation. These must be part of a comprehensive framework based upon employment and industrial policies that promote an enterprise-enabling environment, develop human capabilities that can expand productive capacities and create more decent jobs in a context of reinvigorated social dialogue and application of labour standards.

A contribution to the preparatory process for the Fifth United Nations Conference on the LDCs, this ILO report calls for a renewed partnership with these countries and for a set of global and national actions that foster productive capacities and address decent work gaps simultaneously. We look forward to working with others for the implementation of the Doha Programme of Action, contributing to a human-centred recovery and a better future of work on a globally supported, transformative and sustainable development path for the LDCs.

Guy Ryder

Guy Ryder
ILO Director-General

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Abbreviations

CDP	Committee for Development Policy
CEACR	Committee of Experts on the Application of Conventions and Recommendations
DAC	Development Assistance Committee
DPoA	Doha Programme of Action
DWCP	Decent Work Country Programme
EBA	Everything but Arms
EPZ	export processing zone
ETD	Economic Transformation Database
EU	European Union
FDI	foreign direct investment
GNI	gross national income
GVC	global value chain
ICT	information and communication technology
ILO	International Labour Organization
IMF	International Monetary Fund
IPEC	International Programme for the Elimination of Child Labour
IPoA	Istanbul Programme of Action
ITUC	International Trade Union Confederation
LDC	least developed country
LFPR	labour force participation rate
LULUCF	land use, land-use change and forestry
MNE	multinational enterprise
MSME	micro, small and medium-sized enterprise
NEET	not in employment, education or training
ODA	official development assistance
ODC	other developing country
OEC	Observatory of Economic Complexity
OECD	Organisation for Economic Co-operation and Development
OSH	occupational safety and health
PCI	product complexity index
PPP	purchasing power parity
SDG	Sustainable Development Goal
SDR	Special Drawing Right
SME	small and medium-sized enterprise
SSI	Social Security Inquiry
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WAP	working-age population
WEO	World Economic Outlook

Overview

Structure and vulnerabilities — old and new challenges

Significant progress in income per capita and human development has been made in recent decades. Yet progress has been uneven across LDCs and in general insufficient for most of them to graduate from the category. The LDCs experienced sustained economic growth from the late 1990s until the outbreak of the COVID-19 pandemic and consequent economic crisis. For most of these countries the recent episode of sustained GDP growth has been marred by high volatility in growth and export revenues, insufficient changes in their production structure, low diversification and little or no reduction of their vulnerabilities. Despite widening financial gaps and limited fiscal space, most LDCs responded rapidly and implemented a wide range of support packages to mitigate the impacts of the COVID-9 crisis. However, the effects of the pandemic threaten to reverse some progress made during the last decades and to exacerbate existing challenges.

The least developed countries (LDCs) are characterized by low income levels and vulnerability to economic and environmental shocks, low human development and extreme poverty, high mortality rates, remoteness, export concentration and prevalence of agriculture in GDP.

Their vulnerability and low human development are largely the result of weak productive capacities associated with lack of human capabilities, inadequate infrastructure and limited capacity to access and use technologies, as well as weak institutions, including the institutions of work and social protection systems. These factors are the source of decent work deficits, poverty and income insecurity, and also constitute obstacles to structural transformation in the LDCs that would be both growth- and employment-enhancing.

Some changes in the structure of output and employment are under way in most LDCs, although there are signs that this may not be part of a growth- and employment-enhancing structural transformation that would also encompass sustainable development and full and productive employment. The share of agricultural employment in the LDCs has declined significantly in the past three decades, but remains on average more than twice that of other developing countries (ODCs). The share of manufacturing employment has grown mostly in Asian LDCs. Employment in "advanced services", such as business services – which typically complement manufacturing as production becomes more complex and productive – has been sluggish and remains at low levels in most LDCs. Mining is a minor source of employment and has increased its employment share in Asian and more so in African LDCs. Product and export diversification, along with product complexity, is low; the LDCs in general have suffered from chronic external imbalances that have led to unsustainable external borrowing in recent years.

Productivity growth has been substantial in Asian LDCs but less so in African and Island LDCs, while employment growth in highly productive activities has been generally insufficient. This highlights the diverging patterns of structural change between the three LDC regions, along with the diversity of challenges confronting each group.

Total productivity has increased considerably in Asian LDCs, which still face a large GDP per capita gap with ODCs as a group. The productivity divergence between the LDC regions is also explained by the nature and sectoral composition of productivity growth. African LDCs have undergone a modest increase, or even a decline, in productivity in sectors that are crucial for industrialization, such as manufacturing and business services. This pattern of change will eventually lead to slower GDP growth. Asian LDCs, by contrast, enjoyed sustained productivity growth in the same key sectors, and that growth has been reinforced by a reallocation of employment and other resources to those higher-productivity sectors, which are also growing. In African LDCs, increases in labour productivity have often been accompanied by episodes of slower growth in employment than in population. On average in these economies, manufacturing activities have not contributed sufficiently to job creation, and both output and productivity growth have been sluggish. In Asian LDCs, stronger productivity growth has only partly offset an even stronger output dynamism, and this has allowed for some employment growth in the sector.

Growth has generated some improvement in living standards but has not been sufficiently job-rich and inclusive to reduce inequalities in all regions, and the number of working poor is still growing in Africa. The wide divergence between African and Asian LDCs in per capita GDP growth reflects substantial regional differences in the growth and composition of population, employment and productivity patterns. Inequality in general is high in the LDCs; inequality in disposable income remains particularly high in Africa, denoting weak fiscal and social protection systems. The rate of extreme working poverty is still elevated in the LDCs but has almost halved, from 58.3 per cent in 2000 to 30.6 per cent in 2019. However, in African LDCs, more people are in extreme working poverty now than at the turn of the millennium owing to rapid population growth.

Informal employment is pervasive, accounting for almost 90 per cent of total employment in the LDCs in 2019. Informality in these countries is characterized by its concentration in *(i)* vulnerable employment statuses, such as own-account workers and contributing family workers; *(ii)* specific sectors, such as agriculture, wholesale and retail trade, and manufacturing; and *(iii)* small economic units, such as micro and small enterprises. The number of informal wageworkers is increasing over time, especially in Asia. In the LDCs in general, the majority of informal employment is to be found in informal sector enterprises and households, while informal employment in the formal sector constitutes a far smaller share. Informal employment is also a greater source of employment for women (92.0 per cent) than for men (86.8 per cent). Although informality deeply affects all age groups in the LDCs, youth and older workers are most exposed.

Educational attainment has a positive effect on the creation of formal employment, but it is not its sole determining factor. Although the share of informal employment among workers with no formal education is comparable in both country groupings, more educated workers are more likely to be in formal employment in the ODCs than in the LDCs. This indicates that on top of education, other factors – such as sectoral composition of labour demand, firm size and productivity – affect the capacity to generate formal jobs.

The change in the demographic structure will become a "dividend" if the LDCs create enough decent jobs to absorb increases in the working-age population. Population growth remains high even if fertility rates are declining, mostly in Asian LDCs. At the same time, large cohorts of young people are joining the working-age population every year, reducing the dependency ratios in the LDCs. This is particularly true for African LDCs.

Labour force participation rates and employment-to-population ratios are high in the LDCs and steadily declining in all LDC regions. Labour underutilization is mostly due to underemployment, and the proportion of youth not in employment, education or training (NEET) is slowing falling. While the high level of labour force participation indicates how important it is for people to work to support themselves and their families, its downward trend reflects higher participation in education and training activities as well as weak job opportunities relative to working-age population growth. Unemployment is rising in Asian and Island LDCs. It does, however, account for only 23.5 per cent of labour underutilization in the LDCs, while time-related underemployment explains close to half (49.5 per cent), and potential labour force, 27 per cent. The NEET rates for LDC youth have been slowly decreasing over time, but they are on average lower than in ODCs and higher than in developed countries. The LDC category exhibits significant heterogeneity, and while women in Asian LDCs have the highest NEET rate (39.9 per cent), the rate is much lower for men in Africa (12.6 per cent).

A distinctive feature of the LDCs is the dichotomy in terms of the size, structure and capacity of their enterprises; employment and output growth have significantly different economic and social outcomes depending on whether they occur in large enterprises or small ones. Micro and small enterprises constitute the bulk of total employment, and most of that employment is informal. In general, employment in the LDCs is disproportionately generated in the *informal sector* by very small economic units, while employment in the *formal sector* occurs primarily in larger units, such as those employing 50 or more persons. These formal sector units cover only 9 per cent of total employment in LDCs, but employ mostly informal workers, who represent 66 per cent of their total employment. In the formal sector, very large firms (100 employees or more) are a minority of the firm population, but they generate more employment than all small and medium-size firms. Hence, small informal firms employ the large majority of workers, while very large formal firms dominate productivity growth and account for the lion's share of formal sector employment.

Dualism in production and employment is a key aspect of the obstacles to structural transformation, sustainable development and decent work creation in the LDCs. It is structural and ubiquitous in all productive activities. Employment creation can be weak in high-productivity subsectors dominated by large firms, and higher in low-productivity subsectors dominated by small, less productive firms. The decent work deficit can be pervasive in both branches due to informality and other conditions of work. This contributes to the weak productivity growth, low diversification and low product complexity that underlie the LDCs' vulnerability in the production sphere. These factors, together with low incomes, weak social protection systems and limited development of human capabilities, have exposed LDCs more to the effects of the COVID-19 crisis. This in turn exacerbates the impact on incomes and working poverty, as well as the impact on fiscal space and financial sustainability induced by external shocks and the containment measures undertaken during the pandemic.

While the health impacts of the pandemic have been weaker on the LDCs than on other country groups, the social and economic consequences are being felt deeply owing to weak health systems, inadequate social protection, low levels of savings and limited support packages from governments. At the beginning of the pandemic, most LDCs appeared to be less affected by the health and socio-economic impacts, although some regional variability soon emerged, with Asian LDCs being the most affected in terms of infections and deaths, followed by Island and African LDCs. The vaccine rollout has been very slow in general among the LDCs, and only 10 per cent of the population received their first dose by September 2021, in stark contrast to other developing countries (53 per cent) and developed countries (64 per cent). The short and long-term negative effects in the LDCs are substantial, not only through the direct impact of COVID-19 on people, but also through increases in poverty, hunger, unemployment and reduction in working hours.

With plummeting quantities and prices for exports, along with drops in tourism and remittances, LDCs are experiencing a sharp and unprecedented demand shock. A slow economic recovery will compound these damaging effects. Recovery in LDCs will be slower than in other countries due to structural vulnerabilities and exposure to multiple shocks simultaneously. Prolonged disconnections from the global economy already affect the limited pockets of formal employment in the most successful LDCs. This in turn may affect prospects for further technological and organizational upgrading and structural transformation.

These external factors, together with containment measures taken domestically, have led to severe losses in working hours, jobs and incomes. The employment-to-population ratio fell by 2.6 percentage points between 2019 and 2020 and is not expected to reach pre-crisis levels by 2022. Workers who lost their jobs became inactive rather than unemployed due to mobility restrictions and limited job search solutions. In earlier crises in LDCs, informal employment acted as a labour market adjustment mechanism. The COVID-19 crisis, however, hit sectors with informal, low-productive urban employment – commerce, food, transportation, personal services and domestic work – up front.

Coping with the pandemic requires increased expenditure and fiscal space for health, social and economic response measures. However, diminishing domestic revenues resulting from a decline in economic activity and a drop in export revenues reduce the already limited fiscal space. In addition, foreign direct investment (FDI) and remittances dwindled, and LDCs are now facing debt distress situations and financially unsustainable debt servicing and repayments. The GDP per capita of developed countries is 16 times that of the LDCs, but as of September 2021, stimulus packages per capita provided by developed countries were about 470 times larger than in the LDCs. Despite the widening financing gaps and limited fiscal space, most LDCs responded rapidly to the crisis, within their limited means.

Thus, more international cooperation and external resources are needed to alleviate the fiscal and balance-of-payments constraints faced by LDCs in meeting their immediate needs to respond to the pandemic. It is important to scale up official development assistance (ODA) to meet existing commitments and steer clear of any reductions that may follow budget pressures across donor countries. Aside from financial measures, it is critical to strengthen international cooperation in healthcare and vaccines and avoid unnecessary restrictions and barriers to trade and migration.

The role of digital technologies in structural transformation

The adoption and adaptation of digital technologies can be a powerful component of productive transformation that can benefit almost all sectors of the economy and generate widespread productivity and employment growth. Significant competitiveness and productivity-boosting opportunities are linked to access to digital services that help optimize processes and production, facilitate opportunities for substantial transformation of business models and processes, reduce transaction costs, help enterprises to access information, reach new markets and may transform supply chains. Such services can represent an important avenue for accelerating sustainable enterprise growth in LDCs. Moreover, generalized productivity gains can be obtained from the digitalization of key private and public services, such as financial and business support services (e.g. digital payments), healthcare, education and other administrative services and support to the institutions of work, including e-formalization and public employment services.

Digital technologies can potentially deliver large benefits to LDCs provided that significant investment is made in capital and people to create the complementary skills and in general the human capability and productive knowledge necessary to use these technologies in a productive and inclusive way and support decent work. The development and integration of ICT services into the rest of the economy presents challenges which need to be overcome through a comprehensive and well-defined industrial and employment policy that is part of an integrated development strategy. This is essential for optimizing private sector participation and guaranteeing productive and inclusive use of digital connectivity and related technologies in the LDCs.

While micro, small and medium-sized enterprises (MSMEs) may be benefiting more than larger firms from similar levels of connectivity, they have been slow to adopt digital tools and technologies. The barriers are manifold and especially pronounced in LDCs: many MSMEs struggle with shortcomings in terms of skills and readiness to adopt digital tools. Digitalization may in fact widen existing gaps if LDCs are unable to widely adopt the new technologies across the economy.

Digitalization and youth employment

The LDC population is young and becoming increasingly educated over time, which means the potential for harnessing digital technologies remains high. Tertiary education enrolment rates have almost tripled, from 3.8 per cent in 2000 to 11.2 per cent in 2021, while NEET rates have been slowly declining since 2005. An increase in the proportion of educated young people in the working-age population can be an opportunity both for increasing productivity and for economic transformation, as younger people have more potential over their working life to acquire skills that are complementary and necessary for the adoption of new technologies and the creation of new productive capacities.

To translate this potential into actual productivity growth and decent employment, digital access and awareness need to improve, and workers must become better equipped with digital skills. The LDCs need to invest in digital infrastructure and ensure that digital connectivity is accessible and affordable for all. A variety of skills are required, ranging from job-neutral digital skills and job-specific digital skills to job-neutral soft skills, such as communication, management, analytical and critical thinking and creativity.

Comprehensive policies are required to ensure that digitalization has a positive impact on youth employment. An integrated policy framework to support young people in securing decent jobs in an increasingly digitalized economy is critical for future socio-economic progress. Policies should aid the creation of enough jobs and equip young people with the required skills, and should ensure the provision of decent working conditions. A particular focus area for policies is enabling youth to access social protection and exercise their rights at work, as well as encouraging them to join workers' and employers' organizations so that they are represented in social dialogue. Failure to generate a growth- and employment-enhancing transformation by taking advantage of technological opportunities, and failure to include youth in such a transformation, may mean a growing number of discouraged or idle young people and longer-term capacity losses in the LDCs.

Transformation through integrated and multidimensional employment policies

National development plans need to be operationalized through employment and industrial policies and international trade and finance frameworks that promote institutional, policy and regulatory reforms. These must be directed at strengthening sectoral productivity growth, technology transfer and adaptation, entrepreneurship, access to finance and formalization of the informal economy, with a focus on the promotion of decent work.

National employment policies and more targeted policies such as youth employment strategies have been used to identify priority challenges and design policy measures. These policies and strategies have been based on dialogue between government and employers' and workers' organizations and have promoted a holistic approach that includes macroeconomic frameworks and sectoral and skills policies and that sets out how they can be integrated into trade, financial and social protection systems to foster structural transformation.

Transition to formality

Transition to formality means including enterprises and workers within a regulatory framework. It involves extending the scope of fiscal, labour and social security regulation; compliance with legal requirements; and access to advantages such as adequate protection for all enterprises and workers without exception as to size, sector or other criteria.

Most enterprises and workers are informal in the LDCs and there are numerous causes of informality. There are major differences among those operating informally – differences that must be considered when formulating formalization strategies. Such strategies need to be gender-responsive and differentiated to ensure that the approach is adapted to the context and the characteristics of the relevant subsegment of enterprises or categories of workers.

Interventions are more effective when they are combined and when they tackle different causes of informality. Effective formalization strategies in most cases combine interventions to enhance the ability of the economy to absorb informal economy workers and enterprises (*inclusion*) but also to reinforce the ability of individuals and enterprises to enter the formal economy (*insertion*). In both cases, it is crucial to identify effective incentives to formalize.

Transition to formality is a key component of development and structural transformation, and operating in the formal economy has several advantages for workers, enterprises and society as a whole. For *workers*, transition to formality is a prerequisite for access to decent work. It reduces poverty and leads to greater equality. For *enterprises*, transition to formality helps enhance their position in the market through increased consumer trust and opens up opportunities to source to companies operating in the formal economy. For *society*, it enlarges the government's scope of action, notably by enabling increased public revenues, strengthening the rule of law and creating systemic spillover effects of productivity and employment growth across all sectors of the economy.

Enterprise development for creating decent work

Enterprises and entrepreneurship play an integral role in expanding a country's productive capacities, while also reducing structural vulnerabilities and creating decent work. Indeed, enterprise development is a component of a growth- and employment-enhancing structural transformation that is key for the sustainable development of LDCs. Enhancing productive capacities in these countries requires general human capabilities, skills and productive knowledge that is accumulated in societies, as well as access to finance and capital.

A multipronged strategy for enterprise development is necessary, given the strong economic dualisms particularly evident in enterprise composition and characteristics. In the LDCs, small and informal enterprises generate much low-productivity employment, and large, formal and more productive enterprises enjoy productivity growth but do not generate sufficient employment. A multipronged strategy should (i) strengthen MSMEs in their sector of activity and enable a growing number of large enterprises to increase productivity and employment; and (ii) foster structural change by encouraging the expansion of large enterprises in new sectors and letting smaller enterprises support transformation and be integrated into intensified economy-wide linkages. Transition to formality for MSMEs is key to reducing the dualism and bridging the gap between small unproductive firms and large productive firms, as well as better integrating them into the productive system.

In addition, a multipronged strategy should recognize and enhance the role of the social and solidarity economy in meeting social and environmental goals and overcoming market and State failures. Social dialogue, respect for labour standards and universal human rights and the promotion of social justice and social inclusion are other key factors for enterprise development in a context of sustainable socio-economic transformation. Empowering groups with underused potential, such as youth, women and migrants, can further strengthen this strategy.

FDI helps LDCs break out of the trap of low productivity and investment capacity when it is part of an enterprise development strategy consistent with comprehensive industrial and employment policies and effective application of labour standards. Large firms and multinational enterprises (MNEs) can facilitate the transfer of more advanced management practices and technology between developed and developing countries and provide a critical link in enabling LDCs to participate in global value chains (GVCs). Social dialogue is also essential for maximizing the positive contribution of FDI in specific local contexts.

The rapid growth in legal requirements for MNEs to undertake due diligence in their supply chains means that LDCs seeking to advance structural change need to start integrating decent work and human rights considerations into their enterprise development policies and programmes and put in place a conducive policy framework, including legislation and the strengthening of labour administration and governance.

Just transition and sustainable development

Compared to other country groupings, LDC economies and societies are particularly vulnerable to climate change. Four factors characterize their particular climate vulnerability: (i) their geographic exposure, (ii) economic structure, (iii) labour market composition, and (iv) low adaptive capacity related to their physical and social infrastructure, financial resources and political institutions. LDCs are among the countries least responsible for the global climate and environmental challenge facing the world today. However, they have found themselves at the forefront of the battle, which adds even more challenges to the economic and social transformations they must undergo to achieve sustainable development.

The LDCs have thus to deal with the enhanced challenges of structural transformation in the context of a changing climate that is adversely affecting their progress and is a particular threat to key sectors and population groups. Their economic and labour market structure is to a large extent based on the primary sector. That sector relies on a stable climate and environmental services (ecosystem services), which provide income and employment from farming, fishing, forestry, natural resources and tourism. Political institutions in LDCs are overwhelmed by climatic events and economic shocks, and the lack of support for farmers, rural economies and the agricultural sector only reinforces existing inequalities and exacerbates the vulnerability of women, migrants, youth, indigenous and tribal peoples, people in poverty and people with disabilities. These groups tend to have less access to resources for climate change adaptation and no access to technology, social insurance and training.

The specific needs and concerns of LDCs in the face of climate change are not being adequately addressed with respect to external financial requirements, capacity-building support, accessing technology and markets, and benefiting from emerging opportunities in the green economy. Nonetheless, these countries offer numerous examples of innovative and promising policy approaches, business solutions and community initiatives. The scale and speed of transformation that is required of LDCs today demands significantly more investment, drastic policy change and international cooperation. Comprehensive and coherent policy frameworks are indispensable to pursue and meet simultaneously the goals of decent work, climate adaptation and resilience and a just transition for all. Institutional coordination involving policymakers in the fields of the economy, development, trade, labour, environment and education is vital to achieving synergy.

A coherent policy framework for a just transition needs to be based on social dialogue in order to leave no one behind. Transforming economic structures, modes of production, trade patterns and social behaviour can all be best attained within a *just transition framework*. This refers to an accelerated and policy-induced transformation to a low-carbon and climate-resilient economy, which ensures that social disruptions are minimized and social and economic benefits maximized. At the centre of attention are workers, communities, consumers and other stakeholders who might otherwise be disproportionately affected.

The role of social protection and supporting institutions

Institutions of work broadly comprise international labour standards, labour market and labour administration institutions and social dialogue, all of which help define and implement policies, regulations and programmes not only for the good governance of labour markets but also for broader sustainable economic and social development. They cooperate closely with other *institutions for investing in people,* such as health, education, training and social protection systems, and are supported by comprehensive policies covering the various dimensions of decent work. The institutions of work are instrumental in reinvigorating the *social contract* between actors of society. They also play a critical role in promoting a *human-centred approach* to socio-economic changes and a *human-centred* recovery from the COVID-19 crisis that is inclusive, sustainable and resilient. The LDCs have made significant progress in strengthening the institutions of work, often in partnership with the ILO, but many challenges remain.

Social protection is an essential part of building lasting productive and human capacity and eradicating poverty, which makes it both a social and an economic necessity. Well-designed universal social protection systems, including floors, support incomes and domestic consumption, guarantee access to healthcare, build human capabilities and enhance productivity. The progressive extension of social protection to previously unprotected workers, particularly during the COVID-19 pandemic, has underlined its key role in reducing poverty and vulnerability, redressing inequality and boosting inclusive growth.

However, most of the LDCs' population is excluded from social protection coverage and has limited capacity to manage the economic and social risks deriving, inter alia, from sickness, accidents, unemployment, maternity, disability and old age. In fact, only 14 per cent of their population are covered by at least one area of social protection (excluding healthcare and sickness benefits). Moreover, only 9 per cent of women with newborns receive a cash maternity benefit, and only 1.1 per cent of unemployed people receive unemployment cash benefits in the event of job loss. A mere 8 per cent of persons with severe disabilities receive disability benefits, and just over one in five persons above retirement age are entitled to a pension. Social assistance cash benefits cover only 9 per cent of vulnerable persons, comprising children, people of working age and older persons not otherwise protected by contributory schemes. Fewer than one in five persons are protected by social health protection in the LDCs. The low coverage of social protection is due not only to low government expenditure but also to limited participation in contributory schemes, especially for women. Only 6.2 per cent of the labour force in LDCs (and only 4.2 of women in the labour force) contribute actively to a pension scheme, as compared with 53.1 per cent (55.6 per cent) in ODCs.

Robust social protection systems are essential – in coordination with labour market and employment policies, as well as policies to promote the formalization of enterprises and employment – to increase LDCs' capacity to deal with large-scale, multifaceted and complex crises, and accelerate recovery. Indeed, countries that already had comprehensive social protection systems in place covering large parts of their populations prior to the outbreak of the pandemic were better equipped to weather its health and socio-economic consequences. Those countries used and adapted existing schemes and delivery mechanisms to facilitate access to healthcare, ensure income security, protect jobs and extend existing programmes or create new ones to previously uncovered populations more rapidly.

Stronger social protection systems are also needed to facilitate transitions and a structural transformation that is inclusive and contributes to social justice. Policies and measures aimed at extending social protection to workers in all forms of employment (i) provide workers with economic security and peace of mind; (ii) enhance health and education outcomes and support investments in human capabilities; and (iii) support higher productivity and foster transitions to the formal economy, contributing in the longer term to more sustainable and equitable financing of social protection. This, however, requires reinforced international collaboration and a change in the international financial and fiscal system that recognizes the specific needs of LDCs.

In a highly globalized world, financing social protection relies on solidarity, coordination and cooperation at the global level in the search for workable solutions that serve LDCs and other developing countries. The framework for action for universal social protection, adopted by the International Labour Conference in June 2021, provides for a reinforced ILO role in ensuring policy coherence on social protection in the multilateral system as well as important guidance for countries to realize universal access to comprehensive, adequate and sustainable social protection systems that are adapted to developments in the world of work and aligned with ILO standards. The systematic advancement of coordination and collaboration between UN agencies, development partners and international financial institutions (IFIs) on the design and financing of social protection has gained in importance following the pandemic.

Although 34 ILO Member LDCs have ratified all eight conventions on the fundamental principles and rights at work, several ratifications are still pending, particularly for those concerning freedom of association, collective bargaining and minimum wages, and there are significant gaps in their implementation. The number of ratifications of the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144) recently increased, along with that of other governance Conventions. Other Conventions that have recently been ratified are the Maritime Labour Convention, 2006 (MLC, 2006), the Maternity Protection Convention, 2000 (No. 183), the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187) and the Domestic Workers Convention, 2011 (No. 189).

While the COVID-19 crisis has not led to a slowdown in the pace of ratifications of ILO Conventions in LDCs, there is nonetheless evidence of a reversal of progress in their effective implementation. Although ratifications of core Conventions relating to social dialogue have increased, compliance with freedom of association and collective bargaining has gradually deteriorated in many LDCs, as shown by indicator 8.8.2 of SDG 8. There is also a risk that the declining trend in child labour of the last 20 years might be reversed. Discrimination and xenophobia are on the rise, and school and workplace closures have led to more unpaid work for women as well as violence against them.

Social dialogue and collective bargaining also contribute to promoting economic and social development, reducing inequalities and making enterprises more sustainable. Countries with effective social dialogue and broad collective bargaining coverage tend to have lower poverty rates and lower levels of inequalities. However, high levels of informality represent a challenge to both social dialogue and collective bargaining coverage in many LDCs. In addition, most of the LDC population lives in rural areas and agriculture is the mainstay of employment, which is associated with fragmented and low membership in workers' and employers' organizations, and a workforce largely composed of vulnerable workers. As a result, only 18 LDCs have an established Decent Work Country Programme (DWCP) as of 2021. Most of those programmes prioritize the strengthening of social dialogue and tripartism, labour governance, international labour standards, and principles and rights at work.

During the COVID-19 pandemic, social dialogue, including collective bargaining, has supported policy responses. This has included helping to achieve equitable solutions for workers and enterprises and supplementing legislation to protect the most vulnerable. Indeed, several countries have formed ad hoc bipartite and tripartite committees in an attempt to tackle the crisis.

Some policy recommendations

A number of policy recommendations that are key for the implementation of the Doha Programme of Action (DPoA) and that are essential for improving the future of work for the LDCs may be drawn from this report. They include:

- Expanding international assistance and cooperation to provide emergency financial assistance, as well as more permanent changes in the international financial and fiscal system that foster sustainable finance for the LDCs.
- Extending social protection systems and promoting the ratification and application of international social security standards in the LDCs.
- Coordinating social protection policies with labour market and employment policies as well as broader policies to promote the formalization of enterprises and employment.
- Strengthening national institutional and local capacity and creating an enabling environment for sustainable enterprises, including supporting investment through investment promotion agencies and expanding participation in regional trade networks and supply chains.
- Promoting a transition to formality to improve work quality, effectiveness of social protection and domestic resource mobilization.
- Creating decent work opportunities and promoting equal rights and opportunities for all in the world of work.
- Strengthening institutions and policies for employment and decent work creation.
- Strengthening institutions of work and building capacities for enabling rights, such as freedom of association and collective bargaining and other fundamental principles and rights at work.
- Enhancing policy coherence between climate and environmental change and decent work objectives.
- Supporting capacity-building and partnerships to strengthen statistical data collection and analysis.

Introduction

The least developed countries (LDCs) are characterized by low income levels and vulnerability to economic and environmental shocks, low human development and extreme poverty, high mortality rates, remoteness, export concentration and prevalence of agriculture in GDP[1]. The Istanbul Programme of Action adopted at the Fourth United Nations Conference on the Least Developed Countries in 2011 was aimed at overcoming "the structural challenges faced by the least developed countries in order to eradicate poverty, achieve internationally agreed development goals and enable graduation from the least developed country category".

Significant progress has been made over recent decades, and the four successive decennial Programmes of Action have brought together LDCs, partner countries and international organizations with the objective of supporting shared goals and targets. Yet progress has been uneven across these countries and in general insufficient for most of them to graduate from the category.[2]

The structural problems and vulnerabilities that still characterize the LDCs have made them more prone to the effects of the current COVID-19 pandemic and climate crisis. These problems will be exacerbated if the LDCs do not fully participate in the global recovery. Building forward better for the LDCs means undertaking a human-centred recovery that sets them on a sustainable development path and heads them towards a brighter and more inclusive future for their world of work.

1 The list of LDCs is reviewed every three years by the Committee for Development Policy (CDP), a group of independent experts that reports to the United Nations Economic and Social Council. The criteria used are: (i) income, (ii) a human assets index and (iii) an economic and environmental vulnerability index. As of 2021, 46 countries are designated by the United Nations as LDCs. African LDCs and Haiti: Angola, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Somalia, South Sudan, Sudan, Togo, Uganda, United Republic of Tanzania and Zambia. Asian LDCs: Afghanistan, Bangladesh, Bhutan, Cambodia, Lao People's Democratic Republic, Myanmar, Nepal and Yemen. Island LDCs: Comoros, Kiribati, Sao Tome and Principe, Solomon Islands, Timor-Leste and Tuvalu.

2 UNCTAD's Least Developed Countries Report 2021 states that since the establishment of the LDC category in 1971 "23 LDCs lagged behind relative to the world's average income per capita, seven LDCs experienced catching up, and the rest muddled through" (UNCTAD, 2021, p. 18).

A better future of work requires, besides an enabling international environment, that the LDCs fully use and expand their existing capacities to move from low-productivity employment, pervasive labour underutilization and working poverty to higher and more sustainable growth with full and productive employment and decent work.

This involves understanding their current employment and production structure and gaps in their productive capacities, as well as identifying the human and physical investment, innovations, policy frameworks and regulatory reforms needed for a better future.

Strengthening resilience, reducing vulnerabilities and increasing the productive capacities of LDCs in turn calls for an encompassing structural transformation that includes the expansion of human capabilities and entrepreneurial knowledge, the adoption of new technologies and the development of institutions. Such a multidimensional transformation is essential to accessing new activities and production modes that can generate higher incomes, allow for diversification in production, intensify economic linkages, enhance professional skills and make the development process more environmentally sustainable.

Sustainable Development Goal (SDG) 8 is a linchpin of the 2030 Agenda for Sustainable Development and a natural starting point for understanding the existing gaps and challenges faced by the LDCs. The Agenda's definition of sustainability stresses that growth in production, incomes and productivity is sustainable only if it is inclusive, respects the environment and creates productive employment with decent work for all.

A focus on higher productivity, more and better employment, a just transition to more sustainable production and strengthening the institutions of work and social protection should guide national policies, institutional reforms and international support measures for building forward better in the new decade of the Programme of Action for the LDCs and the final decade of the 2030 Agenda.

Purpose and structure of the report

This report provides an overview of the state of development and the structural challenges facing LDCs along the dimensions of structural transformation, productive employment, work conditions and just transition. It also highlights policy frameworks and institutional reforms that can create pathways for increasing productivity, employment, incomes and inclusiveness.

Part I, on Decent Work Gaps and Challenges in LDCs, describes current trends in production, productivity and employment, highlighting those work quality dimensions that are most relevant for the LDCs (Chapter 1). It looks at the impact of the COVID-19 crisis on the LDC economies and populations and proposes a framework for a "building forward better" recovery. This framework focuses on the policies and resources needed to support a recovery that lays the foundations for longer-term sustainable development (Chapter 2).

Part II, on Structural Transformation, Sustainable and Inclusive Growth and Decent Work, looks in greater detail at the challenges and opportunities for LDCs in building their productive capacity and undertaking structural transformation. It suggests that they should be supported in these tasks by multidimensional employment policies that include industrial development policies, skills development, transition to formality and an enabling environment for sustainable enterprises to generate and unleash productive capacities and opportunities. These productive capacities include not only stronger economic linkages and entrepreneurial capacities, but also improved human capabilities, skills, effective institutions and social protection systems. The idea is to make structural transformation more sustainable, resilient and productive while also leading to higher incomes and more equitable income and gender distribution (Chapters 3 and 4). Finally, Part II looks at the cross-cutting challenges posed by climate change for LDCs and how their response can yield development gains.

It argues that their structural transformation and productive capacity-building needs to take those challenges into account and to be shaped by the principles of just transition, based on social dialogue and leading to new production modes, new jobs, and opportunities to build forward better (Chapter 5).

Part III, on Investing in People and Good Governance, highlights the contribution of institutions that support building productive capacities by empowering women and men as actors in, rather than targets of, sustainable development policies. These institutions represent building blocks for structural transformation and for enhancing people's prosperity. Part III also focuses on a specific set of such institutions: social protection, fundamental principles and rights at work and social dialogue. It first discusses how social protection needs to become an essential element of structural transformation and decent work (Chapter 6). It then looks at how effective social dialogue and fundamental principles and rights at work can be conducive to more productive employment, decent work and sustainable development (Chapter 7).

Investing in people and creating productive capacities is all about adopting a human-centred approach to development and to a better future of work. Such an approach should be based on investing in the capabilities of people and putting "workers' rights and the needs, aspirations and rights of all people at the heart of economic, social and environmental policies".[3]

The report presents some conclusions and suggests actionable policy priorities that can support the implementation of the new Programme of Action and accelerate the realization of the 2030 Agenda in its final decade.

3 ILO Centenary Declaration for the Future of Work (ILO, 2019a section I paragraph A).

Part I

Decent work gaps and challenges in the Least Developped Countries

Chapter 1

Production, income and decent work

1.1 A snapshot of trends and challenges

The LDCs as a group experienced a period of sustained economic growth starting in the late 1990s and up to the outbreak of the COVID-19 pandemic and consequent global economic crisis. That growth was highly dependent on the strength and composition of global demand and international prices. Some LDCs benefited from the expansion and strengthening of global value chains (GVCs); others, from the explosion of mass tourism and the related reduction in transportation costs and strengthening of digital services; and still others from the surge in commodity prices and commodity demand, along with the further expansion of extractive industries.

Many LDCs were part of the group of the fastest-growing African economies that underlay the "Africa rising" narrative and the expectation that, after the dismal performances of the 1980s and 1990s, better policy frameworks, stronger institutions and the adoption of technology were already setting these African LDCs on a path towards development and prosperity. Despite the temporary halt in growth that followed the 2009 global trade collapse, many LDCs resumed their growth in the wake of buoyant global economic conditions generated by the sustained growth of large developing economies (such as China, India and South Africa), which had become major trading and investment partners for them. However, a significant and persistent drop in commodity prices starting in 2014 exposed the persistently diverging patterns of productive capacity and structural change between the less diversified and more commodity-dependent economies and those that were able progressively to integrate themselves into global manufacturing supply chains.

For most LDCs, the recent episode of sustained GDP growth was marred by high volatility, insufficient changes in their production structure, low diversification and little or no reduction of their vulnerabilities. Decelerating but still high population growth has reduced the otherwise positive impact of GDP growth on average incomes, and their populations are still suffering from inequality, food and income insecurity and widespread informality and poverty. Other persistent challenges are associated with the age composition of the population and the socio-economic outcomes of growth, including the creation and quality of jobs and the generation and distribution of incomes.

GDP per capita is a key indicator of economic performance, showing the total value of production and incomes generated in relation to the total population. On average, it has increased in the last two decades in African, Asian and Island LDCs (figure 1.1, panel A), although the gap with other developing countries (ODCs) and developed economies remains staggering and has even widened for African and Island LDCs. GDP per capita growth of Asian LDCs, however, has outpaced the growth of both ODCs and developed countries in the last two decades (figure 1.1, panel F). There has thus been a clear divergence in the growth rate of incomes and population in the three LDC groups, resulting from different patterns of growth in production, employment and population dynamics.

Progress on poverty and inequality has been mixed. African LDCs are the only group of countries in the world where the within-country inequality of disposable income has fallen. But that reduction has only been modest, and the Gini index in the African LDCs is still the highest in the world (figure 1.1, panel B). Persistently high levels of inequality in disposable income are a clear manifestation of non-inclusive patterns of income generation, with a failure to create decent jobs for all. They are also indicative of the very limited capacity of taxation and social protection systems to redistribute market incomes effectively.[1] Indeed, as discussed in this chapter, the share of extreme working poor has declined in all LDC regions. However, although the number of working poor is declining in Asian and Island LDCs it is still rising in African LDCs.

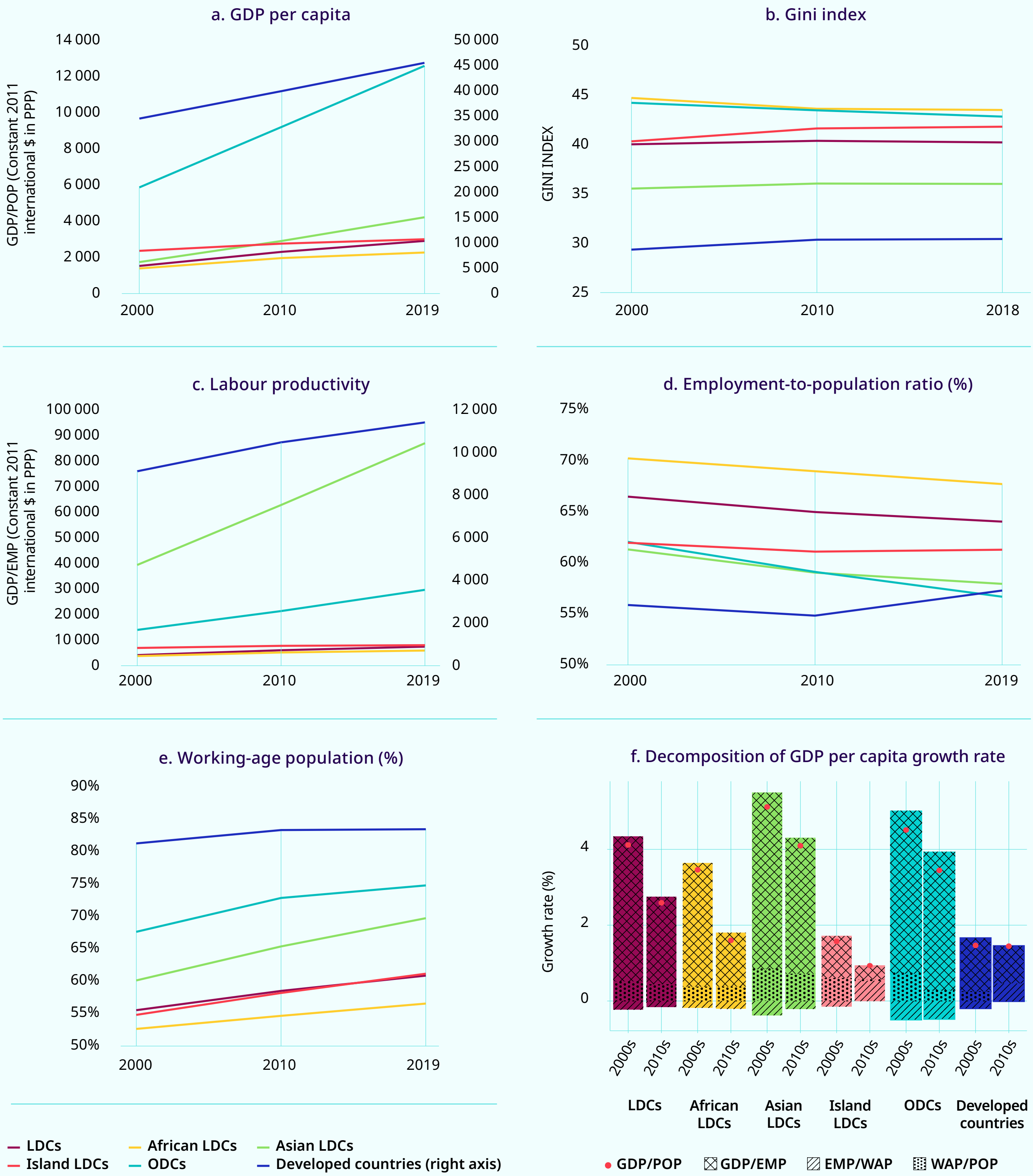
This brief comparison of GDP per capita, poverty and inequality trends suggests that growth has not been sufficiently inclusive to improve the living conditions of most of the population, including the most vulnerable, and that the characteristic structural deficiencies of LDCs persist. In fact, per capita GDP growth does not provide information on the "quality" of growth, such as whether higher production and average income has been associated with more and better jobs, more productive employment and better working conditions. Gains in production per capita do not indicate whether they have been inclusive, nor if the pattern of growth is sustainable or the generation and distribution of income have significantly contributed to a reduction in poverty and inequality.

More insights into the LDCs' socio-economic performance can be obtained by breaking down GDP per capita into three components: (i) GDP per employed person (a measure of productivity, see figure 1.1, panel C); (ii) the employment-to-population ratio, that is, the share of employed persons in the working-age population (a measure of the employment rate of all working-age people; see figure 1.1, panel D); and (iii) the share of the working-age population (at or above 15 years old) in the total population (a demographic measure that reflects the economic burden on the workforce; see figure 1.1, panel E). The sum of the growth rates of these components is equal to the growth of GDP per capita (figure 1.1, panel F).[2] These three components reflect different aspects of the nature of growth in the LDCs and suggest some of the challenges they face in generating "sustained and sustainable growth and full and productive employment and decent work for all" (SDG 8).

1 Data show that the difference between the Gini coefficients of market income (before redistribution) and disposable income (after redistribution) is the lowest for LDCs among all country groups worldwide. In African LDCs, inequality was reduced from around 0.46 to 0.44; in Island LDCs, from 0.44 to 0.41; and in Asian LDCs, from 0.39 to 0.36 in 2018. Developed countries achieved a much higher reduction in inequality, from around 0.47 to 0.30 on average.

2 Throughout this report, "employment-to-population ratio" is defined as the proportion of the country's working-age population that is employed; "young population" are those aged 0–14; "youth" are those aged 15–24; "working-age population (WAP)" are those aged 15+; "prime WAP" are those aged 15–64; "labour force" is the sum of employment and unemployment; "labour force participation rate" is calculated as the proportion of the labour force in WAP; and "NEET" refers to youth not in education, employment or training.

Figure 1.1 Two decades of per capita GDP growth, its composition, and inequality



Source: Calculations based on country-level modelled estimates from ILOSTAT, and from United Nations Population Division.

Notes: GDP per capita in panel A is broken down into three components: labour productivity (GDP/employment) in panel C; the employment-to-population ratio (employment/WAP) in panel D; and the share of working-age population (WAP/population) in panel E. Panel F shows the growth rates of those three components and their sum, which is equivalent to the growth rate of GDP per capita. Panel B shows the Gini coefficient based on disposable income.

Productivity growth dominates the pattern of GDP per capita growth in all developing economies (figure 1.1, panels C and F). Strong productivity divergence between Asian and African LDCs appeared in the last decade, however, with average productivity growth of Asian LDCs closely following that of ODCs. Island LDCs had very modest productivity growth, while in African LDCs it slowed down significantly.

A low starting level of the share of working-age people to total population in African LDCs (figure 1.1, panel E) is indicative of a young population (under 15 years of age). A slow increase in this share (figure 1.1, panel F) indicates that **while demographic transition is under way, many young people under 15 are gradually joining the workforce and becoming part of youth (between 15 and 24 years of age)**. This highlights the well-known challenge of youth employment and how this phenomenon will persist in the decades to come. In Asian LDCs, (as for ODCs and developed countries) a higher share of working-age population points to a more advanced demographic transition and a smaller proportion of people below the working age. Yet the increase in this working-age population has been significant in recent decades, which suggests a substantial need to create and maintain jobs.

The higher ratio of employment-to-working-age population in African LDCs (figure 1.1, panel D) is due to their high participation in the labour force, which is also affected by their relatively lower rates of secondary and tertiary education enrolment. Asian LDCs, though, more closely resemble the ODCs in this regard, with larger dependency ratios and higher rates of schooling and training. The overall decrease in the employment-to-working-age population ratio across LDCs (figure 1.1, panel F) is the result of the composition of different regional trends. These trends have been broadly shaped by faster growth of the working-age population compared to the rate of job creation and by a reduction in the labour force participation rate (LFPR), which has been partly associated with an increase in the amount of time spent on secondary and tertiary education and training.

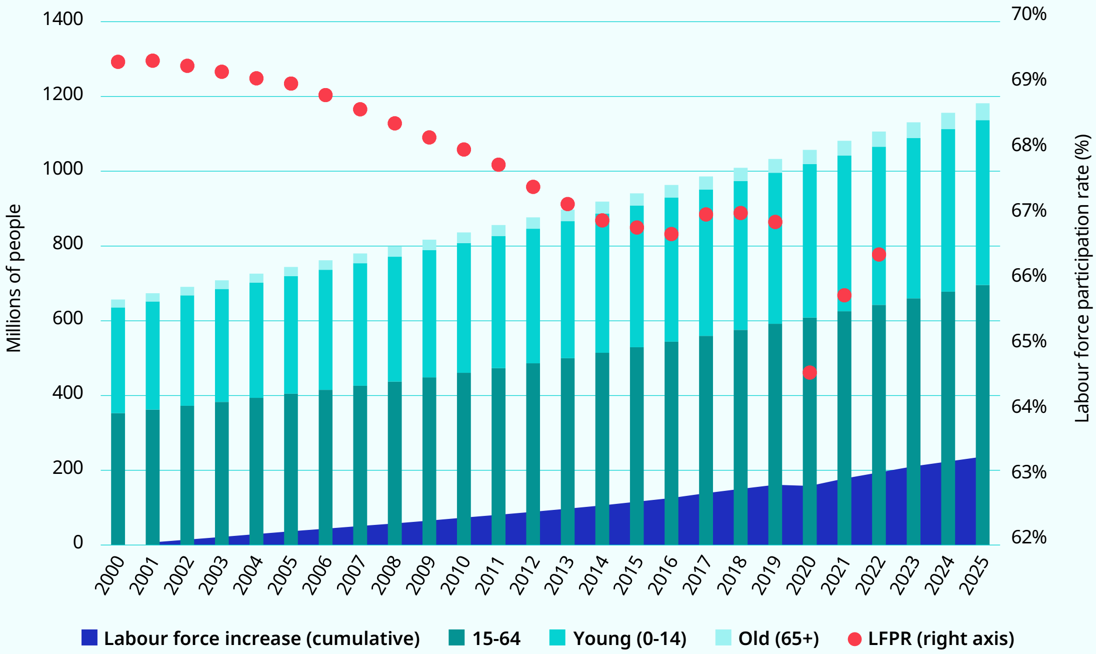
The rest of this chapter provides an overview of the current LDCs' population, employment and production structure, highlighting some common patterns and heterogeneities across the three country groups. It discusses income growth, production and employment experience of the LDCs in comparison to other developing economies, capturing the prevailing patterns of growth and employment in the last two decades through the global financial crisis in 2008, the consequent global trade collapse and great recession and the decade leading up to the COVID-19 crisis. These decades broadly coincide with the Brussels and Istanbul 10-year Programmes of Action for the LDCs.

1.2 Structure of population and labour force in the LDCs

Population structure and labour force trends

The LDCs' population increased by almost 65 per cent between 2000 and 2021, from 657 million to close to 1.1 billion (figure 1.2).

Figure 1.2 Evolution of total population, working-age population, dependants and the cumulative increase in the labour force in the LDCs, 2000–2025



Source: ILO calculations based on country-level modelled estimates from ILOSTAT and from United Nations Population Division.

Notes: 2000–2019 are actual and modelled estimates. 2020–2025 are estimates and projections. The chart depicts the total population (full size of the bar) relative to prime working-age population (green) and dependants, i.e. people under age 15 (turquoise) or above age 64 (light blue). The shrinking size of the turquoise and light blue bars (dependants) over time relative to the green bar (potential workers) shows the reduction in the dependency ratio. The dark blue area depicts the cumulative increase in the labour force, which needs to be accommodated with new jobs. Because labour force participation rates are relatively high, the size of this area can be seen as the high end of the number of jobs that have needed to be created since 2000.

African LDCs experienced the highest population growth, followed by Islands and Asian LDCs. Population growth in all LDC groups significantly outpaced the ODCs' and developed economies' rates (see also table A.1 in Appendix A and box 1.1).

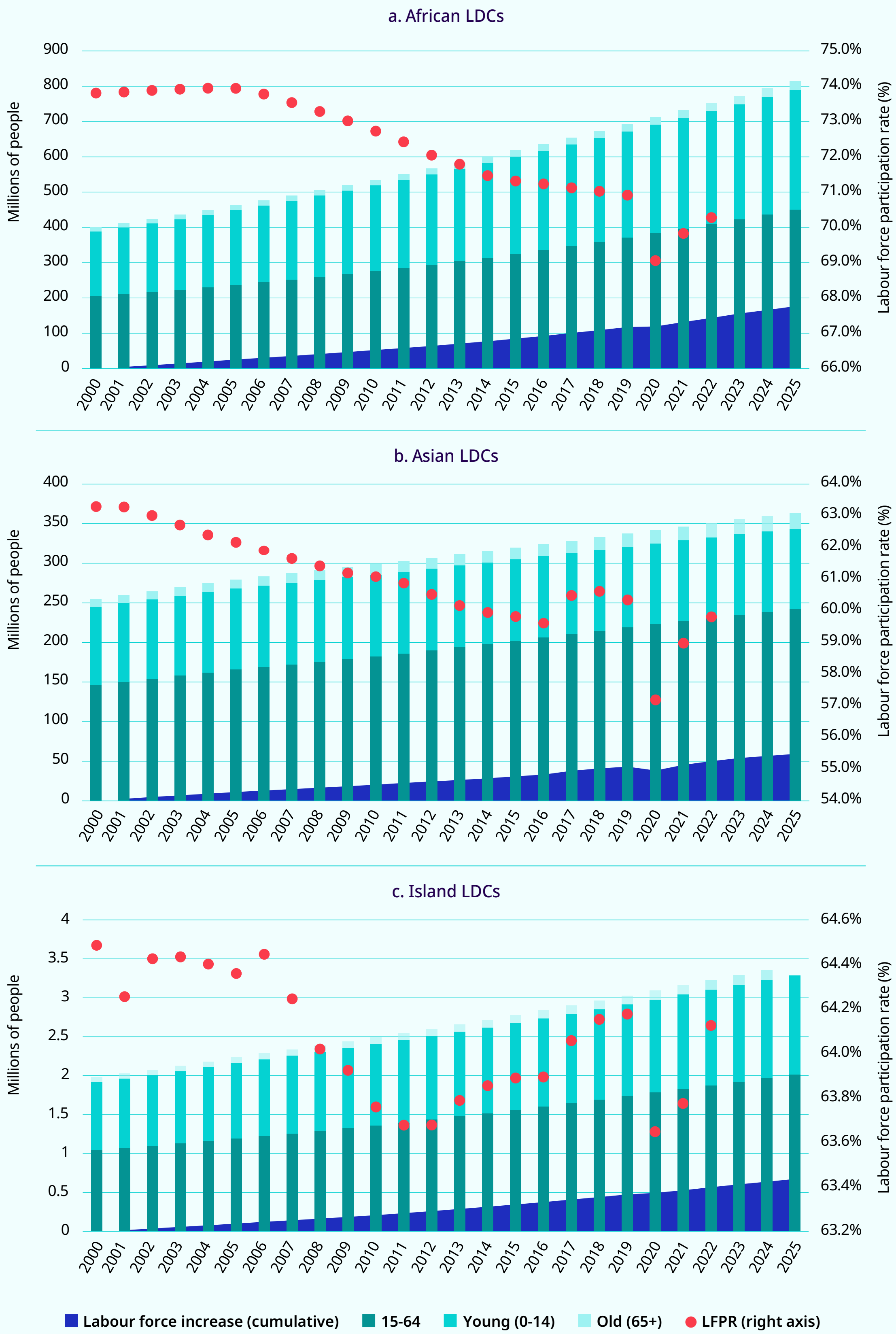
Box 1.1 A regional view of population and labour force trends

The African LDCs' population grew by 83 per cent, from about 400 million in 2000 to more than 730 million in 2021, and is projected to continue growing at a rate of 2.7 per cent annually between 2022 and 2025. Roughly 132 million people entered the labour market over the 2000–2021 period. Annually, the labour force increased by 6.3 million people on average, with the number of entrants rising to about 12 million between 2020 and 2021 alone. By 2025, it will have increased by 176 million people since 2000; an additional 45 million are expected to join between 2022 and 2025. At an average LFPR of 72.3 per cent, this means that the African LDC economies will have to generate 8 million to 11 million new jobs every year. However, the overall LFPR declined from 73.8 per cent in 2000 to 70.3 per cent in 2021, and the female rate, from 66.9 per cent to 63.9 per cent.

The Asian LDCs' population grew by nearly 36 per cent between 2000 and 2021, from about 254 million to more than 346 million, with the working-age population and labour force growing faster than the overall population. However, the average population growth rate of about 1.5 per cent is slowing down. While their labour market is under less pressure than their African counterparts, Asian LDCs still need to create between 2 million and 3.5 million new jobs every year – and about 8 million more jobs by 2025 – to keep employment and unemployment rates stable at current LFPRs. At these rates, their labour force is expected to reach 158 million people by 2025. Although their LFPR has increased in recent years, it is the lowest among the LDC regions, with 6 of every 10 people participating. Gender differences are most apparent in Asian LDCs, where the female LFPR stood at 40.3 per cent and the male LFPR at 78.2 per cent in 2021.

The Island LDCs' population has increased faster than that of Asian LDCs, but not as fast as African LDCs. With an increase of nearly 60 per cent in two decades – from 1.9 million in 2000 to 3.2 million people in 2021 – it is expected to reach 3.4 million people by 2025. Although the working-age population is also growing faster than the average population, the future decline in dependency ratios is less pronounced than for Asian LDCs, but more pronounced than for African LDCs. The overall LFPR has remained relative stable, between 63 and 64 per cent from 2000 to 2021, with male and female LFPRs of 71 per cent and 58 per cent, respectively.

Figure B1.1 Evolution of total population, working-age population, dependants and the cumulative increase in the labour force in LDCs, 2000–2025



Source: Calculations based on country-level modelled estimates from ILOSTAT, and from United Nations Population Division.

Notes: The charts depict the total populations (full size of the bar) relative to core working-age populations (green) and dependants, i.e. people under age 15 (turquoise) and above age 64 (light blue). The shrinking size of the dependants bars over time relative to the rest (potential workers) shows the reduction in the dependency ratio. The dark blue area depicts the cumulative increase in the labour force, which needs to be accompanied by new jobs if the dividend is to be seized.

Most LDCs are undergoing a demographic transition, with a reduction in the fertility rate and the relative size of the young population (defined as those under 15 years of age) to total population. This transition is more advanced in Asian and Island LDCs than in African LDCs, which had a slower and more recent reduction in fertility rates. This implies that the working-age population is currently growing faster than the total population in the LDCs.[3] With large cohorts of young people entering the working-age population, there has been a progressive reduction in the dependency ratios in these countries. However, this demographic dividend can only be realized if the LDCs are able to generate sufficient productive employment for all members of the working-age population, comprising both the young population and the rest of the working-age group.

The evidence so far suggests that the labour force and employment have grown slightly more slowly than working-age populations (15+). Although LFPRs are relatively high in the LDCs, averaging around 67 per cent between 2010 and 2019, they have been declining since the turn of the millennium. A closer look at gender differences shows that while women exhibit lower LFPRs, the overall decline can be attributed to a steep drop in male LFPRs, from 82.7 per cent in 2000 to 77.8 per cent in 2019 (table A.2). A declining LFPR means that a smaller proportion of the overall working-age population is either employed or looking for employment, while a larger share is not in the labour force. In the LDCs, the share of the working-age population that is economically inactive increased from 30.6 per cent in 2000 to 33.1 per cent in 2019. This can be due to either an insufficient number of good job opportunities and/or increased enrolment rates in education or training. Tertiary education enrolment rates have almost tripled in these countries, from 3.8 per cent in 2000 to 11.2 per cent in 2021, while not-in-employment, education or training (NEET) rates have been slowly declining since 2005, suggesting some progress in skills acquisition and the potential for human capital expansion, albeit from a low starting point.

As further discussed in the report, the youth population in LDCs could potentially use progressively higher levels of education, creativity and talent to contribute to the development of more innovative sectors and enterprises, mostly through the productive use of information and communication technology (ICT). Nonetheless, an economy-wide structural transformation requires the training and reskilling of the entire working-age population if its members are to participate in new industries and production modes.

1.3 Structure of production, exports and growth

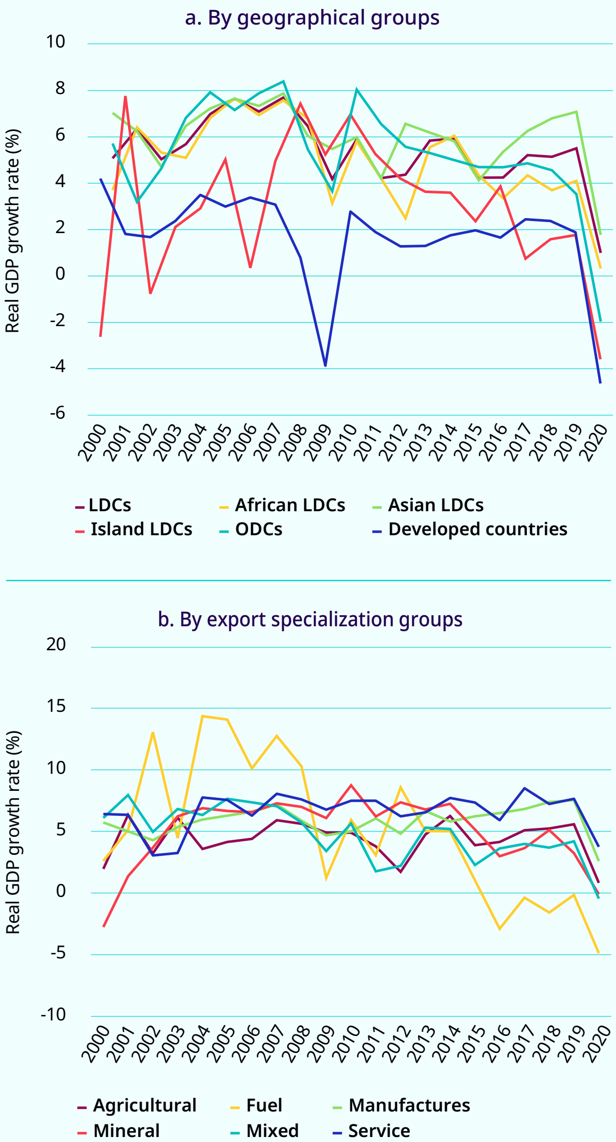
Structure and recent growth patterns

GDP growth has been on average sustained but volatile in the two decades up to 2019, reaching peaks of more than 7 per cent yearly growth during the boom in commodity exports and the expanding global demand for manufactures of the 2000s (figure 1.3, panel A, and table B.1 in Appendix B). African LDCs had on average lower and more volatile growth after the 2009 trade collapse and subsequent recovery than Asian LDCs. Island LDCs have been lagging in absolute and per capita GDP growth (see also figure 1.1 for per capita growth). When the LDC economies are grouped by export specialization, GDP growth appears to be even more volatile and on a declining trend for fuel exporters. Overall it is less sustained for agricultural and mineral exporters (figure 1.3, panel B).[4] Services and mixed exporters on average also show volatility and a deceleration of growth in the last decade. Manufactures exporters display steadier levels of growth over the period.

3 Even though the 65-and-older population is increasing in Asian LDCs, the overall increase of the prime working-age population (those aged 15–64) is occurring more quickly than the total population increase.

4 Following various UNCTAD LDC reports, we classify the LDCs into six export specialization categories, according to which type of exports accounted for at least 45 per cent of total exports of goods and services in 2016–2020.

Figure 1.3 GDP growth by geographical groups and by export specialization groups



Source: ILO calculations based on IMF WEO October 2021 and UNCTADstat.

Notes: 1. Group GDP growth rate is weighted by country's GDP share, in constant PPP prices, in the group. 2. LDCs are grouped according to their main export, which accounts for at least 45% of total exports of goods and services for the whole period (2016–2020). 3. LDC group comprises 46 countries, as Equatorial Guinea and Vanuatu graduated in 2017 and 2020 respectively.

The sectoral composition of value added is an indicator of the LDCs' economic structure and existing productive capacities. Agricultural value added has in general declined in LDCs as a share of total value added, indicating the relative growth of other sectors (table B.2 in Appendix B). Manufacture value added has also decreased as a share of total value added in many countries, while other industrial production, such as mining, construction and utilities, and services have grown in relative terms, raising concerns about premature deindustrialization.[5]

The modest effect of this volatile growth on employment and overall productivity is shown in figure 1.1 and will be further explained in this and the following chapters, with a more detailed analysis of sectoral dynamics and the characteristics of production and employment for each sector.

Export concentration and external balances

One of the most critical structural characteristics of LDCs is their lack of production and export diversification, which is both a manifestation of their limited productive capacities and the source of economic vulnerability and low productive employment. General economic dependence on commodity production (in agriculture, or in mineral or oil extraction) or exports of a limited number of manufactures (such as garments and textiles) or services (such as tourism-related services) exposes them to global shocks in commodity prices, specific value chain disruptions and (more recently) a collapse in the demand for tourism-related services.[6] This is quite apparent in the growth volatility of economies with highly specialized exports compared to the mixed exporters, and in the impact of the COVID-19 crisis on their 2020 growth estimates (figure 1.3, panel B and figure 1.4, panel B).

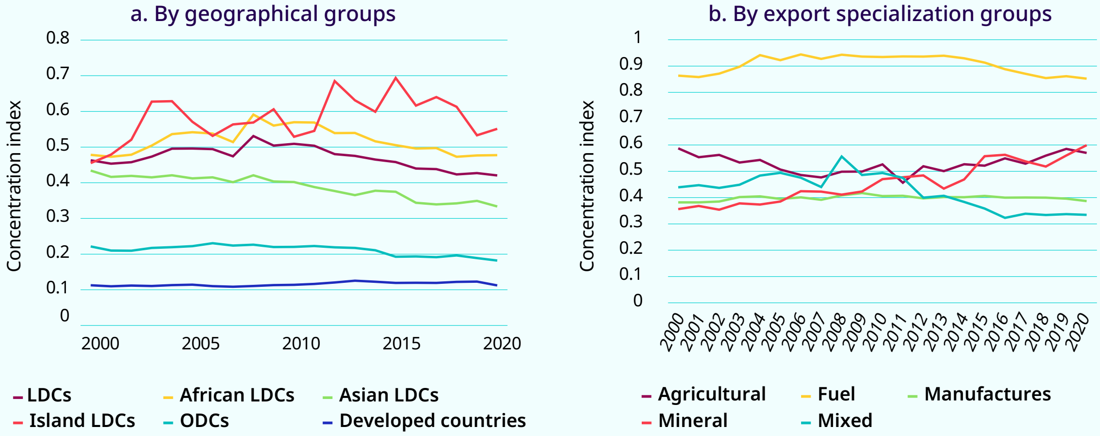
African and Island LDCs have the highest levels of export concentration (figure 1.4, panel A and table B.3). The gap in concentration between African and Asian LDCs has been widening in the 2000s and early 2010s as the commodity supercycle was driving African LDCs' GDP growth to its highest rates (exceeding 7 per cent). Export concentration has been mostly declining in the last two decades in Asian LDCs, as it has in the ODCs, and the gap between the two groups persists. Simple correlation analysis shows that

5 Chapter 3 focuses on the analysis of the sectoral structure and evolution of the LDCs in recent years and on the role of structural transformation in sustainable development.

6 These include transportation, accommodation, and other recreational and hospitality services.

GDP growth in countries that are specialized in commodity export and production (particularly the mining and extractive industries) has been associated with increasing concentration rather than with a more balanced growth in exports.[7] For those countries, commodity-led growth has actually reduced the relative importance of the output and exports of other productive sectors along with their potential for employment growth. Hence, sustained periods of growth have not been sustainable, as they have not involved structural change in production and exports. For other export specializations, such as manufacture, there is weak evidence of growth being associated with increased concentration, which points to the fact that their GDP growth can be induced by more balanced export demand growth. The challenge for LDCs is to develop the capacity to translate their main export growth into generalized production growth, with positive impacts on employment-intensive sectors.

Figure 1.4 Export concentration index by LDC group: geographical and export specialization group



Source: ILO calculations based on UNCTADstat.[8]

Notes: 1. Group concentration index is the average of countries' index weighted by merchandise export shares in 2010. 2. LDCs are grouped according to their main export, which accounts for at least 45% of total exports of goods and services for the whole period (2016–2020). 3. LDC group comprises 46 countries, as Equatorial Guinea and Vanuatu graduated in 2017 and 2020, respectively.

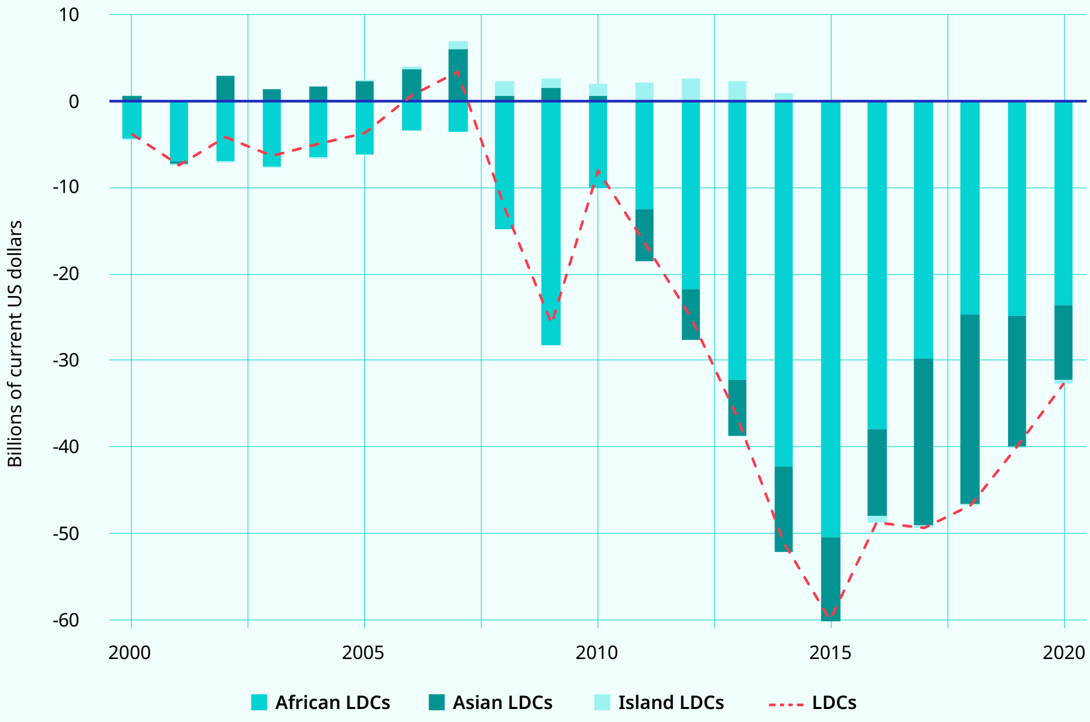
Export concentration shows the production concentration of the most competitive and efficient formal firms, which are typically those able to export in the international markets. In the case of the LDCs, this concentration is associated with a strong duality between the more productive, formal and larger firms accounting for most of the export and productivity increases and the less productive, informal and smaller firms absorbing labour and generating widespread but low remunerative employment. Section 4 of this chapter and Chapters 3 and 4 discuss this persistent dualism in greater detail.

Finally, LDCs have undergone sustained current account imbalances in the last decade (figure 1.5).

7 Correlation coefficients between the concentration index and GDP growth are 0.33 and 0.41 for fuel and mineral exporters, respectively, and are significant. The coefficients for manufactures, services and agricultural exporters are -0.07, -0.04 and -0.13, respectively, but are not significant.

8 We use here UNCTAD's export product concentration index, which is a normalized Herfindahl-Hirschman index measuring the product concentration of merchandise exports for each country. An index value equal to one indicates that all merchandise exports of a country come from a single good, while a value of zero means that the country's exports are homogeneously distributed among all products. The export product concentration indices of the country groups are obtained by averaging the indices of individual countries weighted by their merchandise export shares in 2010.

Figure 1.5 Current account balances as a share of GDP in LDCs by region



Source: ILO calculations based on UNCTADstat.

Note: The LDC group comprises 46 countries, as Equatorial Guinea and Vanuatu graduated in 2017 and 2020, respectively.

While African LDCs have persistently run deficits in the last two decades, the great trade collapse of 2009 marked a turning point for Asian LDCs, which suffered from the ensuing sluggish global growth and turned to negative balances in the last decade. Deficits peaked in 2015 and 2018 for African and Asian LDCs, respectively, but have so far remained sizeable. As the current account balance deficit mirrors the net inflow of foreign capital, this measure is indicative of a sustained external debt accumulation that has accompanied the growth of LDCs in the last decade. The LDCs as a group were able to cope with the effects of the 2008 global financial crisis and the great recession from a position of strength in their external balances. The debt accumulation of the last decade, by contrast, has been more significant and characterized by a larger private component. This has generated additional vulnerability, which is exposing African LDCs in particular to debt distress in the fallout from the COVID-19 crisis.

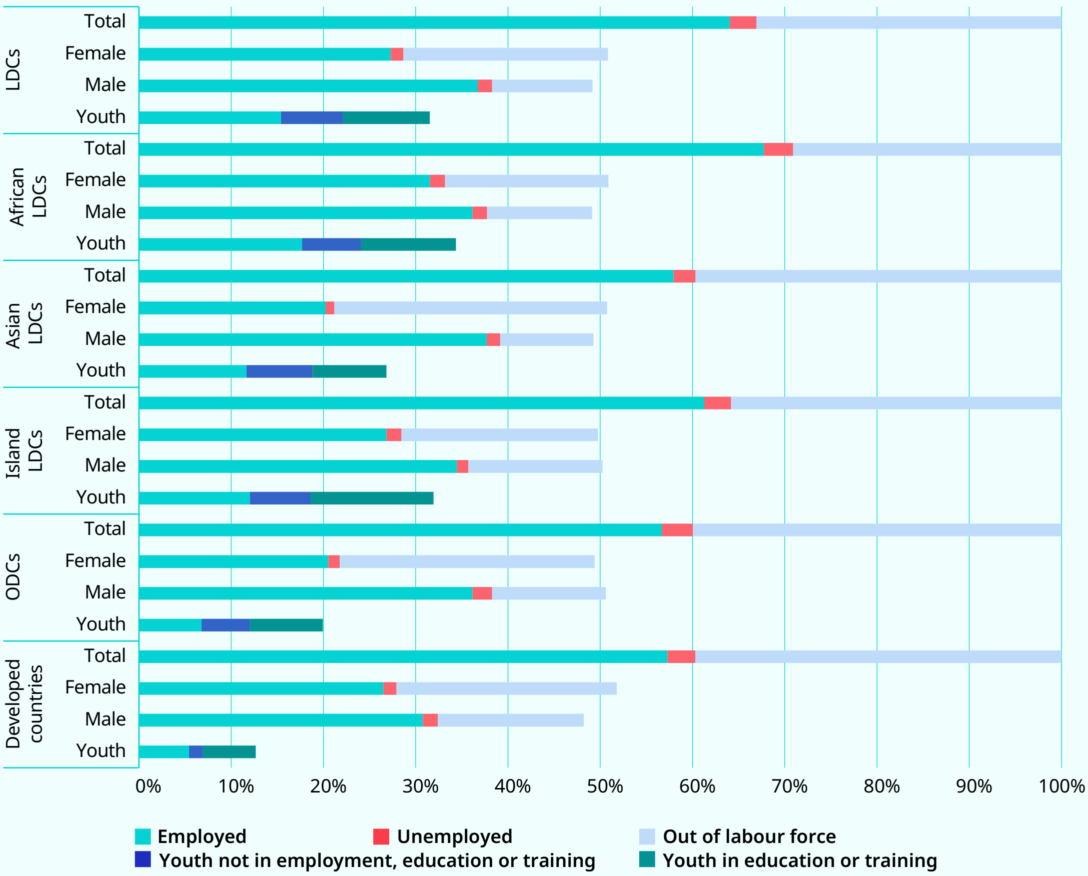
1.4 Work and employment indicators

The working-age population in LDCs is typically either “in employment” or “out of labour force”. While unemployment represents a modest component of the working-age population, reductions in employment often translate into an exit from the labour force. This makes the LFPR sensitive to economic downturns. Changes in labour demand, however, can affect the quality and level of labour utilization of people in employment. Therefore, measures of the quality and intensity of jobs are particularly important in assessing not only long-term development but also shorter-term economic impacts in the labour markets. Measures of labour underutilization can capture not only open unemployment but also *potential labour force* and *time-related underemployment* and can better illustrate quantitative gaps in employment. The status in employment, informality and working poverty can facilitate understanding of qualitative aspects of the work undertaken in the LDC economies.

Employment and unemployment

In 2019, the LDCs’ working-age population (15+) stood at an estimated 629 million. Of this number, 208 million (33 per cent) were economically inactive, 403 million (64 per cent) were in employment, and an estimated 18 million (3 per cent) were unemployed (figure 1.6). Taken together, this implies that the total labour force – that is, those in employment and unemployment –comprised 421 million workers and that participation rates were high, at 67 per cent.

Figure 1.6 Shares of employed, unemployed and inactive persons over working-age population by gender, age and country groups, 2019



Source: ILO calculations based on ILOSTAT modelled estimates.

Note: Shares are calculated over ***total*** working-age population by country group. This shows the share of female, male and youth population and their composition in total working-age population.

Most working-age people in LDCs are in some form of employment, and the employment-to-population ratios are well above the average of other regions. In 2019, the LDCs' employment rate was 64 per cent, compared to 56.7 per cent in ODCs and 57.3 per cent in developed economies. African LDCs showed the highest employment rates, followed by Asian and Island LDCs. Although high, the total employment rate masks pronounced gender differences. In Asian LDCs, women have an employment rate of 36.5 per cent, which is among the lowest in the world. However, employment rates have been declining in the LDCs since 2000, falling to 61.4 per cent in 2020 because of the pandemic. Rates are projected to be recovering, although they will not converge to pre-crisis levels by 2022 (table C.1).

Youth employment is also higher in the LDCs than in ODCs and developed countries, which can be explained by the relatively low participation of young people in education and by their high propensity to enter employment as a means of supporting themselves and their families. Young people account for a significant proportion of total working-age population in LDCs and particularly in African LDCs (figure 1.6).

Conversely, unemployment rates in the LDCs were lower than the average of other regions. In 2019, that rate was 4.3 per cent, compared to 5.6 per cent in ODCs and 5 per cent in developed countries (table C.2). Youth and female unemployment rates were also below those of other regions. The unemployment rate, however, is an inaccurate measure of labour market slack in the developing world, and it is important to take other measures of labour underutilization into account.

Underutilization and NEET

People are often unable to realize fully their work potential in the LDCs. A rapidly expanding labour force and slow-paced growth and structural transformation put pressure on job creation, leading to shortages of decent work opportunities, which in turn exacerbates labour underutilization.

The labour force is underutilized if there is a mismatch between the labour offered and the employment opportunities available to workers. When assessing the extent of labour underutilization in the LDCs, it is important to look beyond open unemployment and consider two additional categories that are more indicative of labour market slack:

- "time-related underemployment": people in work who would like to work more paid hours;[9] and
- the "potential labour force": people out of employment who would like to work but whose personal situation or other factors prevent them from actively looking for a job and/or being available for work.[10]

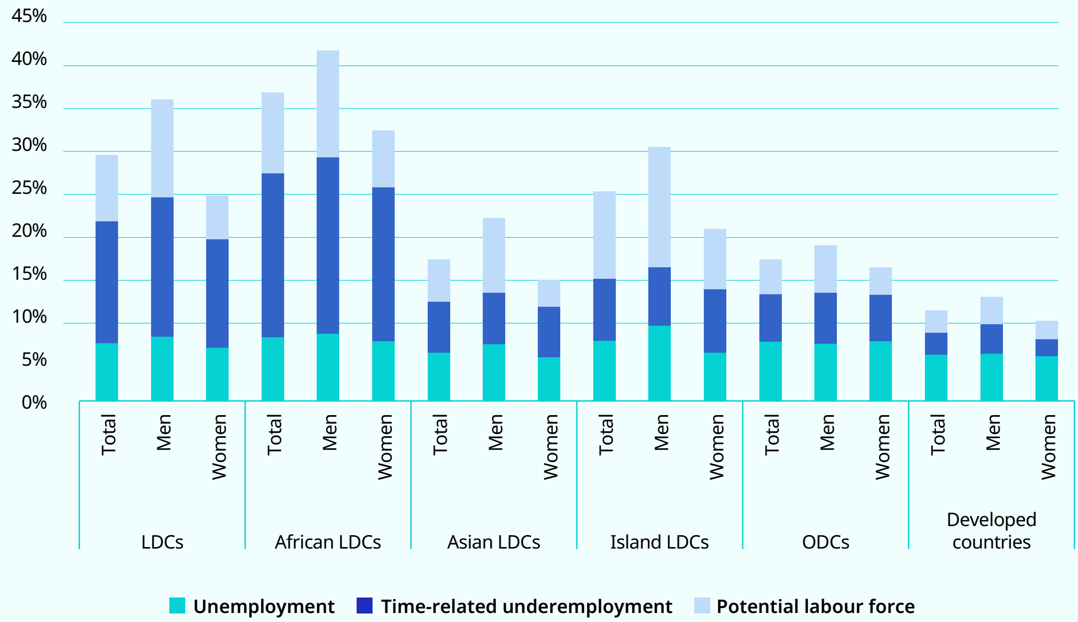
In 2019, an estimated 39 million people in the LDCs experienced time-related underemployment, while an additional 21 million people were in the potential labour force (tables C.3 and C.4). Combined with the traditional measure of unemployment, the full extent of labour underutilization amounts to 78 million or 17.6 per cent of the extended labour force, which is higher than the global average and ODCs (14 per cent and 10 per cent, respectively).[11] This is almost 4.5 times greater than the number of people unemployed in the LDCs (figure 1.7).

9 Persons in time-related underemployment are employed persons whose working time is insufficient in relation to a more desirable employment situation in which they are willing and available to engage.

10 The potential labour force consists of people who were actively seeking employment, were not available to start work in the reference week but would become available within a short subsequent period (unavailable jobseekers) or who were not actively seeking employment but wanted to work and were available in the reference week (available potential jobseekers).

11 The extended labour force is defined as the labour force plus potential labour force.

Figure 1.7 Breakdown of labour underutilization, total and by sex, 2019 (percentages)



Source: Calculations based on ILO modelled estimates.

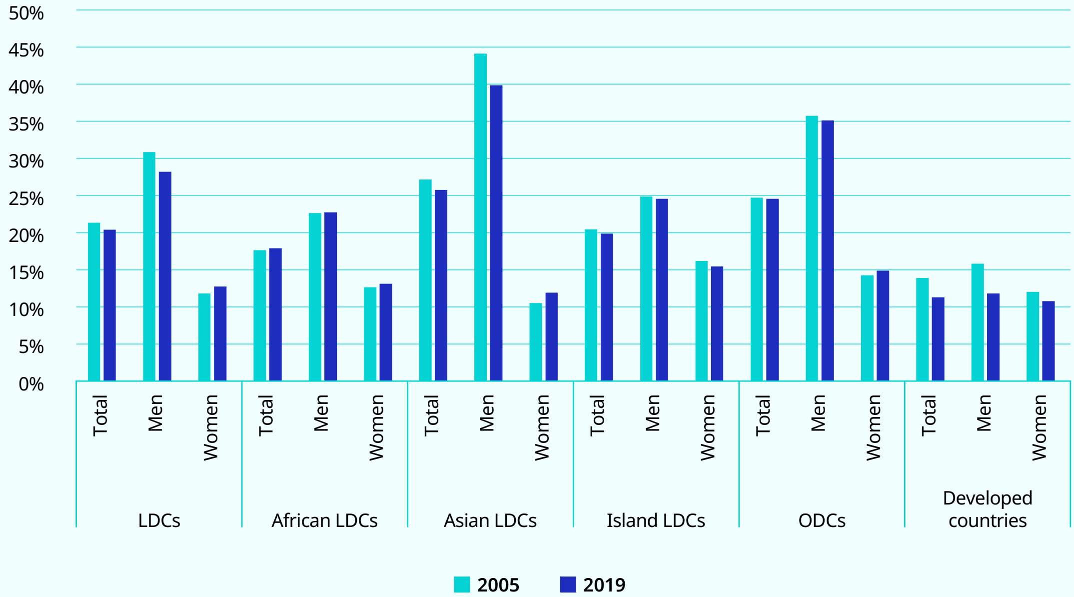
SDG target 8.6 is concerned with the promotion of youth employment, education and training. This task is all the more challenging and important in the LDCs – especially African LDCs – given that in stark contrast to other regions of the world, their youth population is expanding and projected to continue doing so for the foreseeable future.

Among young people aged 15 to 24 in the LDCs, an estimated 97 million (46 per cent) were in employment in 2019, with another 72 million (34 per cent) in education or training without simultaneously being employed, and the remaining 42 million (20 per cent) were not in employment, education or training (NEET) (table C.5).[12] Although the share with NEET status has been slowly decreasing, falling from 21.3 per cent in 2005 to 20.4 per cent in 2019, it still constitutes a significant share of young people and millions of potential workers (figure 1.8). This presents a plethora of risks. Bouts of youth unemployment or labour market disengagement can limit employment prospects and reduce future wages at the individual level, while also dampening productive capacities and increasing the financial burden at the country level (O'Higgins, 2016).

12 The NEET rate is used as an indicator for SDG target 8.6 , measuring the proportion of youth who are not in employment, education or training.

One characteristic of the youth NEET problem in the LDCs is entrenched gender disparities, with vastly higher NEET rates among young women. Although women were the driving force behind the regional declines in NEET rates, and rates among young men increased in parallel, they were still significantly more likely to fall into this category. The gender gap is especially wide in Asian LDCs, where young women were more than 3.3 times likely than young men to have NEET status (figure 1.8). The over-representation of women in a NEET situation is strongly linked to their low level of labour participation in general (and particularly in Asian LDCs) due to family care responsibilities, such as childcare, care for the elderly and care for disabled persons or those living with HIV. It can also result from social norms involving early-age marriage, young women's access to education and the rights of married women to enter or stay in paid employment. In developed countries, by contrast, NEET rates were significantly lower and the gender differences narrower, at 11.8 per cent for men and 10.8 per cent for women.

Figure 1.8 Young people not in employment, education or training, by sex, LDCs and country group, 2005 and 2018 (percentages)

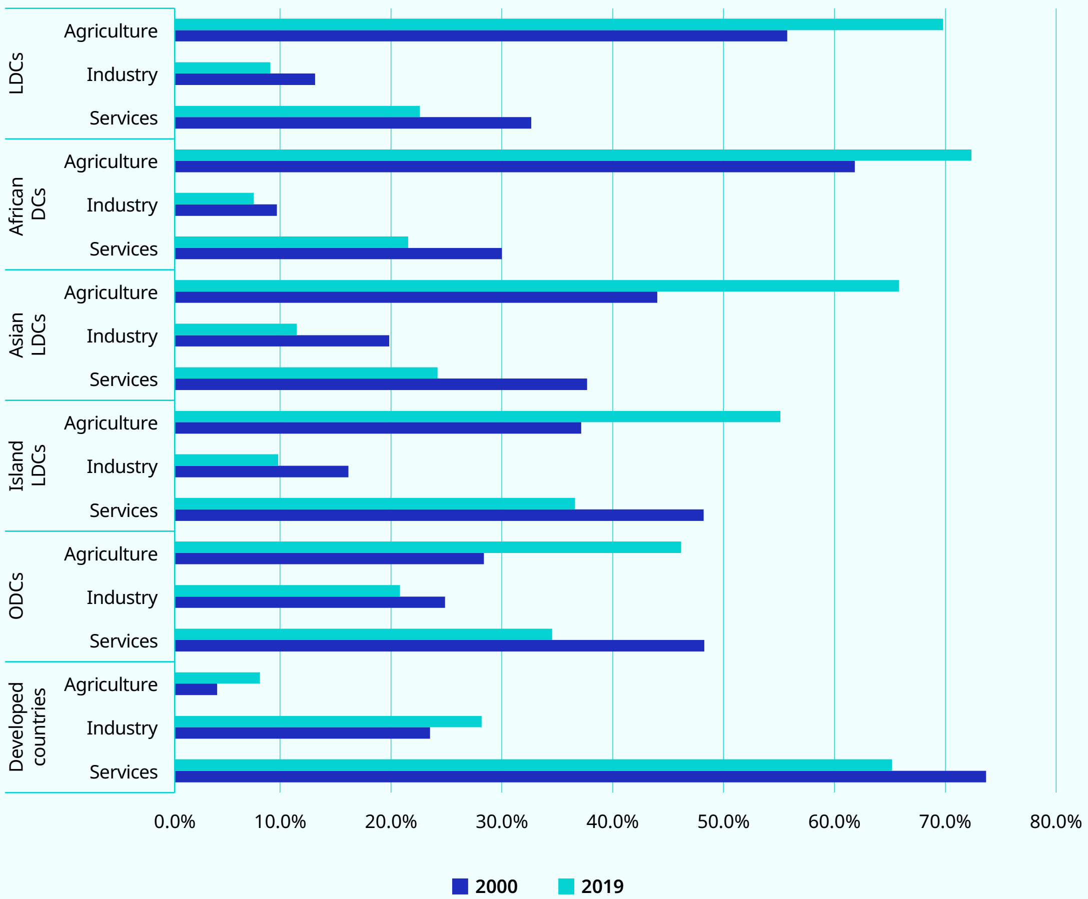


Source: ILOSTAT database, ILO modelled estimates.

Employment and production sectors

The sectoral composition of employment (figure 1.9) and the composition of output discussed above are both indicators of the economic structure. Agriculture continues to be a very important source of employment for the LDCs compared to other countries, although its importance has declined significantly over the past 20 years (from 69.3 per cent to 55.2 per cent). In ODCs, employment in agriculture dropped by a larger percentage (from 45.7 per cent to 27.9 per cent) over the same period.

▶ **Figure 1.9 Employment by broad economic sector, 2000 and 2019**



Source: ILOSTAT database, ILO modelled estimates.

Asian LDCs have experienced the greatest change over the past two decades, with more and more jobs created in the industry and services sectors, mostly related to an expansion in tourism and the manufacturing and exporting of textiles, clothing, leather and footwear. Agricultural employment, meanwhile, fell from 65.3 per cent in 2000 to 43.5 per cent in 2019. While Island LDCs have experienced a similar reduction in that share, in African LDCs the employment structure has remained relatively intact.[13]

13 Chapter 3 analyses structural change in LDCs in greater detail.

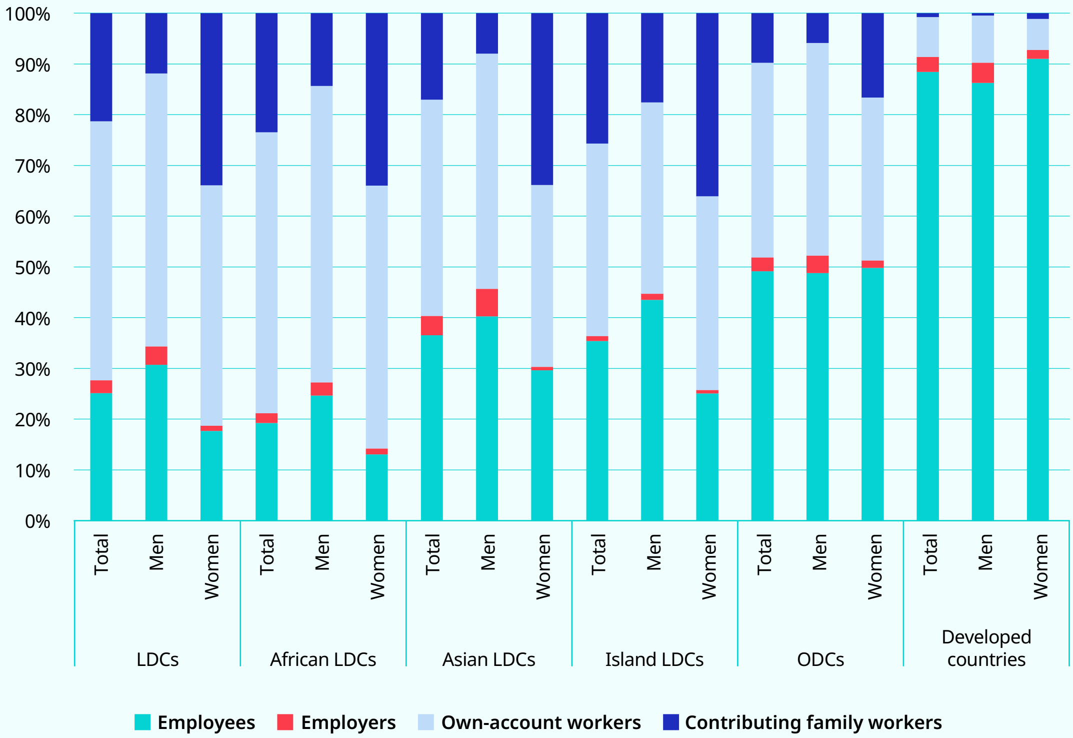
Status in employment

The distribution of workers by status in employment varies across countries, depending on the prevalence of productive activities, the incidence of more productive and more capital-intensive production and firm size. In developing countries, larger proportions of employment are often characterized by own-account workers and contributing family workers, while in developed economies it is employees who represent the largest share of workers. Employees also represent almost 50 per cent of total employment in ODCs (figure 1.10).

Own-account workers and contributing family workers are associated with inadequate earnings, low productivity and a lack of decent working conditions. As shown in section 1.5, these workers are more likely to be in informal employment and therefore to lack adequate social security and effective representation in workers' organizations. Therefore, the distribution of employment by status is an important indicator for identifying and comparing conditions of work and vulnerability across countries.

Own-account workers are the norm in the LDCs, and their prevalence is increasing over time. The proportion of employment represented by own-account workers rose from 47 per cent in 2000 to 51 per cent in 2019. The proportion of employees, meanwhile, increased by 7 percentage points, accounting for one quarter of employment (table C.7). While contributing family workers have become less common over time, they still represented 21.3 per cent of employment in 2019, which is more than twice as high as in ODCs (9.8 per cent) (figure 1.10).

Figure 1.10 Employment status distribution, total and by sex in LDCs, 2019



Source: ILOSTAT database, ILO modelled estimates.

On a regional basis, Asian LDCs have seen the largest decline (16.1 percentage points) in contributing family workers, and African LDCs the smallest (10.7 percentage points). Asian LDCs have also boasted the largest increase in employees (11.2 percentage points), while African LDCs showed the smallest (5 percentage points).

In addition, women in the LDCs are more often in vulnerable employment, as they are three times as likely to be contributing family workers –representing over one third of LDC employment – and half as likely to be employees as men.

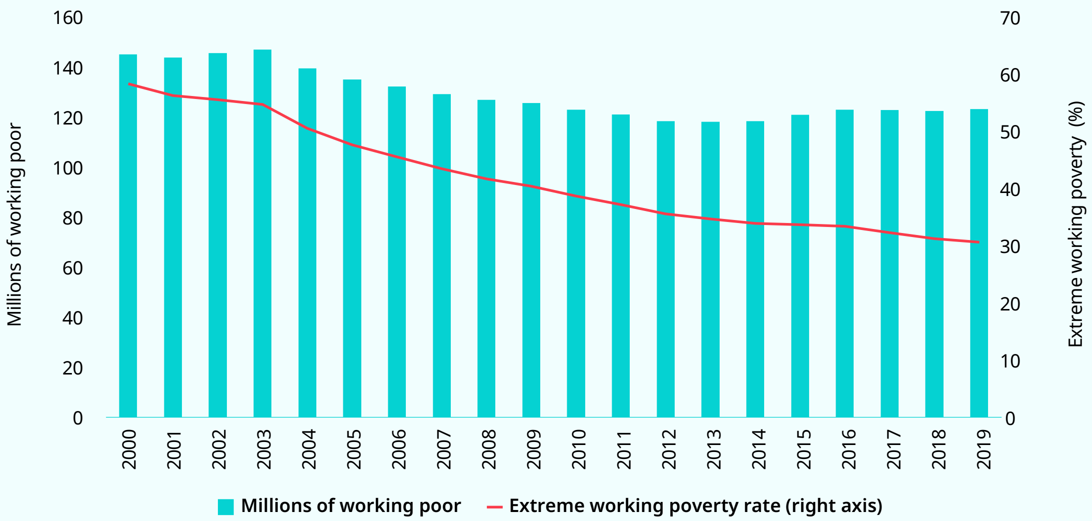
Working poverty

A disproportionately large share of the world's poorest reside in the LDCs. In 2019, 218 million workers around the world were classified as being in extreme working poverty – defined as those earning less than US$1.90 a day (purchasing power parity (PPP)) –and 57 per cent of them were in LDCs. In order to eradicate extreme poverty, it is crucial to address its root causes. Information on the characteristics of the population living in poverty is essential in this regard. In particular, data on their labour market status (that is, whether they are employed, unemployed or outside the labour force) can provide valuable insights into the factors that give rise to poverty. In the case of employed persons living in poverty, also referred to as the working poor, it is likely that low earnings and, more generally, informality and resulting inadequate working conditions are to blame. Within the LDCs, African LDCs have the highest extreme working poverty rates (42 per cent), followed by Island and Asian LDCs (16 per cent and 9 per cent, respectively).

As developing countries become more productive, more and better jobs are typically created, which in turn raises the living standards of workers and their families. To a certain extent this trend has been reflected in the LDCs, where extreme working poverty rates have been almost halved, from 58 per cent in 2000 to 31 per cent in 2019 (figure 1.11). As to sex and age, women (34 per cent) and youth (35 per cent) had significantly higher extreme working poverty rates than men (28 per cent).

Those reductions also varied subregionally: Asian and African LDCs realized the largest reductions, cutting their working poverty rates by 38 percentage points and 24 percentage points, respectively, while Island LDCs reduced theirs by 17 percentage points.

Figure 1.11 Working poverty rates and millions of workers in the LDCs



Source: Calculations based on ILO modelled estimates.

Even though working poverty rates are on a downward trend in the LDCs, high population growth and a lack of productive job growth has led to an increase in the absolute number of working poor in some LDC regions (table C.8). In African LDCs, for instance, 11.2 million workers fell into extreme working poverty between 2000 and 2019. Overall, while there has been some improvement in living standards in the LDCs, a wide gap still exists between LDCs and ODCs, whose extreme working poverty rates were 30.6 and 4.1 per cent in 2019, respectively.

1.5 Informality

Incidence of informality

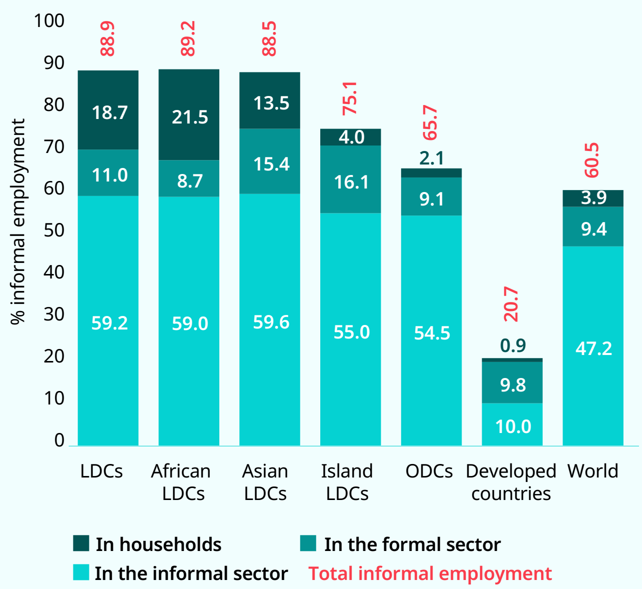
Informal employment is widespread in the LDCs. Just before the COVID-19 pandemic, nearly 9 out of 10 workers were in informal employment (88.9 per cent, figure 1.12).[14] The overall extent of informal employment is highest in African and Asian LDCs among all country groups. Although Island LDCs had a lower incidence (75.1 per cent), their rate was significantly higher than that of ODCs (65.7 per cent).

The informal economy is strongly linked to the degree of economic and institutional development and to the structure of the economy and of the labour market.[15] The nature and incidence of informality need to be considered in conjunction with other dimensions of employment and productive activities. In the LDCs, informality is characterized by its concentration in vulnerable employment statuses (own-account workers and contributing family workers), specific sectors (agriculture, wholesale and retail trade, and manufacturing) and small economic units (micro and small enterprises).

Informal employment in the LDCs is to be found primarily in informal sector enterprises and households, and the share of informal employment in the formal sector is much smaller. Informal sector units – the majority being units of less than ten workers – provided 59.2 per cent of total employment (two thirds of informal employment). Households as employers of informal domestic workers or producing for own final use (mainly subsistence farming) generated 18.7 per cent of total employment – a proportion which was almost nine times higher than in ODCs. Informal employment in formal enterprises, by contrast, represented only 11 per cent of total employment (12.4 per cent of informal employment), which is indicative of the LDCs' composition of employment statuses.

Indeed, employees represented only 25 per cent of total employment in the LDCs, which was significantly less than the sum of own-account

Figure 1.12 Share and composition of informal employment



Source: ILO calculations based on data from ILO (forthcoming a).

Notes: Data refer to 2019. A common set of operational criteria is systematically used to identify workers in informal employment and those employed in the informal sector. Own-account workers and employers are in informal employment if they run informal sector economic units (non-incorporated private enterprises without formal bookkeeping systems or not registered with relevant national authorities). Employees are in informal employment if their employers do not contribute to social security on their behalf or, in the case of missing answers, if they do not benefit from paid annual leave and paid sick leave. Contributing family workers are in informal employment by definition.

and contributing family workers (72.4 per cent) (figure 1.13, panel B, and figure 1.10).

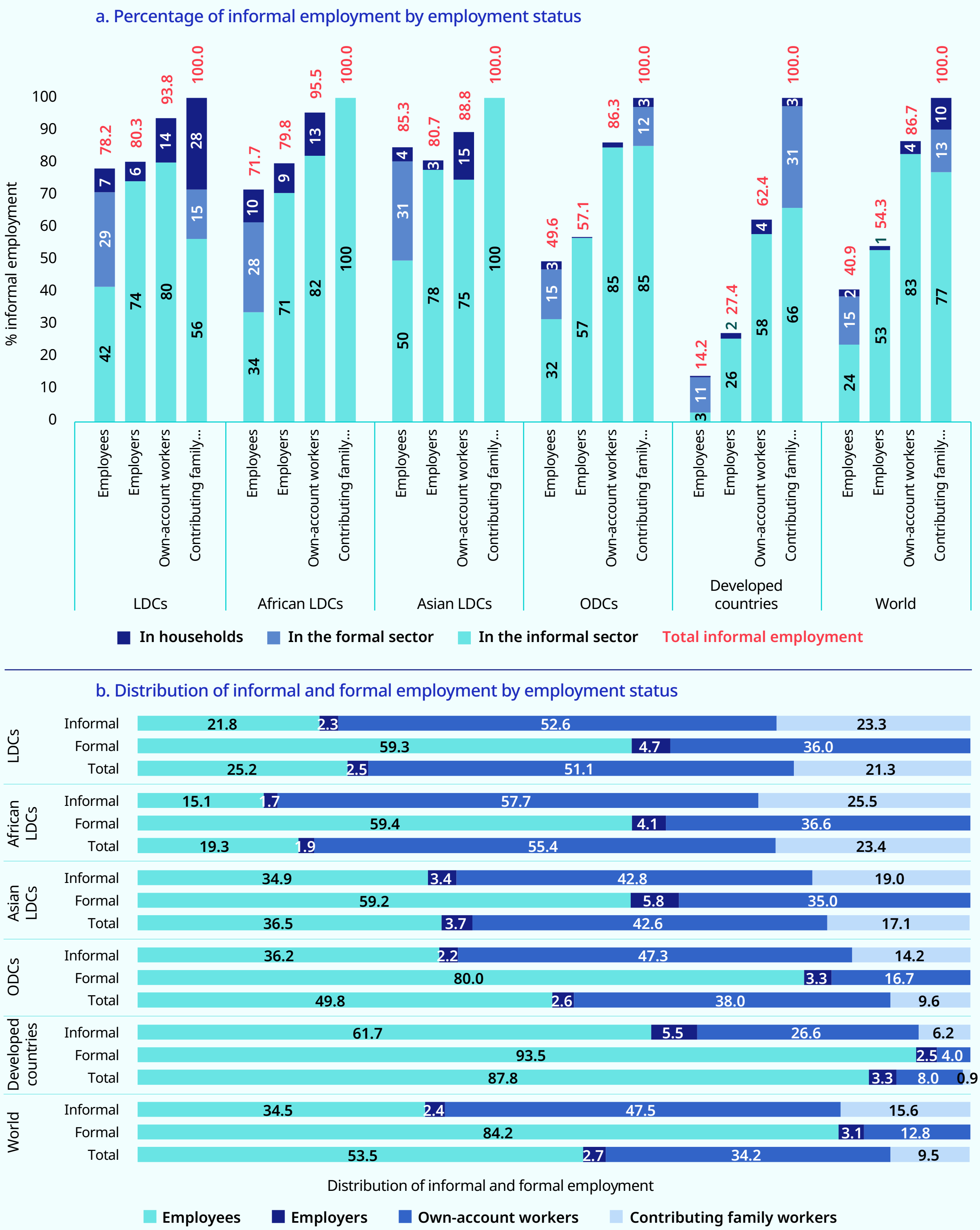
This pattern was most apparent in African LDCs, where employees represented less than 20 per cent of total employment. Whereas informal employment was higher in LDCs than ODCs for all employment statuses, contributing family workers and own-account workers were the two categories most exposed to informality, which is clear evidence of the difficulty in reaching these workers with conventional social and employment policies.

14 *Informal employment* is defined as all workers in the informal sector and workers in informal employment outside the informal sector. The former comprises all persons who were employed in at least one informal firm. The latter group consists of employees in formal enterprises or in households whose employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits; it also includes contributing family workers outside of the informal sector (ILO, 2003).

15 The *informal economy* is defined as all economic activities by workers and economic units that are – in law or in practice – not covered or are insufficiently covered by formal arrangements (see Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204)).

More than nine in ten own-account workers (93.8 per cent), and four in five employees (78.2 per cent) and employers (80.3 per cent), operate in the informal economy (figure 1.13, panel A). Those informal workers were spread across a wide range of economic activities, encompassing street vendors, waste collectors, daily wage workers, seasonal farm labourers, domestic workers and home-based workers subcontracted by formal firms.

▶ Figure 1.13 Informality and employment status

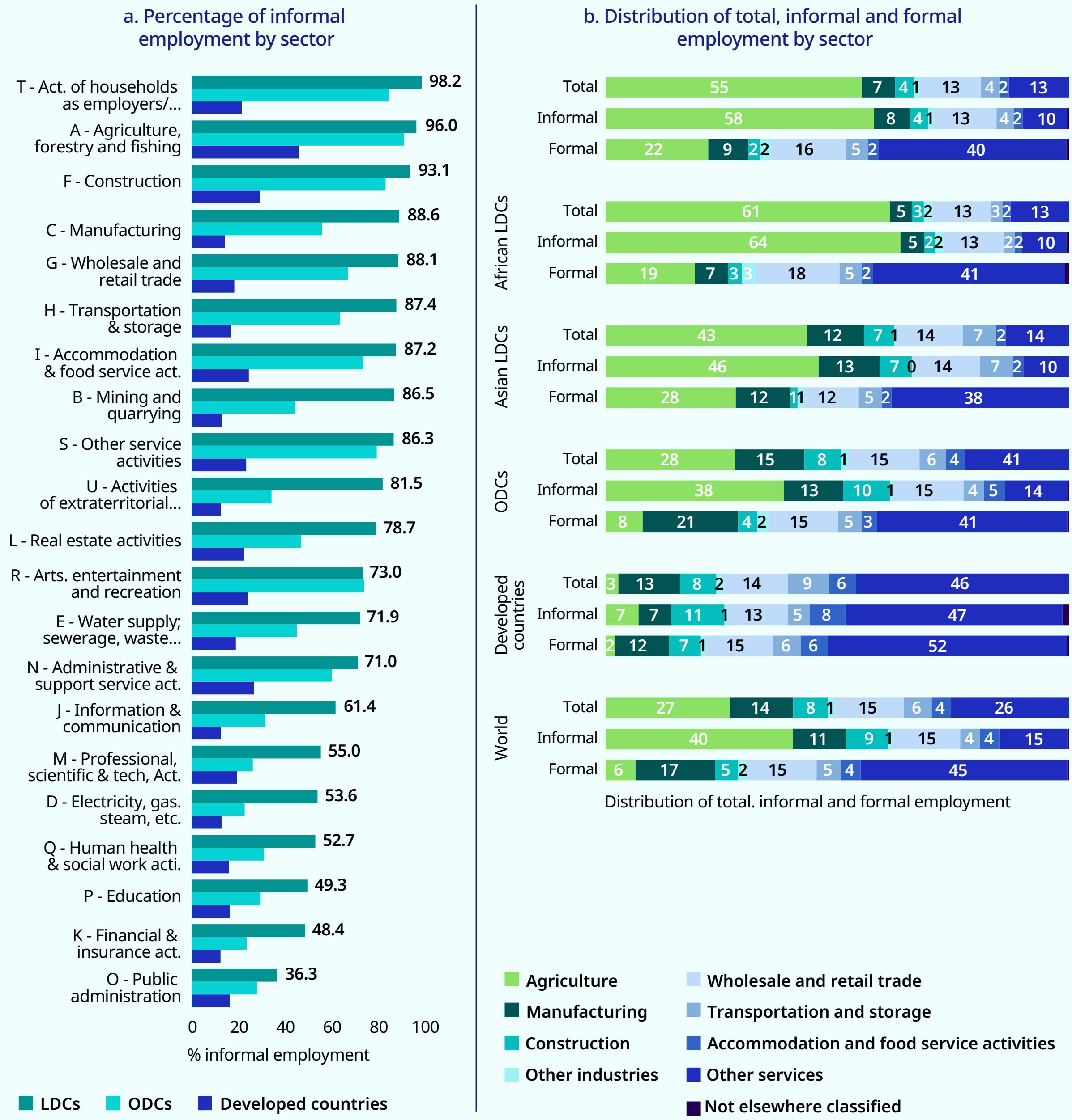


Source: ILO calculations based on data from ILO (forthcoming a).

Note: Data refer to 2019. Asian LDCs include Asia and Pacific LDCs and Yemen; African LDCs include African LDCs and Haiti.

Informality is most pervasive in sectors where employment is highest and correlates with the different statuses in employment. Agriculture has the largest share of employment and accounts for 58 per cent of all informal employment, followed by wholesale and retail trade (13 per cent), other services (10 per cent) and manufacturing (8 per cent) (figure 1.14, panels A and B). Whereas African LDCs had a larger proportion of informal employment concentrated in agricultural activities, manufacturing was more common in Asian LDCs and ODCs.

Figure 1.14 The sectoral dimension of informality



Source: ILO calculations based on data from ILO (forthcoming a).

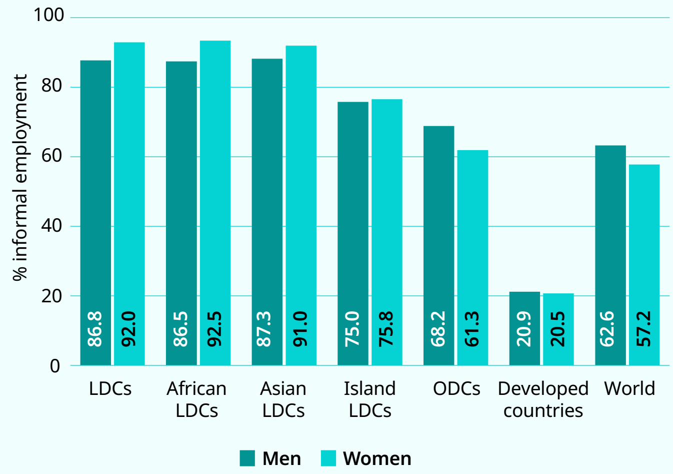
Notes: Data refer to 2019. Asian LDCs include Asia and Pacific LDCs and Yemen; African LDCs include African LDCs and Haiti.

Workers with certain individual profiles – such as those with lower levels of educational attainment, women, and younger and older workers – are disproportionately concentrated in informal employment. The following sections shed light on the heterogeneity of informal employment profiles across different country groups by analysing the relative level of exposure of different groups of workers to informality.

Gender dimension

In the LDCs, informal employment is a greater source of employment for women (92.0 per cent) than for men (86.8 per cent) (figure 1.15). For those in informal employment, women more often work in the most vulnerable segments of the informal economy, for example as domestic workers, as homeworkers engaged on a piece rate basis in the lower tiers of the global supply chain or as contributing family workers. They are almost three times more likely to be contributing family workers than men (36.1 per cent and 13.3 per cent, respectively).

Figure 1.15 Percentage of informal employment by sex



Source: ILO calculations based on data from ILO (forthcoming a).

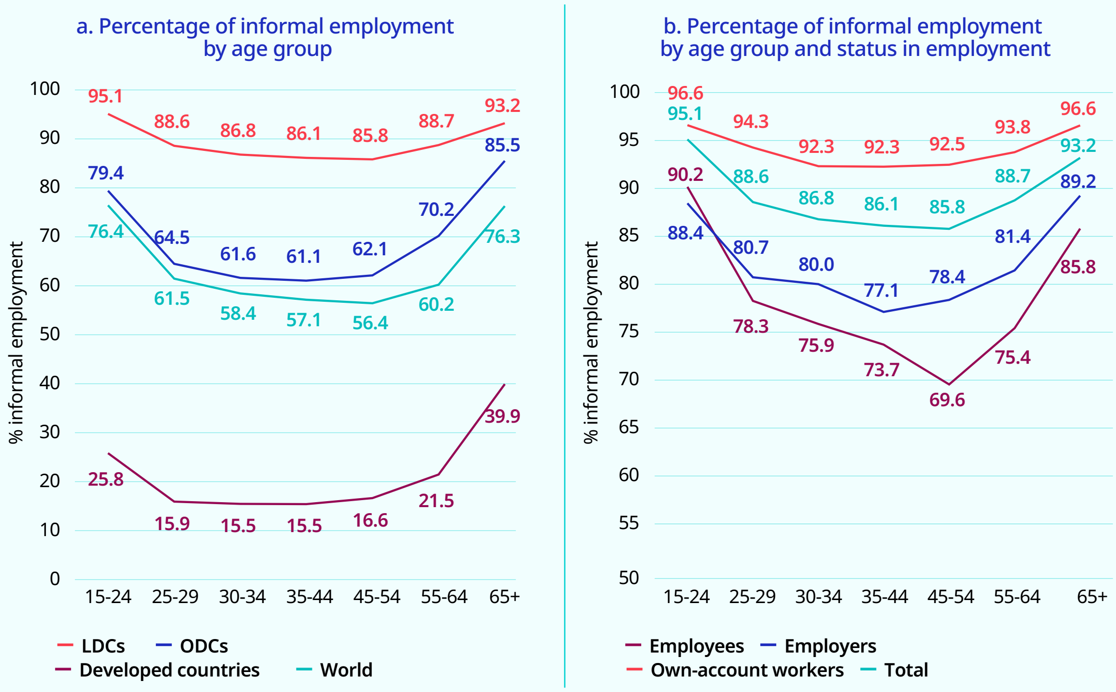
Note: Data refer to 2019.

Youth and older workers

Although informality deeply affects all age groups in the LDCs, youth and older workers are most exposed. Globally, more than 75 per cent of workers in those age groups are in informal employment, compared to 57 per cent of those aged 25–64. Due to the pervasiveness of informality, however, the effect of age on transition to formality is limited when compared to other regions and consequently informality remains high, even for the prime working-age population (figure 1.16, panel A). This is because of the prevalence of own-account workers and contributing family workers and the limited transitional employment opportunities available to them.

Conversely, the share of informal employment decreases more rapidly with age in other employment statuses and reaches its lowest levels for employees and, to some extent, employers (at least until retirement age) (figure 1.16, panel B).[16]

Figure 1.16 Percentage of informal employment and age



Source: ILO calculations based on data from ILO (forthcoming a).

Note: Data refer to 2019.

16 See also Chacaltana et al. (2020).

Education and informality

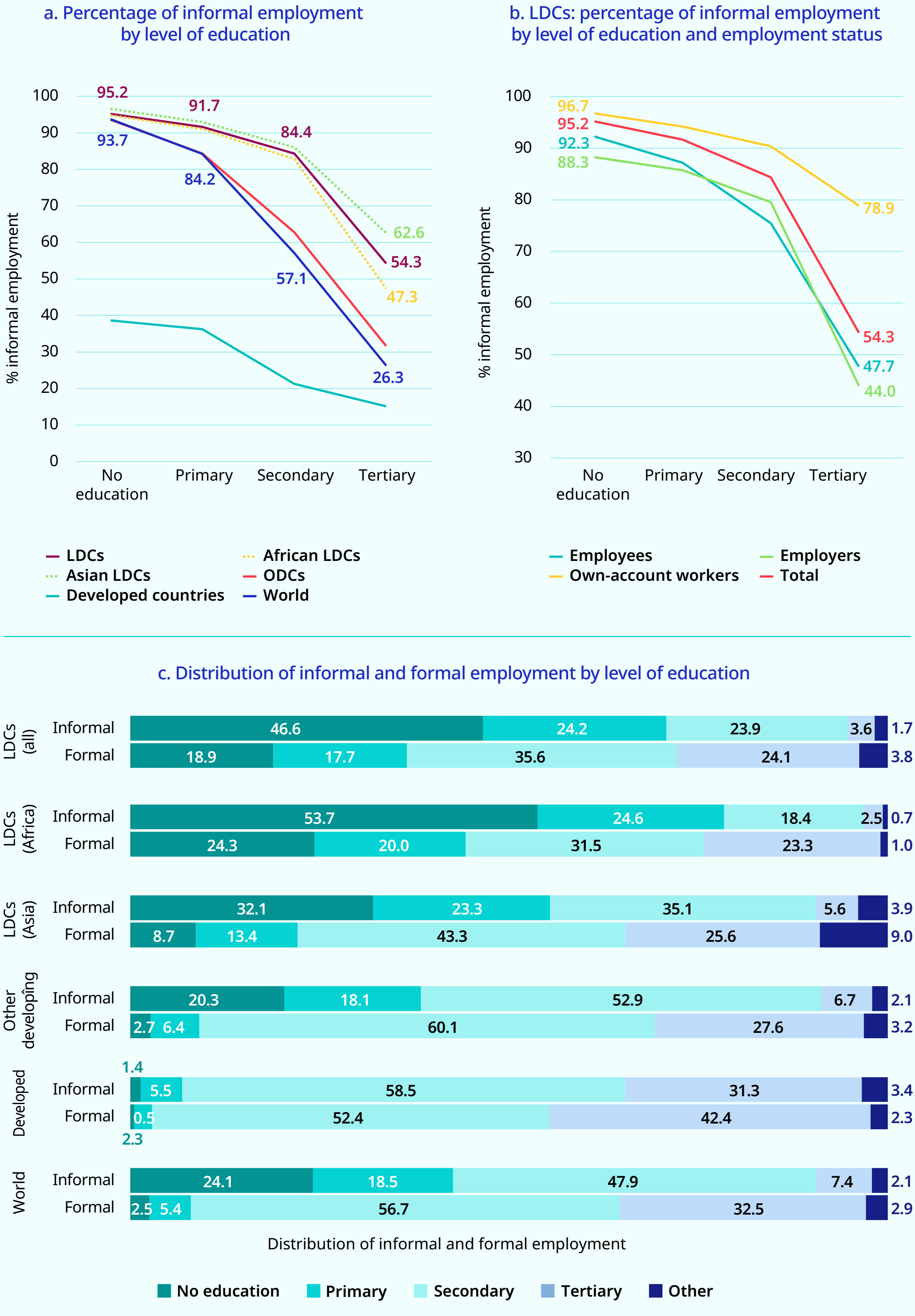
Educational attainment is a determining factor of informal employment. In LDCs, more-educated workers are less likely to be in informal employment, but the effect of education is significantly weaker than in ODCs. In particular, the share of informal employment among workers with no formal education is comparable in both country groupings, while workers who are more educated are more likely to be in formal employment in ODCs. More than 50 per cent of workers with tertiary education in LDCs remain in informal employment, but the figure is markedly lower (close to 30 per cent) in ODCs (figure 1.17, panel A).

These positive effects of higher educational attainment on access to formal employment are particularly evident among employees and employers but far less clear among own-account workers, whose exposure to informal employment remains high (above 75 per cent), regardless of education level (figure 1.17, panel B).

The informal economy tends to absorb less-educated workers. Workers in informal employment are markedly less educated in all regions, albeit to a lesser extent in the developed world (figure 1.17, panel C). In LDCs, 70.8 per cent of all informal workers have at most a primary education, a proportion that is most accentuated in African LDCs (78.4 per cent), followed by Asian LDCs (55.4 per cent) and ODCs (38.4 per cent). Conversely, the proportion of informal workers with a tertiary level of education is among the lowest in the LDCs (less than 4 per cent, including less than 1 per cent in African LDCs).

The educational profile of formal workers differs significantly, and the majority of workers have at least some secondary education, with 24.1 per cent having obtained a tertiary certificate.

Figure 1.17 Education and informality



Source: ILO calculations based on data from ILO (forthcoming a).

Note: Data refer to 2019.

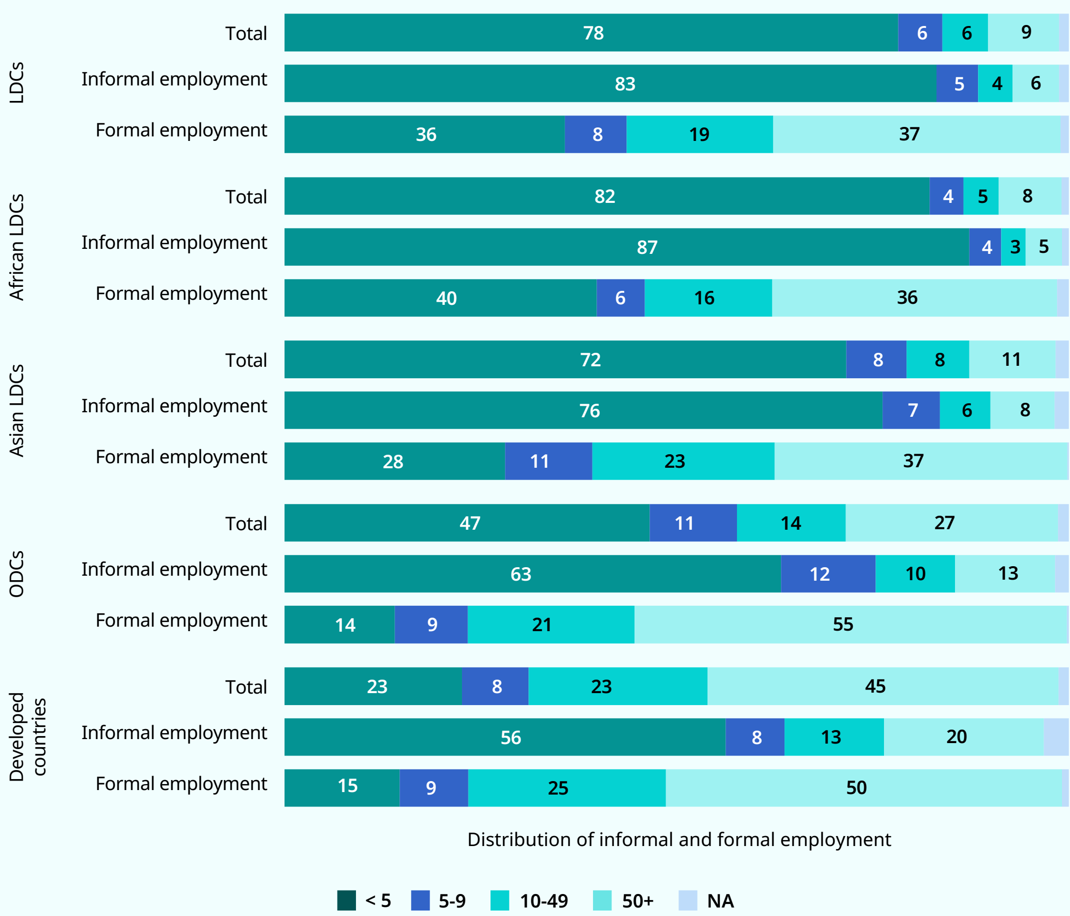
Enterprises

Micro and small enterprises account for the bulk of total employment in the LDCs, most of which is informal. According to the latest available survey data, small units of fewer than five workers (both formal and informal units, and including the household sector) represent 78 per cent of total employment in LDCs (and 82 per cent and 72 per cent in African and Asian LDCs, respectively), compared to 47 per cent in ODCs and 23 per cent in developed countries.

Employment in those small units — as dependent workers or as business owners — is more likely to be informal than it is in other enterprises. As a result, approximately 83 per cent of informal employment in LDCs involves workers (including business owners) in economic units of fewer than five workers, compared to 63 per cent in ODCs (figure 1.18).

The main difference between LDCs and ODCs appears in the proportion of total employment (and formal employment) in large enterprises. For instance, enterprises of 50 persons and more cover only 9 per cent of total employment in LDCs, but 27 per cent in ODCs. Moreover, in both LDCs and ODCs, workers in large enterprises are mostly in the formal sector. However, two thirds of these workers are informally employed in the LDCs, against one-third of them in the ODCs. [17]

Figure 1.18 Distribution of formal and informal employment by size of economic units, across country groups



Source: ILO calculations based on data from ILO (forthcoming a).

Note: Data refer to 2019.

17 See Chapter 4 for a discussion of firm size distribution of employment in LDCs. Figure 4.1 in that chapter shows employment contribution by firm size in the formal and informal sectors.

Appendix A. Demographic trends

Table A.1 Population levels and composition in LDCs, 2000–2025

		Population (%)			Population (millions)			Growth (%)	
		2000	2020	2025(p)	2000	2020	2025(p)	2000–2020	2020–2025
LDCs	Female	50.1	50.3	50.2	329	531	593	61.3	11.7
	Male	49.9	49.7	49.8	328	526	589	60.5	11.9
	Youth	20.0	20.0	19.8	131	211	234	61.2	10.7
African LDCs	Female	50.5	50.3	50.2	202	358	409	77.0	14.3
	Male	49.5	49.7	49.8	198	354	406	78.7	14.5
	Youth	19.7	20.3	20.4	79	144	167	83.5	15.3
Asian LDCs	Female	49.5	50.2	50.2	126	172	182	36.2	6.3
	Male	50.5	49.8	49.8	128	170	181	32.4	6.6
	Youth	20.4	19.4	18.3	52	66	67	27.4	0.7
Island LDCs	Female	49.4	49.5	49.5	1	2	2	56.2	10.8
	Male	50.6	50.5	50.5	1	2	2	56.1	10.7
	Youth	19.0	20.3	20.0	0	1	1	66.4	9.4
ODCs	Female	49.1	49.1	49.1	2103	2672	2801	27.1	4.8
	Male	50.9	50.9	50.9	2182	2776	2903	27.2	4.6
	Youth	18.4	15.7	15.2	789	856	868	8.4	1.5
Developed countries	Female	51.4	51.3	51.2	615	658	663	7.1	0.6
	Male	48.6	48.7	48.8	581	626	631	7.7	0.8
	Youth	13.7	11.0	11.1	164	142	144	-13.7	1.4

Source: ILO calculations based on data from the United Nations Population Division.

▶ Table A.2 Labour force participation rate and in millions in LDCs by region and population group, 2000–2019 and estimates and projections 2020–2022

		Labour force participation rate (%)						Labour force (millions)					
		2000	2010	2019	2020	2021	2022	2000	2010	2019	2020	2021	2022
LDCs	**Total**	69.4	68.0	66.9	64.6	65.8	66.4	260	333	421	418	438	454
	Female	56.4	55.9	56.4	53.7	55.2		107	139	180	177	186	
	Male	82.7	80.5	77.8	75.9	76.8		153	194	241	241	251	
	Youth	58.5	54.9	51.0				77	91	105			
African LDCs	**Total**	73.8	72.7	70.9	69.1	69.8	70.3	160	213	278	280	292	304
	Female	66.9	66.3	65.2	62.7	63.9		74	99	130	129	136	
	Male	81.0	79.4	76.9	75.7	76.0		86	114	148	151	156	
	Youth	59.8	57.5	53.4				47	61	75			
Asian LDCs	**Total**	63.3	61.1	60.3	57.2	59.0	59.8	99	119	142	137	144	149
	Female	41.3	40.1	41.7	38.5	40.3		32	39	50	47	50	
	Male	85.1	82.3	79.5	76.4	78.2		67	80	92	90	94	
	Youth	56.8	50.2	45.8				30	30	30			
Island LDCs	**Total**	64.5	63.8	64.2	63.6	63.8	64.1	0.72	0.92	1.19	1.21	1.24	1.3
	Female	57.6	56.8	57.2	56.6	56.6		0.32	0.41	0.53	0.54	0.55	
	Male	71.3	70.6	71.1	70.6	70.9		0.40	0.51	0.66	0.68	0.69	
	Youth	42.6	40.3	39.9				0.16	0.20	0.25			
ODCs	**Total**	65.6	62.4	60.1	57.5	58.7	59.1	1928	2216	2423	2352	2429	2474
	Female	50.0	46.6	44.1	41.7	42.7		727	817	879	841	873	
	Male	80.9	77.9	75.6	73.0	74.3		1200	1399	1544	1510	1556	
	Youth	51.8	44.7	38.1				408	397	326			
Developed countries	**Total**	60.5	60.0	60.3	59.5	59.7	59.8	590	623	645	639	642	645
	Female	52.0	52.9	53.9	53.1	53.2		264	285	299	295	296	
	Male	69.7	67.7	67.2	66.4	66.5		327	338	347	344	345	
	Youth	50.3	46.1	45.9				83	74	66			

Source: Calculations based on country-level modelled estimates from ILOSTAT, and from United Nations Population Division.

Appendix B. Production structure, growth and exports

Table B.1 Real GDP growth rate in LDCs, ODCs and DCs, 2007–2026 (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
LDCs	5.08	6.35	5.04	5.69	6.98	7.65	7.10	7.70	6.46	4.18	5.89	4.22	4.37	5.84
African LDCs	3.71	6.41	5.32	5.10	6.81	7.66	6.95	7.58	6.78	3.14	5.81	4.22	2.49	5.55
Asian LDCs	7.03	6.24	4.71	6.47	7.23	7.65	7.34	7.87	6.04	5.48	5.99	4.22	6.56	6.19
Island LDCs	-2.63	7.77	-0.77	2.11	2.92	5.02	0.35	4.96	7.43	5.24	6.96	5.26	4.20	3.63
LDCs by export specialization														
Agricultrual and food exporters	1.96	6.35	3.22	6.11	3.58	4.14	4.39	5.91	5.61	4.91	4.89	3.79	1.71	4.75
Fuel exporters	2.60	5.11	13.06	4.46	14.35	14.06	10.11	12.74	10.28	1.23	5.93	3.07	8.57	5.03
Mineral exporters	-2.75	1.36	3.69	6.23	6.88	6.66	6.56	7.28	6.99	6.07	8.74	6.21	7.35	6.77
Manufactures exporters	5.72	5.00	4.29	5.35	5.96	6.27	6.60	7.18	5.87	4.69	5.00	6.06	4.81	6.65
Services exporters	6.41	6.34	3.05	3.24	7.75	7.55	6.28	8.05	7.59	6.76	7.49	7.49	6.22	6.54
Mixed exporters	6.10	7.95	4.96	6.81	6.32	7.65	7.36	7.03	5.72	3.41	5.65	1.76	2.20	5.30
ODCs	5.72	3.20	4.64	6.82	7.92	7.16	7.88	8.39	5.45	3.66	8.04	6.56	5.57	5.31
Developed countries	4.20	1.81	1.67	2.38	3.50	3.00	3.39	3.08	0.79	-3.87	2.78	1.90	1.28	1.30

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
LDCs	5.93	4.24	4.25	5.22	5.14	5.51	1.00	1.62	4.72	5.96	5.88	5.87	5.87
African LDCs	6.05	4.34	3.35	4.35	3.70	4.10	0.33	2.70	4.39	5.61	5.45	5.47	5.51
Asian LDCs	5.81	4.13	5.36	6.26	6.80	7.08	1.77	0.32	5.05	6.31	6.31	6.28	6.22
Island LDCs	3.59	2.36	3.86	0.75	1.58	1.77	-3.59	1.71	3.77	3.27	2.94	3.38	3.53
LDCs by export specialization													
Agricultrual and food exporters	6.24	3.89	4.14	5.09	5.23	5.57	0.82	4.05	5.16	5.40	5.51	5.74	5.74
Fuel exporters	5.02	1.04	-2.90	-0.37	-1.58	-0.16	-4.88	-0.48	2.36	3.24	3.74	3.88	3.67
Mineral exporters	7.24	5.15	2.98	3.64	5.10	3.23	-0.09	3.42	3.98	4.76	4.99	4.95	4.17
Manufactures exporters	5.80	6.22	6.49	6.81	7.38	7.54	2.59	4.18	6.28	6.91	6.94	6.93	6.86
Services exporters	7.71	7.34	5.91	8.51	7.23	7.64	3.74	2.53	4.77	5.67	5.53	5.53	5.52
Mixed exporters	5.19	2.27	3.61	3.99	3.68	4.19	-0.45	-1.69	3.64	5.89	5.49	5.42	5.62
ODCs	5.00	4.70	4.69	4.86	4.56	3.53	-1.97	6.67	5.20	4.70	4.54	4.46	4.40
Developed countries	1.75	1.97	1.66	2.45	2.37	1.88	-4.63	5.17	4.50	2.17	1.75	1.65	1.63

Source: ILO calculations based on IMF WEO, accessed October 2021.

Notes: The real GDP growth rate is calculated using real GDP in constant USD (base year 2010). Data for 2020 are preliminary; those for 2021 and 2022 are forecasts. Countries or territories not included in ILOSTAT are excluded, i.e. Puerto Rico, West Bank and Gaza, and Kosovo. Countries without GDP data are excluded, i.e. Somalia, South Sudan and Syria. Exporter specialization classification is based on export data for 2016–2020.

Table B.2 Sectoral shares in value added in 2000 and 2019 and their changes by country

	2000				2019				Change			
	Agriculture	Manufacturing	Other Industries	Services	Agriculture	Manufacturing	Other Industries	Services	Agriculture	Manufacturing	Other Industries	Services
Afghanistan	0.44	0.19	0.01	0.36	0.24	0.15	0.10	0.51	-0.20	-0.03	0.08	0.15
Angola	0.07	0.05	0.45	0.44	0.08	0.06	0.40	0.46	0.01	0.01	-0.05	0.03
Bangladesh	0.21	0.14	0.08	0.57	0.13	0.24	0.11	0.53	-0.07	0.09	0.03	-0.04
Benin	0.29	0.19	0.06	0.46	0.30	0.12	0.08	0.50	0.01	-0.07	0.02	0.04
Bhutan	0.28	0.08	0.28	0.36	0.13	0.08	0.31	0.48	-0.16	0.00	0.04	0.12
Burkina Faso	0.32	0.14	0.10	0.44	0.22	0.11	0.17	0.50	-0.10	-0.03	0.07	0.06
Burundi	0.48	0.13	0.03	0.36	0.39	0.10	0.05	0.46	-0.09	-0.04	0.02	0.11
Cambodia	0.45	0.12	0.07	0.37	0.23	0.19	0.15	0.43	-0.22	0.07	0.09	0.06
Central African Republic	0.41	0.20	0.08	0.31	0.33	0.19	0.03	0.45	-0.08	-0.01	-0.05	0.15
Chad	0.60	0.01	0.10	0.30	0.54	0.01	0.13	0.32	-0.05	0.00	0.03	0.02
Dem. Rep. of the Congo	0.30	0.33	0.03	0.34	0.17	0.17	0.33	0.33	-0.13	-0.16	0.29	-0.01
Ethiopia	0.55	0.05	0.05	0.36	0.32	0.06	0.14	0.48	-0.23	0.02	0.09	0.12
Gambia	0.34	0.05	0.08	0.52	0.20	0.04	0.14	0.62	-0.14	-0.01	0.05	0.10
Guinea	0.16	0.16	0.19	0.48	0.20	0.11	0.24	0.45	0.03	-0.05	0.05	-0.04
Guinea-Bissau	0.46	0.14	-0.01	0.41	0.42	0.10	0.03	0.45	-0.05	-0.03	0.04	0.04
Haiti	0.21	0.16	0.09	0.54	0.17	0.18	0.08	0.57	-0.04	0.02	-0.01	0.03
Kiribati	0.28	0.05	0.08	0.58	0.26	0.04	0.10	0.59	-0.02	-0.01	0.02	0.01
Lao People's Dem. Rep.	0.23	0.06	0.07	0.64	0.20	0.14	0.36	0.31	-0.04	0.08	0.29	-0.33
Lesotho	0.09	0.10	0.21	0.59	0.05	0.14	0.15	0.66	-0.04	0.03	-0.06	0.07
Liberia	0.66	0.05	-0.01	0.30	0.28	0.02	0.15	0.55	-0.38	-0.03	0.16	0.25
Malawi	0.40	0.10	0.03	0.47	0.28	0.10	0.06	0.56	-0.12	0.00	0.03	0.10
Mali	0.36	0.10	0.15	0.38	0.37	0.07	0.14	0.42	0.01	-0.03	-0.01	0.04
Mauritania	0.22	0.09	0.38	0.31	0.15	0.08	0.26	0.50	-0.07	-0.01	-0.11	0.19
Mozambique	0.32	0.11	0.04	0.53	0.25	0.09	0.11	0.55	-0.07	-0.02	0.07	0.02
Myanmar	0.32	0.04	0.01	0.63	0.24	0.24	0.08	0.44	-0.08	0.20	0.06	-0.19
Nepal	0.37	0.08	0.09	0.46	0.31	0.06	0.10	0.53	-0.06	-0.02	0.01	0.07
Niger	0.33	0.09	0.17	0.41	0.38	0.08	0.17	0.37	0.06	-0.01	-0.01	-0.04
Rwanda	0.34	0.09	0.07	0.50	0.22	0.08	0.13	0.57	-0.12	-0.01	0.06	0.08
Sao Tome and Principe	0.14	0.09	0.12	0.65	0.10	0.08	0.10	0.72	-0.05	-0.01	-0.01	0.07
Senegal	0.19	0.20	0.06	0.55	0.16	0.16	0.09	0.59	-0.03	-0.04	0.03	0.05
Sierra Leone	0.59	0.03	0.04	0.34	0.53	0.02	0.07	0.38	-0.06	-0.01	0.03	0.04
South Sudan	0.04	0.02	0.57	0.37	0.10	0.04	0.30	0.57	0.06	0.02	-0.28	0.20
Timor-Leste	0.31	0.02	0.15	0.51	0.16	0.02	0.13	0.70	-0.16	-0.01	-0.02	0.19
Togo	0.31	0.06	0.01	0.62	0.25	0.13	-0.03	0.65	-0.06	0.07	-0.04	0.03
Uganda	0.44	0.16	0.04	0.36	0.28	0.18	0.12	0.43	-0.16	0.02	0.08	0.07
United Rep. of Tanzania	0.34	0.08	0.12	0.46	0.23	0.10	0.22	0.45	-0.11	0.02	0.10	0.00
Yemen	0.12	0.09	0.52	0.27	0.13	0.18	0.27	0.42	0.01	0.09	-0.25	0.15
Zambia	0.26	0.11	0.16	0.48	0.07	0.09	0.23	0.61	-0.19	-0.02	0.07	0.13

Source: ILO calculations based on World Bank WDI.

Notes: Comoros, Djibouti, Eritrea, Madagascar, Sudan, Solomon Islands, Somalia and Tuvalu are not included because of missing data.

Table B.3 Export concentration index by country group

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
LDCs	0.45	0.44	0.46	0.46	0.46	0.46	0.44	0.44	0.45	0.44	0.44
African LDCs	0.46	0.44	0.45	0.45	0.47	0.48	0.45	0.45	0.46	0.45	0.45
Asian LDCs	0.40	0.38	0.39	0.37	0.37	0.37	0.38	0.38	0.39	0.37	0.36
Island LDCs	0.48	0.52	0.63	0.59	0.51	0.48	0.46	0.49	0.52	0.53	0.51
LDCs by export specialization											
Agricultrual and food exporters	0.58	0.59	0.60	0.59	0.59	0.61	0.61	0.58	0.60	0.60	0.61
Fuel exporters	0.81	0.82	0.80	0.77	0.89	0.84	0.91	0.92	0.93	0.91	0.90
Mineral exporters	0.37	0.38	0.37	0.38	0.38	0.39	0.44	0.44	0.42	0.43	0.48
Manufactures exporters	0.37	0.35	0.38	0.39	0.39	0.39	0.41	0.41	0.40	0.40	0.38
Services exporters	0.45	0.39	0.46	0.44	0.40	0.39	0.37	0.35	0.39	0.41	0.40
Mixed exporters	0.42	0.42	0.41	0.43	0.46	0.46	0.41	0.42	0.44	0.40	0.40
ODCs	0.39	0.40	0.38	0.39	0.39	0.40	0.41	0.39	0.40	0.37	0.38
Developed countries	0.20	0.21	0.21	0.20	0.21	0.20	0.20	0.19	0.20	0.19	0.21

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
LDCs	0.46	0.46	0.46	0.46	0.45	0.43	0.44	0.44	0.43	0.43
African LDCs	0.46	0.45	0.45	0.45	0.44	0.43	0.43	0.42	0.43	0.42
Asian LDCs	0.35	0.34	0.33	0.34	0.33	0.30	0.30	0.32	0.32	0.30
Island LDCs	0.59	0.66	0.68	0.63	0.70	0.65	0.64	0.67	0.60	0.61
LDCs by export specialization										
Agricultrual and food exporters	0.55	0.59	0.58	0.61	0.59	0.63	0.61	0.64	0.64	0.63
Fuel exporters	0.92	0.88	0.92	0.89	0.89	0.82	0.82	0.83	0.78	0.80
Mineral exporters	0.48	0.49	0.44	0.48	0.56	0.57	0.55	0.53	0.57	0.61
Manufactures exporters	0.37	0.33	0.34	0.34	0.33	0.32	0.34	0.34	0.32	0.31
Services exporters	0.46	0.52	0.52	0.49	0.53	0.51	0.49	0.47	0.43	0.43
Mixed exporters	0.39	0.37	0.38	0.39	0.36	0.33	0.35	0.35	0.36	0.36
ODCs	0.41	0.40	0.39	0.38	0.37	0.38	0.38	0.39	0.38	0.37
Developed countries	0.21	0.20	0.21	0.20	0.20	0.19	0.19	0.20	0.20	0.19

Source: ILO calculations based on UNCTADstat.

Appendix C. Employment indicators

Table C.1 Employment to population in percentage and millions in LDCs by region and population group, 2000–2019 and estimates and projections 2020–2022

		Employment-to-population ratio (%)						Employment (millions)					
		2000	2010	2019	2020	2021	2022	2000	2010	2019	2020	2021	2022
LDCs	Total	66.5	65.0	64.0	61.4	62.5	63.2	249	318	403	397	415	432
	Female	54.0	53.2	53.7	50.9	52.2		102	132	172	167	176	
	Male	79.2	77.2	74.7	72.3	73.0		146	186	231	230	239	
	Youth	54.2	50.7	46.9				71	84	97			
African LDCs	Total	70.2	69.0	67.7	65.6	66.3	66.8	152	202	265	266	277	289
	Female	63.7	62.5	62.0	59.4	60.5		71	93	124	122	129	
	Male	77.1	75.7	73.6	72.1	72.3		82	108	142	143	149	
	Youth	55.1	52.8	49.4				43	56	69			
Asian LDCs	Total	61.3	59.0	57.9	54.3	55.9	57.0	96	115	136	130	137	142
	Female	40.2	38.9	39.9	36.5	38.1		31	38	48	44	47	
	Male	82.2	79.4	76.5	72.6	74.3		64	77	89	86	89	
	Youth	52.8	47.1	41.5				27	28	27			
Island LDCs	Total	62.0	61.1	61.3	60.5	60.1	60.8	0.69	0.89	1.14	1.15	1.17	1.22
	Female	55.2	54.0	53.9	53.1	52.6		0.30	0.39	0.50	0.50	0.51	
	Male	68.7	68.1	68.6	67.7	67.6		0.38	0.50	0.64	0.65	0.66	
	Youth	39.1	36.9	36.2				0.15	0.19	0.22			
ODCs	Total	62.1	59.1	56.7	53.7	54.8	55.5	1823	2098	2287	2196	2269	2324
	Female	47.3	44.0	41.5	39.0	39.9		688	772	828	787	814	
	Male	76.5	73.8	71.4	68.1	69.5		1135	1325	1459	1409	1455	
	Youth	45.0	38.5	32.0				355	342	274			
Developed countries	Total	55.9	54.8	57.3	55.4	56.1	56.8	545	569	613	595	604	612
	Female	47.7	48.5	51.2	49.4	50.1		242	261	284	274	279	
	Male	64.7	61.6	63.8	61.9	62.6		303	307	329	320	325	
	Youth	42.7	37.7	40.8				70	61	58			

Source: Calculations based on country-level modelled estimates from ILOSTAT, and from United Nations Population Division.

Table C.2 Unemployment rate and in millions in LDCs by region and population group, 2000–2019 and estimates and projections 2020–2022

		Unemployment rate (%)						Unemployment (millions)					
		2000	2010	2019	2020	2021	2022	2000	2010	2019	2020	2021	2022
LDCs	Total	4.2	4.5	4.3	5.0	5.1	4.9	11	15	18	21	22	22
	Female	4.1	5.0	4.7	5.3	5.4		4	7	9	9	10	
	Male	4.3	4.2	4.0	4.8	4.9		7	8	10	12	12	
	Youth	7.4	7.6	8.0				6	7	8			
African LDCs	Total	4.8	5.2	4.5	5.0	5.1	4.9	8	11	13	14	15	15
	Female	4.8	5.7	4.9	5.2	5.3		4	6	6	7	7	
	Male	4.9	4.7	4.2	4.8	4.8		4	5	6	7	8	
	Youth	7.7	8.3	7.5				4	5	6			
Asian LDCs	Total	3.1	3.3	4.0	5.1	5.2	4.7	3	4	6	7	8	7
	Female	2.5	3.1	4.4	5.3	5.4		1	1	2	2	3	
	Male	3.4	3.5	3.8	5.0	5.1		2	3	3	4	5	
	Youth	6.9	6.1	9.4				2	2	3			
Island LDCs	Total	3.9	4.2	4.5	5.0	5.7	5.2	0.03	0.04	0.05			
	Female	4.2	4.9	5.7	6.2	7.0		0.01	0.02	0.03			
	Male	3.7	3.6	3.5	4.1	4.7		0.01	0.02	0.02			
	Youth	8.2	8.4	9.3				0.01	0.02	0.02			
ODCs	Total	5.4	5.3	5.6	6.6	6.6	6.1	105	118	137	155	160	150
	Female	5.4	5.5	5.8	6.5	6.7		40	45	51	54	59	
	Male	5.4	5.2	5.5	6.7	6.5		65	73	85	101	101	
	Youth	13.1	13.7	15.8				53	54	51			
Developed countries	Total	7.7	8.7	5.0	6.9	5.9	5.1	45	54	32	44	38	33
	Female	8.2	8.2	5.0	7.0	5.9		22	23	15	21	18	
	Male	7.2	9.1	5.0	6.7	5.9		24	31	17	23	20	
	Youth	15.0	18.2	11.1				12	13	7			

Source: Calculations based on country level modelled estimates from ILOSTAT, and from United Nations Population Division.

Table C.3 Time-related underemployment rate and millions in LDCs by region and population group, 2000–2019

		Time-related underemployment (%)			Time-related underemployment (millions)		
		2000	2010	2019	2000	2010	2019
LDCs	Total	12.7	13.4	13.5	25	30	39
	Female	13.7	14.9	15.1	11	14	19
	Male	12.0	12.3	12.3	13	16	20
	Youth	16.6	17.7	18.8	8	9	11
African LDCs	Total	15.4	16.5	16.2	19	24	32
	Female	16.0	17.9	17.6	10	12	17
	Male	14.8	15.2	15.0	10	12	16
	Youth	18.8	20.5	20.2	6	7	10
Asian LDCs	Total	8.3	7.9	8.2	5	5	6
	Female	8.3	7.3	8.4	2	2	2
	Male	8.3	8.2	8.1	3	4	4
	Youth	12.8	12.2	15.4	2	2	2
Island LDCs	Total	8.7	8.9	9.1	0.04	0.04	0.05
	Female	9.2	9.4	10.3	0.02	0.02	0.02
	Male	8.4	8.5	8.2	0.02	0.02	0.03
	Youth	13.0	12.9	13.7	0.01	0.01	0.01
ODCs	Total	10.6	10.1	10.2	101	105	111
	Female	11.2	10.7	10.9	41	42	45
	Male	10.1	9.7	9.8	59	62	66
	Youth	19.9	19.3	21.2	24	22	18
Developed countries	Total	9.7	12.1	7.5	15	21	16
	Female	10.7	12.4	8.2	9	12	9
	Male	8.9	11.8	6.9	7	9	7
	Youth	18.6	22.9	15.1	3	3	3

Source: Calculations based on country level modelled estimates from ILOSTAT.

▶ Table C.4 Potential labour force rate and millions in LDCs by region and population group, estimates and projections 2020–2022

		Potential labour force rate (%)						Potential labour force (millions)					
		2005	2010	2019	2020	2021	2022	2005	2010	2019	2020	2021	2022
LDCs	Total	3.9	4.3	4.8	5.3	5.0	4.9	12	15	21	23	23	23
	Female	5.9	6.3	6.7	7.3			8	9	13	14		
	Male	2.5	2.7	3.2	3.8			5	5	8	10		
	Youth	6.6	7.4	8.6				6	7	10			
African LDCs	Total	5.0	5.2	5.4	5.8	5.6	5.5	10	12	16	17	17	18
	Female	6.9	7.2	7.2	7.6			6	8	10	11		
	Male	3.3	3.4	3.8	4.2			3	4	6	7		
	Youth	8.2	8.5	9.1				5	6	8			
Asian LDCs	Total	2.1	2.5	3.4	4.3	3.8	3.5	2	3	5	6	6	5
	Female	3.2	4.1	5.5	6.5			1	2	3	3		
	Male	1.5	1.8	2.2	3.2			1	1	2	3		
	Youth	3.8	5.0	7.1				1	2	2			
Island LDCs	Total	5.5	5.6	6.1	6.8	6.8	6.3	0.05	0.05	0.08	0.09	0.09	0.09
	Female	7.3	7.8	8.4	8.9			0.03	0.03	0.05	0.05		
	Male	3.9	3.8	4.2	5.1			0.02	0.02	0.03	0.04		
	Youth	8.1	8.8	10.4				0.02	0.02	0.03			
ODCs	Total	3.0	3.1	3.2	4.8	3.7	3.3	65	71	81	118	93	85
	Female	4.4	4.6	4.6	6.1			36	39	42	54		
	Male	2.2	2.2	2.5	4.0			29	32	39	63		
	Youth	6.3	6.6	7.7				28	28	27			
Developed countries	Total	2.9	2.9	2.4	3.1	2.6	2.4	18	19	16	21	17	16
	Female	3.7	3.5	2.8	3.6			10	10	9	11		
	Male	2.2	2.4	2.0	2.7			7	8	7	10		
	Youth	5.9	6.4	5.5				5	5	4			

Source: Calculations based on country-level modelled estimates from ILOSTAT.

▶ Table C.5 NEET rate and millions in LDCs by region and population group, 2000–2019

		NEET rate (%)			NEET (millions)		
		2005	2010	2019	2005	2010	2019
LDCs	Total	21.3	21.1	20.4	32	35	42
	Female	30.8	29.2	28.2	23	24	29
	Male	11.8	13.0	12.7	9	11	13
African LDCs	Total	17.7	17.2	17.9	16	18	25
	Female	22.6	22.4	22.7	10	12	16
	Male	12.6	12.0	13.1	6	6	9
Asian LDCs	Total	27.2	27.9	25.8	16	17	17
	Female	44.1	41.3	39.9	13	12	13
	Male	10.5	14.6	11.9	3	4	4
Island LDCs	Total	20.5	19.8	19.9	0.09	0.10	0.12
	Female	24.9	24.2	24.5	0.05	0.06	0.07
	Male	16.2	15.5	15.4	0.04	0.04	0.05
ODCs	Total	24.7	24.5	24.6	214	218	210
	Female	35.8	35.5	35.1	151	152	144
	Male	14.3	14.2	14.9	63	65	66
Developed countries	Total	13.9	14.6	11.3	23	23	16
	Female	15.8	15.6	11.8	13	12	8
	Male	12.0	13.6	10.8	10	11	8

Source: Calculations based on country-level modelled estimates from ILOSTAT.

Table C.6 Employment rate by broad economic activity and in millions in LDCs by region and population group, 2000–2019

		Employment rate (%)			Employment (millions)		
		2000	2010	2019	2000	2010	2019
LDCs	Agriculture	69.3	61.6	55.2	172	196	222
	Industry	8.6	11.2	12.6	21	36	51
	Services	22.1	27.2	32.1	55	87	129
African LDCs	Agriculture	71.8	67.0	61.3	109	135	163
	Industry	7.1	8.3	9.2	11	17	24
	Services	21.1	24.7	29.5	32	50	78
Asian LDCs	Agriculture	65.3	52.1	43.5	62	60	59
	Industry	11.0	16.3	19.3	11	19	26
	Services	23.7	31.5	37.2	23	36	51
Island LDCs	Agriculture	54.6	46.8	36.6	0.38	0.41	0.42
	Industry	9.3	10.9	15.7	0.06	0.10	0.18
	Services	36.1	42.4	47.7	0.25	0.38	0.54
ODCs	Agriculture	45.7	36.3	27.9	833	762	637
	Industry	20.3	23.9	24.4	370	501	557
	Services	34.0	39.8	47.7	620	835	1092
Developed countries	Agriculture	7.7	5.1	3.8	42	29	23
	Industry	27.7	23.9	23.0	151	136	141
	Services	64.7	71.0	73.2	353	404	448

Source: Calculations based on country-level modelled estimates from ILOSTAT.

Table C.7 Status in employment: rates and in millions in LDCs by region, 2000–2019

		Employment status (%)			Employment status (millions)		
		2000	2010	2019	2000	2010	2019
LDCs	Employees	18.2	21.8	25.2	45	69	101
	Employers	1.3	1.4	2.5	3	4	10
	Own-account workers	46.7	48.3	51.1	116	153	206
	Contributing family worker	33.8	28.6	21.3	84	91	86
African LDCs	Employees	13.8	16.0	19.3	21	32	51
	Employers	1.3	1.5	1.9	2	3	5
	Own-account workers	50.8	52.8	55.4	77	107	147
	Contributing family worker	34.1	29.7	23.5	52	60	62
Asian LDCs	Employees	25.4	31.9	36.5	24	37	50
	Employers	1.2	1.1	3.8	1	1	5
	Own-account workers	40.3	40.4	42.7	39	47	58
	Contributing family worker	33.1	26.6	17.0	32	31	23
Island LDCs	Employees	23.4	29.9	35.4	0.16	0.27	0.40
	Employers	2.4	1.5	1.0	0.02	0.01	0.01
	Own-account workers	34.4	35.6	38.0	0.24	0.32	0.43
	Contributing family worker	39.7	33.0	25.7	0.27	0.29	0.29
ODCs	Employees	36.8	43.5	49.2	671	912	1124
	Employers	2.3	2.5	2.7	41	52	62
	Own-account workers	41.5	40.1	38.4	756	841	877
	Contributing family worker	19.5	14.0	9.8	355	293	223
Developed countries	Employees	85.4	87.3	88.5	466	496	542
	Employers	3.5	3.3	2.9	19	19	18
	Own-account workers	9.1	8.3	7.8	50	47	48
	Contributing family worker	2.0	1.2	0.8	11	7	5

Source: Calculations based on country-level modelled estimates from ILOSTAT.

▶ Table C.8 Extreme working poverty rate and millions in LDCs by region and population group, 2000–2019

		Extreme working poverty rat (%)			Extreme working poverty (millions)		
		2000	2010	2019	2000	2010	2019
LDCs	Total	58.3	38.6	30.6	145	123	123
	Female	63.6	43.0	33.6	65	57	58
	Male	54.6	35.6	28.4	80	66	65
	Youth	60.3	41.5	34.8	43	35	34
African LDCs	Total	65.6	50.6	41.9	100	102	111
	Female	67.9	52.9	43.8	48	49	54
	Male	63.6	48.6	40.2	52	53	57
	Youth	67.4	52.3	44.2	29	29	31
Asian LDCs	Total	46.8	17.9	8.7	45	21	12
	Female	54.1	19.0	7.1	17	7	3
	Male	43.3	17.3	9.6	28	13	8
	Youth	49.2	19.9	11.0	14	6	3
Island LDCs	Total	32.6	23.9	16.4	0.22	0.21	0.19
	Female	33.1	23.9	16.0	0.10	0.09	0.08
	Male	32.2	23.9	16.7	0.12	0.12	0.11
	Youth	37.3	30.2	21.4	0.05	0.06	0.05
ODCs	Total	29.5	14.1	4.1	538	296	94
	Female	31.8	14.5	4.0	219	112	33
	Male	28.2	13.9	4.2	320	184	61
	Youth	32.9	17.7	6.5	117	61	18
Developed countries	Total	0.3	0.0	0.0	1	0.07	0.03
	Female	0.3	0.0	0.0	1	0.04	0.01
	Male	0.2	0.0	0.0	1	0.03	0.01
	Youth	0.4	0.0	0.0	0.25	0.01	0.00

Source: Calculations based on country-level modelled estimates from ILOSTAT.

Table C.9 Composite measure of labour underutilization rate and millions in LDCs by region and population group, 2000–2019

		Extreme working poverty rat (%)			Extreme working poverty (millions)		
		2000	2010	2019	2000	2010	2019
LDCs	Total	58.3	38.6	30.6	145	123	123
	Female	63.6	43.0	33.6	65	57	58
	Male	54.6	35.6	28.4	80	66	65
	Youth	60.3	41.5	34.8	43	35	34
African LDCs	Total	65.6	50.6	41.9	100	102	111
	Female	67.9	52.9	43.8	48	49	54
	Male	63.6	48.6	40.2	52	53	57
	Youth	67.4	52.3	44.2	29	29	31
Asian LDCs	Total	46.8	17.9	8.7	45	21	12
	Female	54.1	19.0	7.1	17	7	3
	Male	43.3	17.3	9.6	28	13	8
	Youth	49.2	19.9	11.0	14	6	3
Island LDCs	Total	32.6	23.9	16.4	0.22	0.21	0.19
	Female	33.1	23.9	16.0	0.10	0.09	0.08
	Male	32.2	23.9	16.7	0.12	0.12	0.11
	Youth	37.3	30.2	21.4	0.05	0.06	0.05
ODCs	Total	29.5	14.1	4.1	538	296	94
	Female	31.8	14.5	4.0	219	112	33
	Male	28.2	13.9	4.2	320	184	61
	Youth	32.9	17.7	6.5	117	61	18
Developed countries	Total	0.3	0.0	0.0	1	0.07	0.03
	Female	0.3	0.0	0.0	1	0.04	0.01
	Male	0.2	0.0	0.0	1	0.03	0.01
	Youth	0.4	0.0	0.0	0.25	0.01	0.00

Source: Calculations based on country level modelled estimates from ILOSTAT.

Chapter 2

The impacts of the COVID-19 crisis in the LDCs

2.1 New challenges to the graduation process

With the COVID-19 pandemic the world has been hit by an unprecedented shock that may change the growth trajectories of developed and developing economies and their production structure and forms of employment. The LDCs have suffered a setback to their economic growth, their progress towards decent job creation and poverty reduction, and their capacity to sustain economic and social development programmes. Governments are now facing fiscal and financial sustainability challenges and enterprises are facing economic and financial uncertainties that may deter the investments needed for structural transformation.

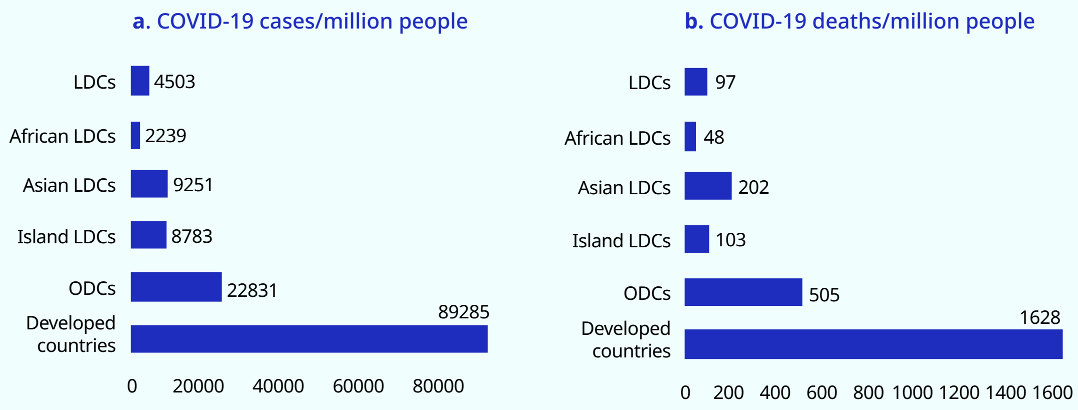
The health effects and economic consequences of containment measures and the structural changes of global demand are having catastrophic impacts in countries at lower levels of economic development, characterized by multiple vulnerabilities and less resilience and response capacity to shocks. The COVID-19 crisis may trigger further deterioration of economic and social conditions, leading to wider losses of income, aggravation of poverty and inequality, and the reversal of decades of progress. Along with expectations of a severe economic and humanitarian crisis for the current LDCs, there are deep concerns as to whether recent graduates or currently graduating LDCs have built up enough resilience to weather the health crisis and remain on track with their development.

2.2 Health impacts of COVID-19

The rapid spread of COVID-19 provoked pessimistic predictions about the likely effects and consequences of the pandemic in the LDCs, particularly those in sub-Saharan Africa. For the most part, those expectations were based on the underdevelopment of most health systems in the LDCs and on the widespread shortage of medical professionals, equipment, infrastructure, hospitals and beds needed by their populations.

For instance, there are on average 113 hospital beds per 100,000 persons in LDCs, which is significantly less than in ODCs and 80 per cent less than in developed countries (UNDESA, 2020). The weakness of most health systems in the LDCs has made it difficult to foresee how they could withstand and respond adequately to a possible sudden surge in infections should the virus spread rapidly in these countries.

Figure 2.1 Health impact of COVID-19 in selected country groups (as of 29 October 2021)



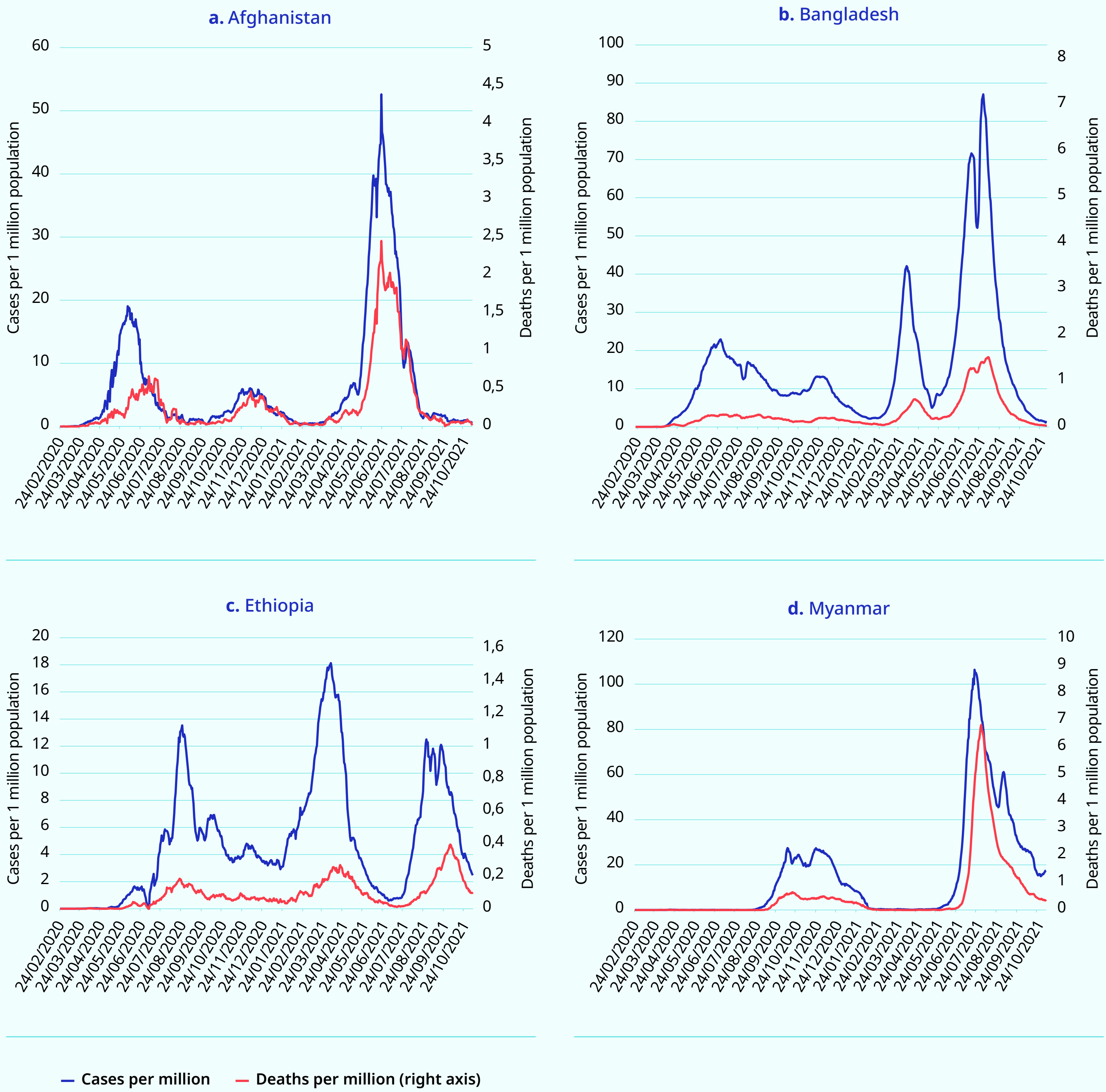
Source: Calculations based on WHO Coronavirus Disease (COVID-19) Dashboard, accessed 29 October 2021.

However, cases of COVID-19 in the LDCs were recorded later than in more advanced regions, and at first remained relatively subdued. By March 2020, the LDCs reported 659 cases, or 0.1 per cent of global contagion, but this number continued to rise exponentially throughout the year and approached 1.2 million cases (1.9 per cent of global contagion) by December 2020 (Parisotto and Elsheikhi, 2020). The second wave in early 2021 outpaced the first one. By October 2021, total cases in LDCs had increased by more than 4.1 times, to 4.9 million, representing 2 per cent of global cases. Although the direct health impact in the LDCs has been less severe than expected and is less than in other income groups (see figure 2.1, panel A), concerns are rising about the effects of the spread of new virus variants in these countries.

At the same time, the LDCs' COVID-19 mortality rate was 19 per cent that of ODCs and 6 per cent that of developed countries, and their COVID-19 infection rate was only 20 per cent that of ODCs and 5 per cent that of developed countries. There is, however, some regional variability within the LDCs: Asian LDCs have been most affected by infections and deaths, followed by Island and African LDCs.

Average infection and mortality rates in LDCs mask a more heterogeneous reality across countries. Figure 2.2 shows the evolution of cases and deaths in selected LDCs, underscoring how both the levels and the timing of the spread vary considerably. Indeed, most cases have been concentrated in a handful of countries. As at October 2021, Bangladesh accounted for around 34 per cent of cases, while Afghanistan, Ethiopia, Myanmar and Nepal represented an additional 37 per cent.

Figure 2.2 Cases and deaths per million population in selected LDCs



Source: WHO Coronavirus Disease (COVID-19) Dashboard, accessed 29 October 2021.

Note: Figure 2.2 shows the evolution of COVID-19 infections (blue series) and deaths (red series) per million population in Afghanistan, Bangladesh, Ethiopia and Myanmar.

Infection rates are not fully indicative of the evolution and extent of the health impact in the LDCs, as they are likely to be underreported due to limited testing capacities and less efficient casualty counting and reporting systems than other country groups.

Lack of testing is an obstacle to identifying the causes of deaths, but there are other reasons for the lower COVID-19 death toll in the LDCs and in developing countries in general. The virus is deadlier among older people – both older people in general and older people with comorbidities, such as cardiovascular diseases, which are more prevalent in rich countries. A comprehensive quantitative review of the main factors contributing to the number of COVID-19 deaths per million found that, as of June 2020, the difference between advanced and developing economies could be mainly explained by the age of the population and the obesity rate, with little evidence supporting the thesis that the virus is transmitted more slowly in warmer climates (Goldberg and Reed, 2020). These conclusions would clearly apply to the LDCs, where 6 per cent of the population is over 60 years old and obesity rates and other potential preconditions are much lower than in richer economies (UN, 2021a).

Initially most of LDCs were more shielded than the rest of the world from the worst of the pandemic because of their poor connectivity – fewer air links – and their largely rural, young populations that lived mainly outdoors. Several LDCs were also able to stave off other infectious diseases by deploying such pre-existing strategies and technologies as epidemic surveillance (during the Sierra Leone Ebola outbreak) and rabies surveillance (in the United Republic of Tanzania). Those factors helped flatten the COVID-19 contagion curve in the beginning. Although most LDCs were relatively unscathed at the start of the pandemic, cases began to climb in late 2020 and continued to rise throughout 2021. By June 2021, contagion rates had also spiked in several LDCs in Asia and Africa due to the spread of the highly infectious Delta variant and other mutations, as shown in figure 2.2.

Even if the health impact of COVID-19 in LDCs has not been as great in absolute terms as in many other countries, the social and economic consequences of the pandemic have been felt deeply due to weak health systems, gaps in social safety nets, low levels of savings and other buffers, along with other compounding factors discussed in this chapter. The pandemic is preventing access to essential care through restrictions on movement, lack of service provision, stigma and avoidance of care due to concerns over contracting the virus, delays in vaccination campaigns and overall lower access to healthcare because of impoverishment from loss of jobs and livelihoods. As LDCs' limited resources have been diverted to the COVID-19 emergency response, other healthcare and vaccination programmes are facing setbacks in reducing endemic diseases, such as cholera and tuberculosis. The short- and long-term negative effects in the least developed countries are likely to be substantial, not only in terms of a direct impact on their populations, but also in terms of an indirect impact on healthcare services, the disruption of which leads to lower vaccination rates among children and higher child and maternal mortality rates. Other long-term human and economic impacts are expected, such as an increase in poverty rates and learning loss for children, many of whom are forced to drop out of school as their families lose income and require them to work.

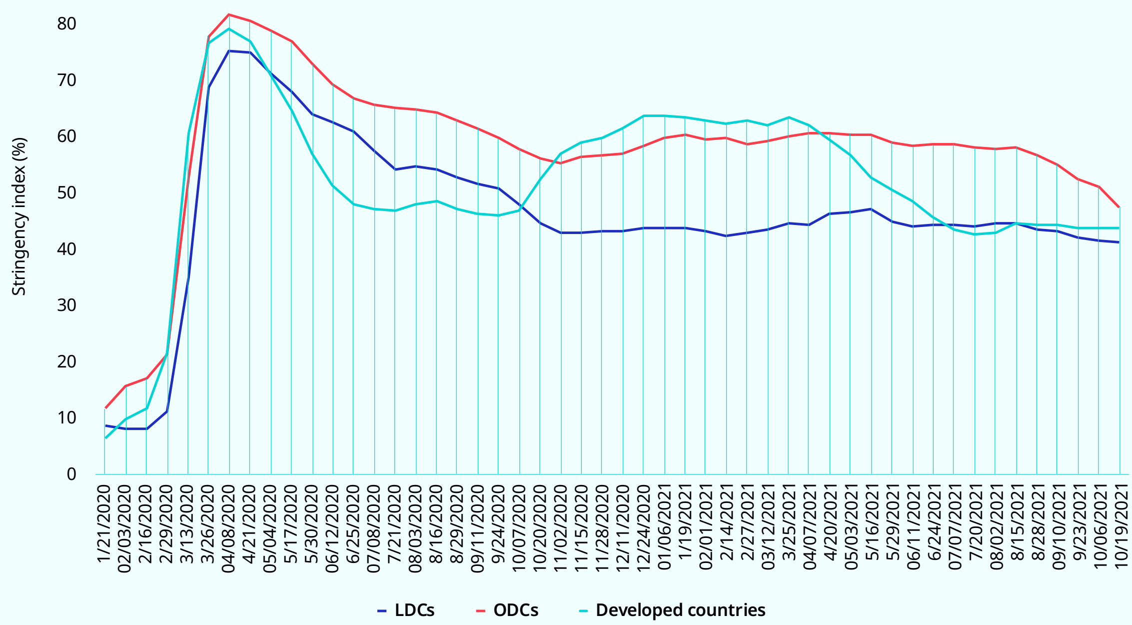
2.3 Containment measures and other responses

Despite limited resources, several poor economies were able to mount an initially successful health response in the first half of 2020 by acting fast and learning both from other countries and from their own previous experience with diseases. As the pandemic reached LDCs later than developed economies, they used their limited resources to minimize the health, economic and employment consequences. Uganda, for example, took its first action on 20 January 2020, two months before its first confirmed case. Common early interventions included closing airports, monitoring hubs and entry points for the infection, sealing off the capital to keep the virus from spreading to rural areas, banning mass gatherings, and school and workplace closures.

Measures of stringency and workplace impacts

Most LDCs introduced early lockdowns and mobility restrictions similar to those in advanced economies in order to contain the spread of the virus, in some cases with heavy-handed enforcement by the police and security forces. A few adopted less stringent approaches, relying more on information campaigns and community networks for messages about wearing facemasks, handwashing and social distancing. Those less restrictive measures were adopted for various reasons, including concerns about inadequate social protection coverage or political opposition to complete or near-complete lockdowns (e.g. Benin, Burundi, Niger and United Republic of Tanzania). Many of the countries that had adopted stricter measures, however, soon chose to ease them, recognizing the grave economic damage caused for businesses, workers and poorer people.

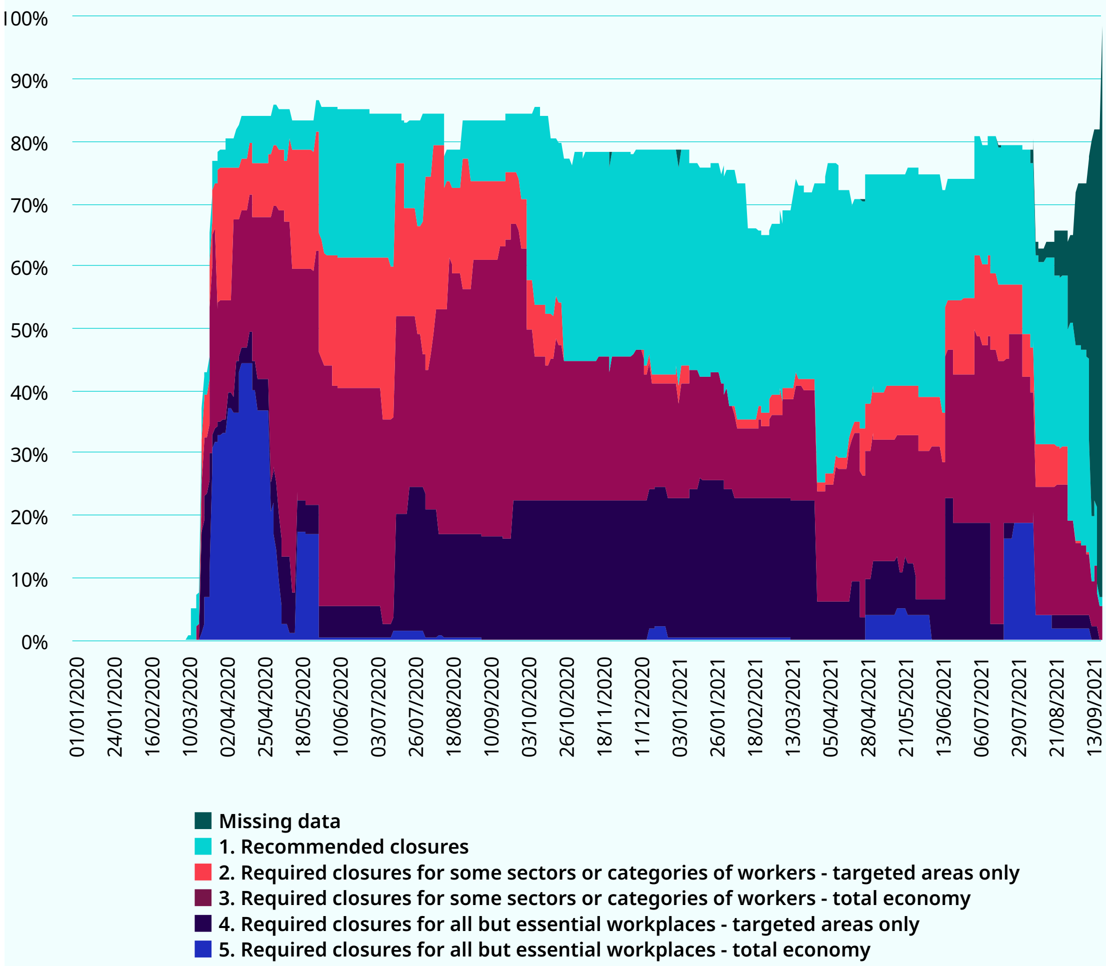
Figure 2.3 Average stringency of containment measures in LDCs, ODCs and developed countries



Source: Oxford COVID-19 Government Response Tracker, accessed 29 October 2021.

Overall, during the period from early April 2020 to mid-May 2021, more than 30 LDCs had restrictive or highly restrictive measures in place, according to the Oxford stringency index (figure 2.3). This included 15 countries with required workplace closures for all except essential sectors, and 17 with closures required for some sectors. Such measures were rescinded rapidly, possibly in response to the dire short-term consequences for employment and the economy at large. As at 30 June 2020, only three LDCs (Afghanistan, Eritrea and Sudan) had mandatory workplace closures in place for all but essential workers, while 19 had mandatory closures for some sectors (UNDESA, 2021a). Since September 2020, containment measures have remained restrictive in the LDCs but relatively less so than ODCs and developed countries despite outbreaks, reflecting the recognition that the LDCs can no longer afford strict COVID control measures. As of 30 June 2021, for instance, only Bangladesh and Cambodia had restrictive containment measures in place and half of the LDCs had no workplace restrictions at all.

▶ **Figure 2.4 Share of workers with general workplace closures in LDCs**



Source: ILOSTAT database, ILO modelled estimates; Oxford COVID-19 Government Response Tracker.

Note: The shares of workers in countries with required workplace closures for some sectors or categories of workers and countries with recommended workplace closures are stacked on top of the shares of workers in countries with required workplace closures for all but essential workplaces.

Estimates of the share of workers in countries with general workplace closures can provide some order of magnitude of the potential employment and labour market impact in the LDCs. At the start of the pandemic, over 80 per cent of all workers in the LDCs lived in countries with some kind of workplace closures, similar to what was seen in developed countries (figure 2.4). More recently, however, the figures in LDCs have decreased, and most of these countries now have less stringent workplace restrictions than either ODCs or developed countries. Among the LDCs, those in Asia have had stricter workplace closure regimes than those in Africa and the Islands (90 per cent, 65 per cent and 60 per cent of all workers, respectively, lived in countries with at least some workplace closures).

Another important difference between LDCs and other country groupings is the level of compliance with lockdown orders. There is some evidence that countries at lower levels of development and/or with higher levels of agricultural employment and own-account workers and contributing family workers were less likely to follow mobility restrictions. Based on GPS data, individual mobility in low-income countries was only 30 per cent less in April 2020 than in January 2020 compared with 50-60 per cent for middle- and high-income countries. At a similar level of stringency, moreover, individual mobility decreased significantly less in countries with higher levels of poverty, more vulnerable workers (own-account and unpaid family workers) and larger shares of agricultural employment (Maire, 2020). Self-employed, daily wage labourers and low-skilled workers in particular remained mobile despite the restrictions, not least because the nature of their work required physical proximity to others and they simply did not have the option of teleworking from home. Only about 20 per cent of the population in the LDCs, in fact, have access to the Internet (ITU, 2017).

Diagnostics and vaccination capacity

As the COVID-19 pandemic is now a long-term global health and economic challenge, it is becoming clear that diagnostics, treatment and vaccination capacities should be strengthened in all countries in order to stop the effects and spread of the virus globally. Although the LCDs have almost doubled their testing capacity since May 2021, as of 30 September 2021, taken as a whole they accounted for only 42,489 reported tests per million population. This contrasts with the 297,559 and 1,736,953 reported tests per million population in ODCs and the developed world, respectively (UNDESA, 2021b). In fact, the LDCs represent 1.2 per cent of global reported tests.

The vaccine rollout has also been slower in the LDCs than in other income groups. While vaccine rates continue to climb in the developed world, the LDCs have been left behind. Only 10 per cent of the LDC population had received their first dose as of 30 September 2021, in stark contrast to ODCs (53 per cent) and developed countries (64 per cent) (UN, 2021b). As more developed regions of the world reopen and adjust to post-pandemic realities, it is feared that by the time the least resilient countries achieve similar vaccination rates, more contagious variants will have emerged, along with the risk that the first generation of vaccines will become ineffective.

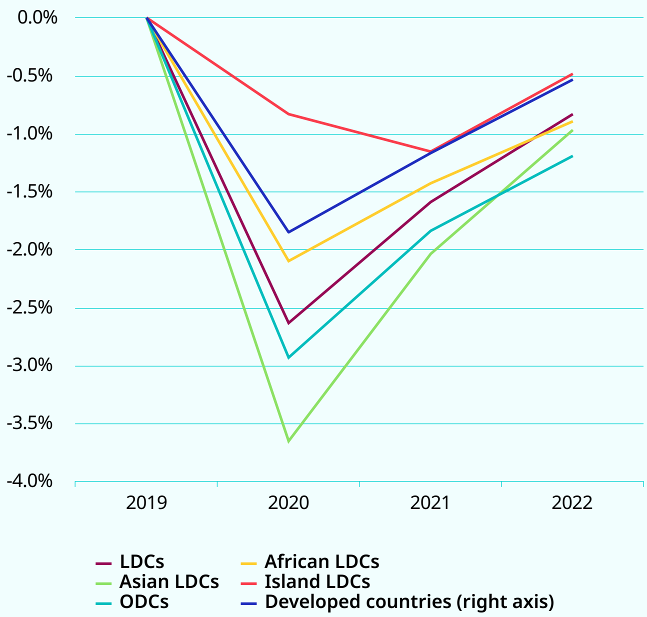
2.4 Transmission channels and impacts on labour

The socioeconomic impacts of the pandemic have been far more dramatic than health impacts for LDCs when compared with developed countries. In 2020, the crisis led to the strongest negative economic shock in LDCs for several decades, with adverse labour market effects. Containment measures and social distancing are directly affecting domestic activities and crushing urban informal activities that in earlier crises acted as a buffer. At the same time, disruptions in the global economy and sharp drops in external demand are causing significant formal job losses in manufacturing, modern services, construction, tourism and mining.

Overall impacts on employment

Preliminary estimates demonstrate the negative impact of the pandemic on LDC employment. Figure 2.5 shows that the employment-to-population ratio fell by 2.6 percentage points between 2019 and 2020, which is more than what occurred in developed countries but less than in ODCs. Asian LDCs experienced the most

Figure 2.5 Change in employment-population ratios relative to 2019, 15+, LDCs, ODCs and developed countries

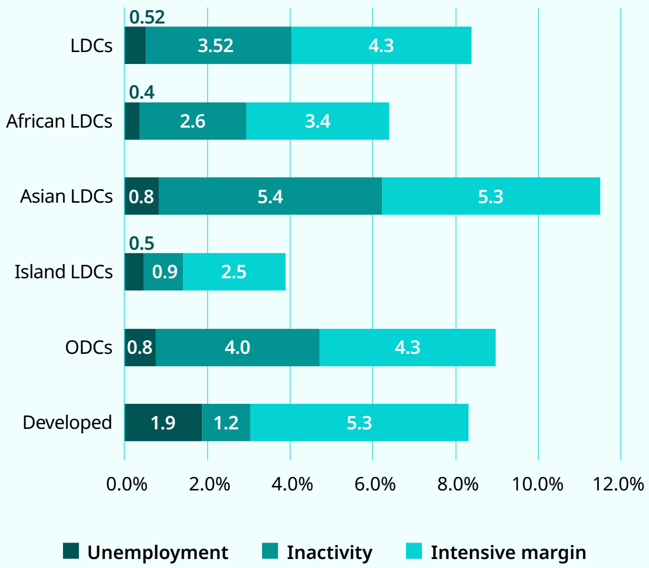


Source: Calculations based on ILO modelled estimates.

precipitous drop in employment rates, followed by African LDCs, while Island LDCs were relatively unscathed. Although it will take several years for each country group to recover, LDCs' employment rates are converging to pre-crisis levels more quickly than in developed countries, albeit with a deeper impact. This impact, however, understates the fact that earnings reductions are a more accurate reflection of economic damage in the LDCs than elsewhere (Parisotto and Elsheikhi, 2020). More concretely, large swathes of the LDCs' labour markets are composed of informal, self-employed and agricultural workers who need to work to survive, as they have few savings and are not covered by such social protection as unemployment insurance. These workers are therefore more likely to suffer reductions in earnings than to become inactive or unemployed.

National surveys and country assessments point to a similar finding: overall, the crisis is leading to significant losses of earnings and incomes, in some countries, affecting as many as 80-90 per cent of surveyed respondents (Bangladesh, Senegal, Timor Leste, Uganda and Yemen[1]).

▶ Figure 2.6 Decomposition of working-hour losses into changes in unemployment, inactivity and reduced working hours, world and by income group and region, 2020



Source: Calculations based on ILO modelled estimates.

Note: The overall working-hour loss is decomposed into changes in unemployment, inactivity and reduced or zero working hours. Unemployment plus inactivity equals the total employment loss. Unemployment and inactivity have been converted into their working-hour equivalent using the average working hours per week. The working-hour equivalent of changes in employment, unemployment and inactivity is computed using the estimated average working hours per week, which range from 35 to 45 hours across income groups and regions.

The employment impact within the LDCs, however, is heterogeneous, due to the employment structure of each subregion. Asian LDCs, which are on average more industrialized and are most interconnected in global markets, underwent the steepest decline in employment rates of all LDC regions. Employment rates decreased less in African and Island LDCs (see table C.1).

Women have generally suffered more than men from the COVID-19 economic fallout (ILO, 2020a). In the LDCs, their employment-to-population ratios fell by 2.8 percentage points in 2020, compared to 2.4 percentage points for men. This difference is most pronounced in African LDCs, where the ratio fell by an additional percentage point compared to men's (see table C.1). Men's employment rates were more affected in Asian LDCs, ODCs and developed countries, while the impact was comparable in Island LDCs.

Workers in the LDCs who did lose their jobs were more likely to become inactive than unemployed, the latter group representing only 16 per cent of total employment contraction (figure 2.6). In developed countries, by contrast, unemployment was far more common. A key reason for this difference is the ease of job-hunting in developed countries, even during lockdowns and mobility restrictions, because these countries tend to be highly digitalized. Workers out of employment in the LDCs, however, were unable to search actively, which placed them in the inactive category.

A common feature across all regions is that a significant share of the reduction in working hours can be attributed to reduced working hours among those who remained employed. Unlike in developed countries, where job retention schemes were widely available and employed workers were provided with income replacement during mandated lockdowns, workers in the LDCs had to continue working to remain afloat and incurred drops in earnings.

Along with immediate and medium-term effects, the indirect effects of the pandemic on health, nutrition and education – because of school closures, fewer vaccinations among children, higher child and maternal mortality rates, disruption of healthcare services, etc. – are expected to have long-term effects on growth.

1 See World Vision (2020), Nestour and Moscoviz (2020), UNDESA (2020), Aguta et al. (2020), and Norwegian Refugee Council (2020).

External channels – weak external demand, reduced incomes and formal job losses

As the global economy grapples with an economic slowdown in response to the health crisis and containment measures, the LDCs have experienced steep reductions in external demand, large swings in key commodities such as oil, a dramatic decrease in tourism activity, weakening foreign direct investment (FDI), debt challenges and dwindling flows of remittances—a key source of foreign funding and support for household incomes in many LDCs. These external factors, together with containment measures taken domestically, have led to severe losses in working hours, jobs and incomes.

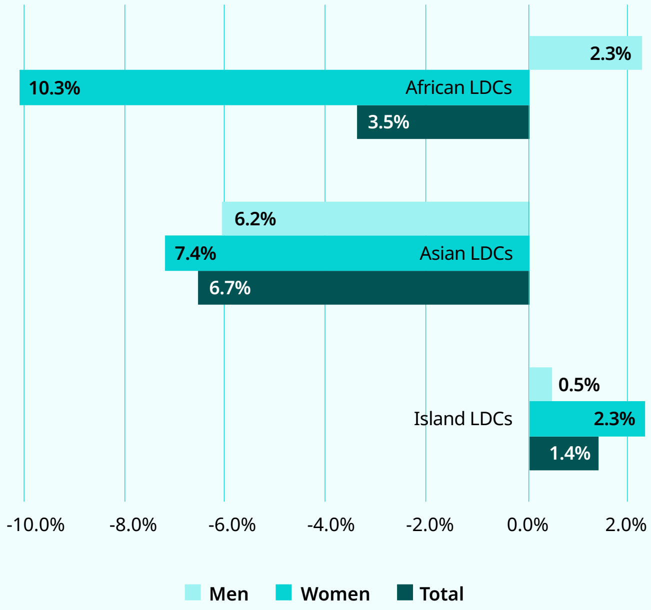
Manufacturing

Manufacturing has been significantly affected by the COVID-19 crisis, in particular the textiles, clothing, leather and footwear industries. These highly globalized industries have been key drivers of development in some LDCs, especially in Asia and to a lesser extent in Africa. A sizeable share of (mainly) formal employment is to be found in these sectors, amounting to around 8 per cent (or 4.9 million workers) and 12 per cent (or around 1 million workers) in Bangladesh and Cambodia, respectively (ILO 2017a; ILO, 2018a).

The employment contraction in manufacturing has been one of the most noteworthy such contractions for LDCs in Africa and Asia, particularly among women. As shown in figure 2.7, female employment in the manufacturing sector fell by 10.3 per cent in African LDCs and 7.4 per cent in Asian LDCs.

Estimates also suggest that the public health crisis could cost global value chains US$50 billion in exports (UNCTAD, 2020a). On the supply side, transport controls and other measures put in place at the start of 2020 have had a ripple effect and led to raw material shortages in garment-exporting countries, drastically limiting production. This can be explained in large part by the temporary disconnection of China from the global economy – a country that in 2018 accounted for as much as 60.2 per cent of textile imports in South-East Asian countries. Supply has also been restricted locally through temporary lockdowns and factory closures imposed by governments in an attempt to keep contagion rates at bay.

Figure 2.7 Change in manufacturing employment (year-on-year), LDCs, 2020



Source: Calculations based on ILO modelled estimates.

Even if supply were to converge to pre-crisis levels, there would still be negative demand-side shocks reducing the profitability of garment industries. The virus has caused a sharp decline in consumer spending, especially in Europe and North America. Consumers' loss of income and confidence, social distancing and an increased propensity to save during times of recession have led to a reduction in the global demand for goods. While the repurposing of factory resources has had a mitigating effect in some countries – for example, the mass production and exporting of facemasks in Bangladesh, Cambodia and Myanmar – the related trade flows are insufficient to offset contractions in the garment sector, and sizeable job losses and income reduction in the LDCs remain (Parisotto and Elsheikhi, 2020).

According to surveys in Bangladesh, less than half of the workforce received their full salary at the height of the crisis, with 77 per cent of respondents in June 2020 reporting that they had eaten less food. Moreover, during the first lockdown period of spring 2020, according to another survey in a sample of 250 enrolled factories, 38 per cent faced order reductions and 34 per cent had order cancellations (ILO and BRAC, 2020).

In Cambodia, garment exports, which accounted for 80 per cent of the country's exports in 2019, dropped by 16 per cent – over US$1.3 billion – in 2020, and the footwear sector by over US$180 million (ILO, 2020b). There was evidence of non-payment of already produced orders and longer payment terms from brands (120 days in June 2020). Among the workers still employed, 49 per cent reported a reduction in income due to COVID-19 production disruptions, and 41 per cent said that they had fewer working hours. Some 36 per cent of women garment workers reported a heavier workload than men during the pandemic; 13 per cent mentioned a rise in unpaid care work; and 33 per cent reported increased tension and conflict at home. There were also allegations of dismissals of pregnant workers and failure to pay maternity benefits, underscoring heightened gender-based discrimination in hiring and retrenchment (ILO, 2020b).

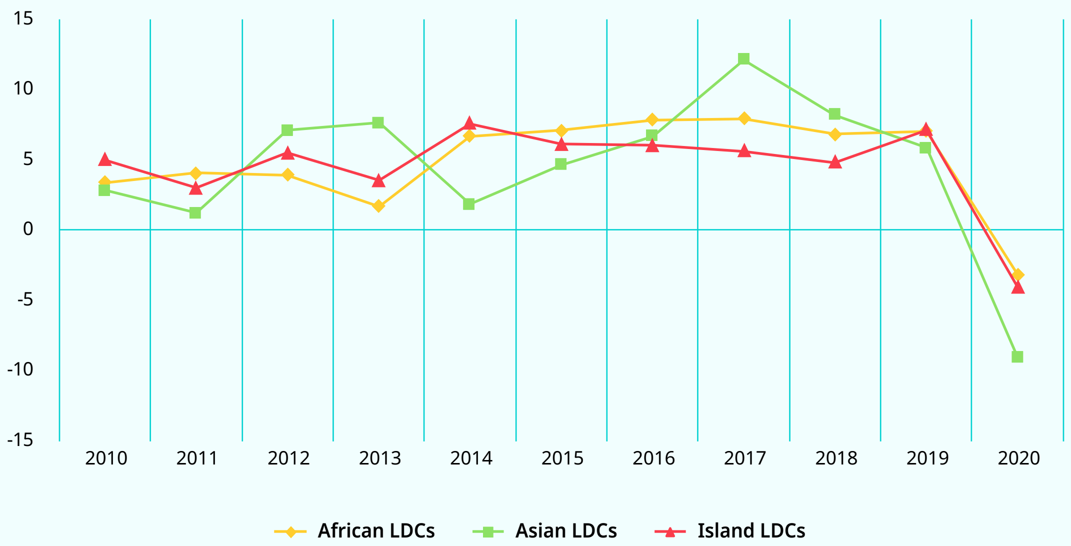
In Ethiopia, a national state of emergency was declared in April 2020 to tackle COVID-19, restricting the movement of people and goods alike. According to a Better Work Ethiopia survey, the average capacity utilization rate for the first quarter of 2020 was 52.5 per cent, compared to 75 per cent in the same quarter of 2019. Worker telephone surveys found that a third of workers were working fewer hours than expected, with 46 per cent of the sample reporting a reduction in income (Better Work, 2021a).

In 2020, the Haitian textile industry exported approximately US$765 million worth of products to the United States, its primary end market, down 23.5 per cent from the previous year (Better Work, 2021b). In the first wave of the pandemic, most factories were closed for one month. The government initially allowed some factories to work at 30-per-cent capacity to manufacture personal protective equipment (PPE), and later to operate at 50-per-cent capacity. Initially, the sector lost approximately 20,000 jobs, and four companies closed their doors permanently. The government stepped in to support the workers by covering one quarter of their salary for one month, but financial stress remains a primary concern among 60 per cent of workers. According to a survey of 3,300 workers carried out by Better Work Haiti in December 2020, 91 per cent had to reduce the number of meals because of food price inflation or a drop in household income. Over two thirds experienced some sort of work disruption, and 80 per cent had spent personal savings in the previous two months to cover their living expenses, while one third had borrowed money to do so (Better Work, 2021b).

Tourism and related sectors

Tourism and related sectors are a strong source of employment and income for many LDCs, accounting for on average 9.5 per cent of GDP in almost 90 per cent of these countries. They are also a vital source of employment, representing 13.5 per cent and over 8 per cent in the LDCs situated in Asia and the Pacific and Africa, respectively.

Figure 2.8 Change in employment in accommodation and food service activities



Source: Calculations based on ILO modelled estimates.

Note: Year-on-year percentage changes.

Prevailing lockdown measures, travel restrictions, reductions in consumers' disposable income and low confidence levels have brought tourism to a standstill in many countries, affecting millions of workers directly and indirectly. Tourism is a vibrant source of formal and informal employment in a number of economic sectors, such as accommodation, food and beverages, and entertainment, as well as other sectors that supply goods and services which travellers seek while on vacation. Although in part influenced by reduced domestic consumption, it is evident that the collapse in tourism affected those sectors profoundly. In fact, employment growth underwent its most precipitous drop in decades, falling by 9 per cent in Asian LDCs (figure 2.8).

Oil and other commodities

The majority of LDCs, particularly those in sub-Saharan Africa, rely on the exporting of commodities, such as minerals, oil, gas and agricultural products. However, commodity prices fell in 2019 overall, and the pandemic accentuated the decline in the prices of oil and selected minerals in the first half of 2020 (fuel prices for January to July 2020 were down 36 per cent year-on-year (UNCTAD, 2020b), but have since recovered. This temporary rapid price drop, together with the reduced quantities of exports, has caused a drastic decline in earnings in 2020 for fuel exporters.

Even though extractive industries are capital-intensive and account for a limited number of jobs, revenues from these industries often represent the bulk of government revenues. A decline affects urban formal employment via its effects on the numbers and wages of civil servants and workers in construction for public infrastructure. Indirectly, it reduces the fiscal space available to provide support to enterprises and incomes and to lessen the economic and employment fallout from the COVID-19 crisis.

Remittances and inward migration

Remittances from workers living abroad represent a significant proportion of household income for millions of people living in LDCs, particularly in urban areas. At the macroeconomic level, remittances are also a major source of foreign exchange earnings, often playing a corrective role for these countries' trade balances. In 2019, for instance, they contributed on average 7 per cent of GDP. According to World Bank (2021a), in 2020, officially recorded remittance flows to low- and middle-income countries remained resilient at US$540 billion, which is 1.6 per cent below the US$548 billion seen in 2019. However, drops in remittances were steeper in sub-Saharan Africa and Asia and the Pacific, down by 7.9 per cent and 12.5 per cent, respectively (World Bank, 2021a).

For many households, the decline in remittances also drags down private consumption, exacerbating the demand-side shock and in turn limiting employment prospects.

The movement of migrant workers back to their home countries further stifles already weak or non-existent social protection systems, leaving a growing number of households with little or no income replacement or safety net. At the same time, population growth resulting from repatriation can potentially exacerbate food shortages and place further pressure on already fragile health systems. According to IOM (2020), for instance, hundreds of thousands of Bangladeshi migrants are expected to return home once countries relax restrictions and airlines resume flights.

In short, with plummeting quantities and prices for exports, along with drops in tourism and remittances, LDCs are experiencing a sharp and unprecedented demand shock, and a slow economic recovery is likely to worsen the damage. On average, GDP in LDCs is estimated to have grown by less than 1 per cent in 2020, which is well below previous rates and the Istanbul Programme of Action (IPoA) target of 7 per cent. Recovery in LDCs is expected to be slower than in other countries due to their structural vulnerabilities and simultaneous exposure to multiple shocks. Prolonged disconnection from the global economy may severely affect the limited pockets of formal employment that the most successful LDCs have been able to develop over the past two decades of globalization. This may in turn dampen prospects for further technological and organizational upgrading and structural transformation, a critical challenge for most LDCs.

Impacts on domestic markets – fragile urban and rural informal jobs

The immediate and most direct labour market impact is due to containment measures that have been adopted by almost all countries, as seen above in figure 2.4. A few weeks of inactivity can have major economic implications for people who work informally or have few cash reserves, no paid sick leave, no access to teleworking and nothing to fall back on. In the LDCs, such people represent the majority of the workforce.

In earlier crises in LDCs, informal employment acted as a labour market adjustment mechanism, expanding to offer some precarious livelihoods to buffer the negative employment effects of a trade shock or budgetary restrictions due to fiscal consolidation. This time around, the crisis hit upfront the economic sectors in which informal, low-productive urban employment is usually clustered – commerce, food, transportation, personal services and domestic work.

In Malawi, for instance, according to a telephone survey in urban areas, 88 per cent of businesses in the services sector reported lower or no sales revenues (Chikoti et al., 2020). In Senegal, a qualitative assessment in the urban informal economy by the ILO and the Ministry of Commerce and SMEs found that 40 per cent of interviewed workers had lost their jobs, while 62 per cent faced reduced incomes (UNDP, 2020). Overall, as of April 2020, the ILO estimated that 197 million informal workers in low-income countries – accounting for 68 per cent of total employment – were working in economic sectors at high risk from the pandemic, such as retailing, food and transportation in densely crowded urban areas (ILO, 2020c).

If job and income losses in most countries seem to have been affected at first in cities, in the face of limited access to savings and contingency funds, many informal workers have also been migrating back to their villages from urban centres, exacerbating impoverishment and hunger in rural areas and accelerating the spread of the virus. Despite the crucial nature of the agricultural sector, where many activities have continued to operate even during lockdowns, it has not been spared. Restrictions on urban-rural mobility and disruptions on the supply side have affected production and earnings for agricultural workers, for whom the sector constitutes the bulk of employment in LDCs. Restrictions on mobility are also hampering inputs of fertilizers and seasonal movements of workers to sow and harvest for the next season, constraining agricultural productivity and future employment prospects.

In Burkina Faso, a survey conducted by Innovations for Poverty Action in collaboration with the Ministry of Employment found that, as of July 2020, 80 per cent of households working in agriculture had altered their operations because of restrictions linked to COVID-19. This has significantly affected workers, 50 per cent of whom have experienced a decline in working hours and 60 per cent of whom are facing reduced earnings (IPA, 2020).

2.5 Responding to the crisis

Macroeconomic policy and support packages

The pandemic has simultaneously led to increased needs for spending to address the health, social and economic crisis and to diminished domestic revenues due to a decline in economic activity, including a drop in export revenues, thereby reducing LDCs' already limited fiscal space.

At the same time, capital account inflows of external finance, especially FDI and remittances, which for LDCs play a larger role than for other groups relative to their GDP, have also dwindled. In fact, the combined losses of domestic revenue, remittances, FDI and receipts from tourism alone due to the COVID-19 effects are estimated to exceed all the official development assistance (ODA) that LDCs received in 2018. Many LDCs are now facing debt distress situations and financially unsustainable debt servicing and repayments.

Governments not only need additional resources to address the health impacts of the crisis and to develop and roll out vaccines, but also need to cover the costs of the various lockdowns necessary to halt the spread of the virus and stimulate the economy in order to make up for the fall in product demand caused by the crisis.

The government response was vastly greater than that following the 2008–2009 global financial crisis, and likely has prevented a much deeper global recession. Cross-country inequalities in the fiscal and monetary response capacity run as deep as the overall response has run high, however.

Of the global support provided since January 2020, estimated at close to US$17 trillion (or 16.4 per cent of world GDP) in September 2021, developed countries accounted for 84.76 per cent, in marked contrast to the 15.08 per cent for ODCs and the 0.16 per cent for the LDCs (table 2.1).

Table 2.1 Summary of group fiscal measures in response to the COVID-19 pandemic from January 2020 to October 2021

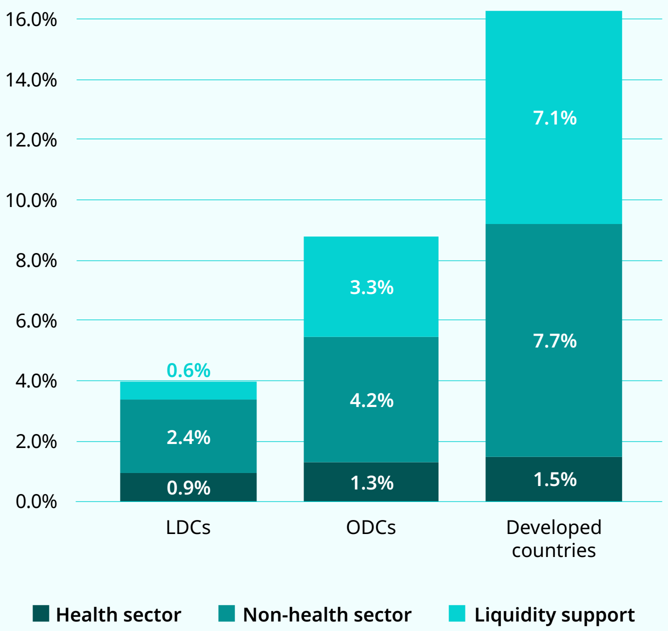
	Fiscal Support (billions US$)				Proportion of GDP (%)			
	Total	Health sector	Non-health sector	Liquidity support	Total	Health sector	Non-health sector	Liquidity support
LDCs	24.4	6.7	15.4	2.3	4.0	0.9	2.4	0.6
African LDCs	13.9	3.1	9.0	1.8	4.0	0.9	2.3	0.8
Asian LDCs	10.4	3.6	6.4	0.4	2.0	0.5	1.4	0.1
Island LDCs	0.1	0.04	0.05	0.001	7.1	1.6	4.8	0.7
ODCs	2429.1	173.8	1387.1	868.1	8.8	1.3	4.2	3.3
Developed countries	14137.9	1229.8	7738.1	5170.0	16.3	1.5	7.7	7.1

Source: Calculations based on IMF Fiscal Monitor Database (2021).

Notes: Estimates as of 27 September 2021. Numbers in US dollars and percentage of GDP are based on October 2021 World Economic Outlook unless otherwise stated. The fiscal measures include resources allocated or planned in response to the COVID-19 pandemic since January 2020, which will cover implementation in 2020, 2021 and beyond.

Fiscal support packages provided by the LDCs as a group averaged 4 per cent of GDP, or one half of those of ODCs (8.8 per cent) and one fourth of those of developed countries (16.3 per cent) from January 2020 to October 2021. Within the LDCs, Island LDCs allocated the largest share of GDP to fiscal measures, 7.1 per cent, while African and Asian LDCs provided far less (4 per cent and 2 per cent, respectively). The LDCs allocated similar proportions to fiscal support measures targeting the health and non-health sectors, providing 0.9 per cent to health and 2.4 per cent to non-health; developed countries averaged 1.5 per cent and 7.7 per cent of GDP, respectively. The most pronounced difference, however, was in liquidity support, for which all developing regions allocated a very small fraction of GDP compared to developed countries.

▶ Figure 2.9 Fiscal and monetary support in response to COVID-19 from January 2020 to October 2021 (% of GDP)



Source: ILO calculations based on IMF Fiscal Monitor Database (2021).

As of September 2021, stimulus packages per capita from developed countries were approximately 477 times larger than those offered by the LDCs and 25 times larger than those offered by ODCs. This is in sharp contrast to the fact that GDP per capita of developed countries is 16 times that of the LDCs and 4 times that of ODCs.

Despite the widening financing gaps and limited fiscal space, most LDCs responded rapidly and implemented emergency support packages containing fiscal and monetary measures to tackle the COVID-19 crisis. These policies were designed to address the health emergency, provide emergency lifelines to vulnerable households and support businesses. Most packages contained:

i. targeted investments to strengthen the health system, in some cases as part of contingency plans coordinated with international organizations and donors;
ii. the expansion of social protection to the most vulnerable, mainly including cash transfers and in-kind necessities for the poorest;[2]
iii. supporting the private sector through tax relief, suspension of government fees and waived social contributions, with attention paid to highly exposed sectors, such as transportation, accommodation and tourism (e.g. Benin, Bangladesh, Burkina Faso, Central African Republic, Guinea, Lesotho, Madagascar, Malawi, Mauritania, Mozambique, Sierra Leone, Senegal, Togo and Uganda). In addition, subsidized access to agricultural inputs was provided in some cases (Gambia, Rwanda and Togo). In other cases, medicine and medical equipment were exempted from import duties (Bangladesh, Madagascar and Malawi).

Reaching out to the large numbers of workers in the informal economy who were hit by the crisis has been an overwhelming challenge. Most countries broadened and topped up existing cash transfer programmes, such as the Productive Safety Net Programme in Ethiopia and the Child Grant Programme in Lesotho.

2 See also Chapter 6.

Some countries have used this time as an opportunity to reduce informality and have coupled access to emergency microloans with measures for the formalization of small economic units (e.g. Angola). Wage subsidies were introduced for formal workers in some cases and often made conditional on employment retention (e.g. Bangladesh, Burundi, Haiti, Senegal and Timor Leste), while a few countries made use of cash-for-work and labour-intensive public works programmes (Cambodia, Guinea and Nepal). Innovative solutions were also sought – for example, a new mobile cash-transfer programme, NOVISSI, was launched in Togo, for which about 1.4 million informal workers were registered.

Policies relating to jobs, incomes and building forward better

At the outbreak of the pandemic, the focus was on emergency measures to contain the spread of the virus and protect households and businesses from economic damage. The LDCs have undertaken containment measures and delivered economic assistance to the full extent of their fiscal and administrative capacity.

As the crisis deepens, the challenge remains to increase capacity in hospitals and continue to provide essential income relief while acting to safeguard and strengthen the conditions for a fast, job-rich recovery and a stable path to future resilience. The current stage, in which the threats from COVID-19 remain serious and uncertainty prevails, seems likely to last longer than initially expected since vaccination rates remain well below the global average and future supply prospects remain unclear. Policy responses will have to be comprehensive in order to cope with the multiple dimensions of the crisis and encompass a range of policy areas in a coherent and integrated manner that will optimize limited fiscal space and improve on policy delivery.

As infections easily spread at the workplace, occupational safety and health provisions are essential in all sectors to improve consumer and investor confidence. Such provisions should apply to both formal and informal modes of business as far as possible, as there is evidence of a strong relationship between viral transmission and street vending practices, most of which are informal in nature (Busiinge, 2020).

Well-designed sectoral and industrial policies, targeted subsidies and skills development could help trigger new opportunities. Local sourcing within food supply chains is one example, as in Cambodia with the development of start-up Grocerdel. The production of medical equipment with locally sourced inputs is another, and is already operational in many garment-producing factories in Bangladesh and Myanmar. Policy should also support business in reorienting and adapting to patterns of demand as they are shaped by fears about the pandemic. Indeed, several LDCs have adopted new laws and regulations on e-commerce or have committed to doing so in the near future (Cambodia, Myanmar, Tuvalu, Uganda and United Republic of Tanzania). There is scope for entrepreneurship and microlevel innovation, fuelled by new technologies, which could be leveraged in many areas. In Uganda, for instance, an e-commerce platform called SafeBoda was recently launched to connect market vendors with customers after the country went into lockdown to control the spread of the virus. Given the importance of access to credit for most enterprises, central banks, development banks and microfinance institutions should take the lead in establishing new financial facilities and cashless platforms for wide access, including to informal endeavours. Development finance institutions, development partners and the private sector could also support such new projects with funding, guarantees and expertise.

Ultimately, full recovery and *building forward better* for the LDCs will require policies that combine social protection and health-related measures with support and development of institutions of work and targeted expenditure to assist structural transformation. These must be put forward in a comprehensive employment framework that includes industrial policies and the development of infrastructures and human capabilities which can expand productive capacities and create more decent jobs.[3]

3 The following chapters elaborate more on *building forward better* policies and institutional frameworks for sustainable development in the LDCs.

2.6 Stepping up international support

The COVID crisis affected the fiscal balances and financial sustainability of LDCs, and international support in the form of additional resources and debt relief are now required to meet their immediate and future needs to respond to the pandemic.

As of November 2021, the World Bank Group had mobilized a record US$157 billion in new financing for loans and grants as part of its operational response to COVID-19, reaching out to almost all the LDCs (World Bank, 2021b). Provided from April 2020 to June 2021, it included over US$50 billion of International Development Association (IDA) resources in the form of grants and highly concessional terms. On 13 October 2020, US$12 billion in financing was approved for developing countries to cover the purchase and distribution of COVID-19 vaccines, tests and treatment for LDC citizens; a further US$8 billion was added on 30 June 2021. In Bangladesh alone, for instance, an additional US$500 million was approved to support the government in preventing, detecting and responding to the threat posed by COVID-19 and in strengthening national systems for public health preparedness (World Bank, 2021c). Projects that are currently supported by the COVID-19 Fast-Track Facility (including support for vaccines) target 41 LDCs. Projects with support from the International Bank for Reconstruction and Development (IBRD) and IDA include components that address the pandemic, and projects with other forms of finance extend to 43 LDCs.

Meanwhile, the International Monetary Fund (IMF) has made approximately US$250 billion available to member countries for pandemic-related financial assistance and debt service relief (IMF, 2021). Currently, 34 LDCs are receiving emergency COVID-19 financial assistance under the IMF Rapid Financing Instrument (RFI) and/or Rapid Credit Facility (RCF), two lending instruments specifically designed to respond to external shocks in a timely manner (IMF, 2021). Grants and debt relief have also been granted to 29 LDCs under the IMF's Catastrophe Containment and Relief Trust (CCRT) (IMF, 2021). Emergency support to fight the pandemic in the most vulnerable and low-income countries – including 28 LDCs – is also available under the UN's US$10.3 billion appeal for a coordinated global humanitarian response plan, of which US$ 2.2 billion had been funded as of 20 August 2020, with gender-based violence, health and social protection as the main target areas (OCHA, 2021).

The African Development Bank (AfDB) established an unprecedented US$10 billion fund in April 2020 to help African countries deal with the health and socio-economic crises (AfDB, 2020). The Asian Development Bank (ADB) set up a US$20 billion fund in April 2020 and the US$9-billion Asia Pacific Vaccination Access Facility (APVAX) in December 2020, to fight COVID-19 and its consequences (ADB, 2020). In the Americas, the Inter-American Development Bank (IDB) approved a record US$21.6 billion in financing in 2020 in response to the pandemic, capped by the mobilization of US$1 billion for vaccine acquisition, of which Haiti received a US$60 million grant, in addition to the reallocation of existing funds (IDB, 2021).

Those sources help free up resources and alleviate the fiscal and balance-of-payments constraints of LDCs in meeting their *immediate needs* to respond to the pandemic. For instance, unlike conventional IMF funding, the RFI and RCF loans are disbursed all at once after the borrower country outlines its intended policies; they can be used to support healthcare systems and sustain lifelines, and do not involve conditionality. The amount of funding, however, is limited to 100 per cent of the borrower's IMF quota. Moreover, loans from the IMF and multilateral development banks (MDBs), although they are granted on concessional terms, add to the total debt burden of receiving countries. **The sustainability of external debt may remain the main challenge to recovery unless concomitant development assistance and debt relief is provided.**

Therefore, it will be important to scale up ODA to meet existing commitments, avoiding the reductions that may follow budget pressures across bilateral donor countries. ODA remains far more important for LDCs than for other groups (UNDESA, 2020).

Given the high levels of debt distress generated by the crisis, direct action on debt servicing was agreed in May up to year-end 2021. The Debt Service Suspension Initiative (DSSI) launched by the G20 countries entails the suspension of debt service payments for the 73 poorest countries. Forty-eight countries have benefited so far, amounting to the deferral of an estimated US$5.3 billion of 2020 debt service, but the involvement of private creditors remains a serious obstacle to the effectiveness and political acceptance of this measure (World Bank, 2021d).

The IMF issuance of Special Drawing Rights (SDRs) in August 2021 can be a source of new liquidity if LDCs can receive reallocations from countries with higher allocations and better financial and balance-of-payments positions. All the options currently under discussion – (i) using SDRs to boost the resources of the IMF's Poverty Reduction and Growth Trust (PRGT); (ii) using SDRs to provide initial funding to a soon-to-be-created IMF fund, the Resilience and Sustainability Trust (RST); and (iii) on-lending SDRs to multilateral development banks (MDBs), including the World Bank – can contribute to this new liquidity in support of LDCs, provided that transfers are additional to existing ODA commitments.

Finally, aside from financial measures, it is critical to strengthen international cooperation on healthcare and vaccines and to avoid unnecessary restrictions and barriers to trade and migration. Interaction with higher-income economies is essential to trigger and sustain recovery in smaller and more vulnerable developing economies once the pandemic is under control.

Part II

Structural transformation, sustainable and inclusive growth and decent work

Chapter 3

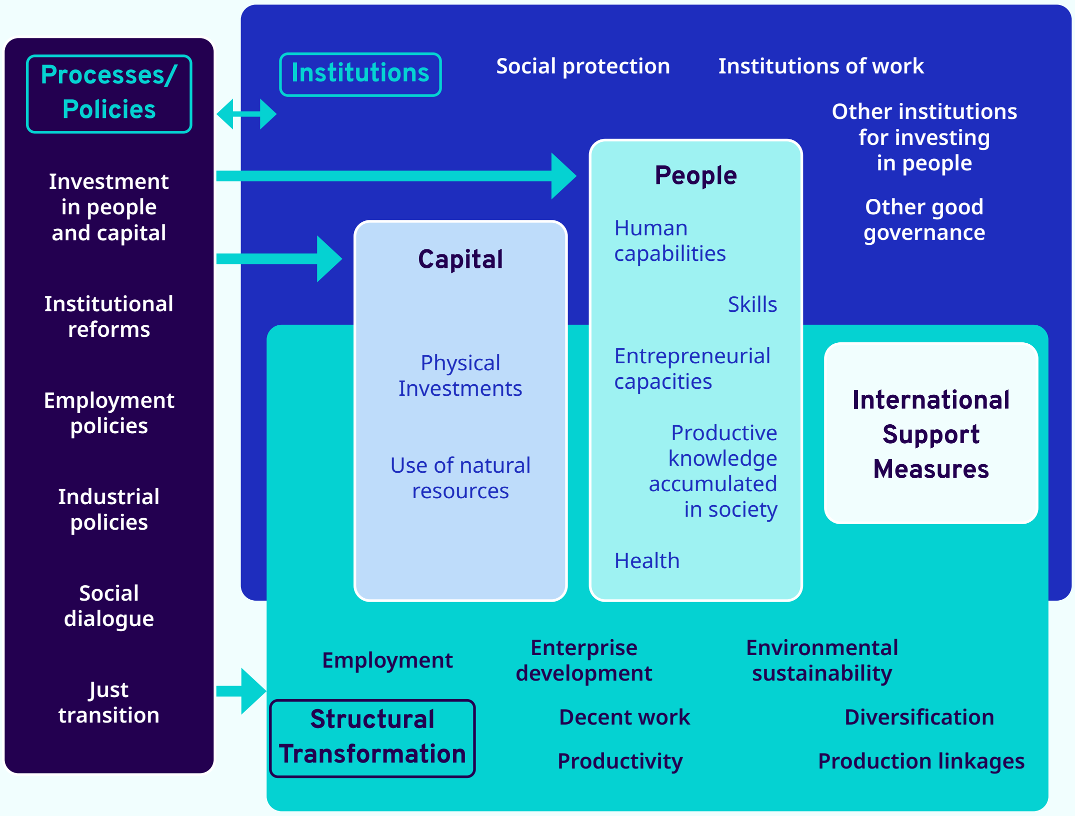
Structural transformation in LDCs: patterns, challenges and policies

3.1 Development as a transformation process

Achieving sustainable growth, full and productive employment, and decent work requires the expansion of productive capacities and a structural transformation that leads to more employment opportunities, an improvement in the quality of work and productivity growth. Only the combination of overall productivity growth and employment creation can raise incomes sufficiently to reduce poverty and generate the public and private resources needed to support further socio-economic investment and development.

Expanding productive capacities and strengthening the institutions of work and the policies for investing in people, are all key preconditions for development. Institutions providing education, training and social protection cooperate closely with institutions of work, such as those for labour administration and those that guarantee fundamental rights at work, social dialogue and other labour standards. The two sets of institutions are in turn supported and complemented by comprehensive or targeted employment policies covering industrial issues, skills and transition to formality.

Figure 3.1 Relationships between factors contributing to transformation and sustainable development



Note: The list of policies, institutions, outcomes and processes is illustrative and does not represent a complete taxonomy, nor does it indicate mutually exclusive elements.

These institutions and policies are necessary for sustained growth and for more diversified production structures, as they allow expanding human capabilities and productive knowledge to create increasingly more complex products and more productive complementarities between physical capital and skills.[1] The development and implementation of these institutions and policies create more and better employment and increase productivity across sectors. These are all necessary elements for raising work incomes in a context of growing population and an expanding labour force.

As discussed in this chapter, productivity growth alone does not guarantee sufficient employment creation. However, productivity growth *in a context of expanding human capabilities* can enable better jobs and work conditions, along with higher incomes. Sustainable development thus involves a *growth- and employment-enhancing structural transformation*. New products and more value added need to be generated to absorb more productivity and employment growth. This can be achieved by generating demand for domestic products through increased incomes, access to international markets and the adoption of technologies that make new production viable and competitive while also making enterprises sustainable.

Structural transformation is at the centre of modern economic growth and development. The need for structural transformation as the foundation for growth and development has been emphasized in the development literature and in recent policy-oriented analysis.[2] The transformational component of growth and development involves the creation of markets, productive capacities, human capabilities and institutions. Changes in the structure of an economy (production, employment, use of resources, domestic and

1 According to Hausmann et al. (2013), productive knowledge is knowledge accumulated by a society about how to make different things that are produced by a country's industry.

2 See for instance Kuznets (1966) and Kaldor (1967 and 1968) for earlier uses of the concept and UNCTAD (2021) as a recent example.

external trade composition) are typically referred to as *structural change*. Yet "[s]tructural changes, not only in economic but also in social institutions and beliefs, are required without which modern economic growth would be impossible" (Kuznets, 1971, p. 348). Transformation is thus more than just a change in economic structure; economic change is not possible without broader transformation that involves investment in people and in institutions of work.

Structural change in a contemporary context

Sustainable development requires a continuing process of structural transformation that involves the expansion of productive capacities, while simultaneously sustaining the ability of natural systems to provide the natural resources and ecosystem services on which the economy and society depend. Such transformation also includes the creation of markets and strengthening of institutions of work and good governance.

This and the following section look at the structural change experienced in the LDCs, which is the process of changing the sectoral composition of production, the allocation of resources and the composition of employment in a context of sectoral and economy-wide change in productivity.[3] This change entails the creation of products and markets (that are new for the economy), changes in the composition of demand by firms and consumers and the intensification of economic linkages and interdependence based on complementarities in skills and knowledge. These channels of transformation are supported by the adoption of technologies (new or adapted) and by physical investments and human capabilities, including skills and entrepreneurial capacities.

The traditional pattern of structural change has been characterized by a decline in the relative importance of agriculture and a rise in manufacturing (in both output and employment shares), associated with overall growth in production, incomes and productivity in both agriculture and manufacturing. The resulting process of industrialization has indeed been pivotal in raising living standards, both for developed economies and for many emerging and developing countries. A vast amount of development literature has documented the fundamental market and production characteristics that made manufacturing a driver of growth and economic change. These characteristics include: tradability of manufactured goods, significant economies of scale, transmissibility of technology and knowledge and capacity to absorb labour at all skills levels.

The manufacturing sector has acted as the "engine of growth" and induced productivity growth in manufactures themselves, as well as in other sectors via spillover effects and dynamic increasing returns. Spillover effects propagate into other economic sectors through learning and knowledge diffusion when the manufacturing sector grows. Dynamic increasing returns arise from specialization, learning by doing and capital accumulation, and affect the entire economic system (Kaldor, 1967 and 1968). The sectoral reallocation of labour from a low-productivity agricultural sector to relatively more productive manufacturing activities also helps raise the aggregate productivity of the economy.

The growth of output and employment in services has typically followed the process of industrialization, creating activities complementary to manufacturing production, such as business, financial and other professional services. This complementary growth has allowed the demand for other services to expand through rising household incomes. The growth of services sectors in relative terms, in a context of strong manufacturing capacity and a high level of productivity, has been acknowledged as a healthy economic characteristic associated with a larger variety of products, professions and employment opportunities.

Many "late industrializers" (that is, economies undergoing some traditional patterns of structural change with increases in agricultural productivity, decreases in agricultural employment and increases in production and employment in manufacturing) are, however, experiencing declining rates of employment growth in manufacturing compared to other sectors, including services. This pattern is now emerging at lower levels of income than those experienced by more mature industrialized economies, which is evidence of *premature deindustrialization*. This has raised concerns that developing countries are now facing more stumbling blocks on their development paths, and these challenges

3 The change in structure implies both the sectoral reallocation of resources (changes in the shares of production or employment across sectors) and changes in the productivity of individual sectors. In fact, "[s]ectoral distribution of output and employment is both a necessary condition and a concomitant of productivity growth" (Abramovitz, 1983).

must be addressed.[4] Considerable analysis and literature have accordingly been devoted to the interpretation of current trends in trade and technology development and emerging economic and landscapes in order to identify new drivers of industrialization and alternative forms of economic development. Some analyses and policy debates have created the expectation that services could replace manufactures as the main driver of employment and growth and could represent a new form of industrialization in countries such as the LDCs. While some evidence points to business and professional services being a complementary engine of growth, there is no robust evidence suggesting that services in general could constitute an alternative development path to widespread employment and productivity growth.[5]

The possibility of premature deindustrialization or of persistent jobless growth suggests that structural change can occur in forms that may not be conducive to rising incomes and employment opportunities. The environmental sustainability dimension of structural change is also an important factor for assessing overall development progress and the challenges facing economies. Thus, structural transformation needs to be "growth-enhancing", "employment-enhancing" and "greener" if it is to lead to fully sustainable development.

Finally, it is important to bear in mind that a characteristic of current economies is the large heterogeneity of product composition and production modes within broadly defined sectors, such as "agriculture", "manufacturing", "services" and "other industries", which are traditionally considered as units of analysis. A more refined classification of activities shows that productivity, capital goods and skills requirements vary considerably within the more broadly defined sectors. Heterogeneity extends to characteristics of products and their ability to be sold in domestic or international markets and to generate revenues. In this regard, developing countries, and in particular the LDCs, are characterized by strong dualism between production methods and employment characteristics within sectors. This dualism characterizes most productive activities as "agriculture", "manufacturing", "services" and "other industries" where formal and informal enterprises operate with radically different outcomes in terms of productivity and formal and informal employment creation.[6]

This chapter looks at recent patterns of economic change in the LDCs and at key policies and human-centred investment that can support structural transformation. It points to the importance of comprehensive and coherent policies that encompass industrial, skills and other employment policies, focusing on the adoption of digital technologies and youth employment. Chapter 4 looks at the enterprise dimension of structural transformation in a context of respect for labour standards and effective use of social dialogue to create more and better jobs. Both the sectoral and the enterprise dimensions have economy-wide complementary policy implications as to how LDCs can increase their capacity to generate higher incomes and decent work.

4 See for instance Palma (2005), Dasgupta and Singh (2006), Felipe et al. (2014), and Rodrik (2016).

5 See for instance Guerrieri and Maliciani (2005), Andreoni and Gomez (2012), Kucera and Roncolato (2015), Dasgupta et al. (2017), Kucera and Jiang (2019).

6 Lewis (1954, 1979) highlighted how structural dualism should be understood as cutting across productive activities.

3.2 Patterns of structural change in LDCs

The previous two chapters have provided a broad picture of structural characteristics of LDCs and how this affected the impact of the COVID-19 crisis on these countries. These characteristics include:

i. ***Lack of diversification and/or concentration in a small number of products and activities.*** Most LDCs, especially in Africa, remain highly commodity-dependent and undiversified, and therefore vulnerable and characterized by weak productivity growth, employment generation and job quality. Some LDCs (mostly Asian and Islands) are specialized in manufactures and services, but their production and exports are highly concentrated in just a few productive activities.

ii. ***Pervasive dualism in production and employment.*** Informality is ubiquitous in all productive activities, and it is the main source of the dualism in LDCs. Informality manifests mostly as the prevalence of informal own-account and contributing family workers and micro and small enterprises in African LDCs, and to a larger extent as informal employees in Asian LDCs.

iii. ***Labour force opportunities and capabilities.*** The population in LDCs is relatively young, with a differentiated incidence of youth in NEET. Educational enrolment rates vary substantially across the different regional groups. Skills development appears to significantly reduce informality in countries where there is a higher incidence of manufactures, high value-added services and a larger capacity of medium-to-large firms to employ workers. This pattern is particularly evident when observing the incidence of informality at different levels of education between LDCs and ODCs and between own-account workers and employees in the LDCs, for example.

iv. ***Labour productivity divergence***. Labour productivity growth defined as change of GDP per worker has increasingly diverged between African, Island and Asian LDCs and is still lagging behind that of ODCs.

v. ***Vulnerabilities.*** Structural vulnerabilities (i)–(iv) have exposed LDCs more to the effects of the pandemic, exacerbating the outcomes on incomes, working poverty, fiscal space and financial sustainability induced by external shocks and by the containment measures undertaken during the pandemic.

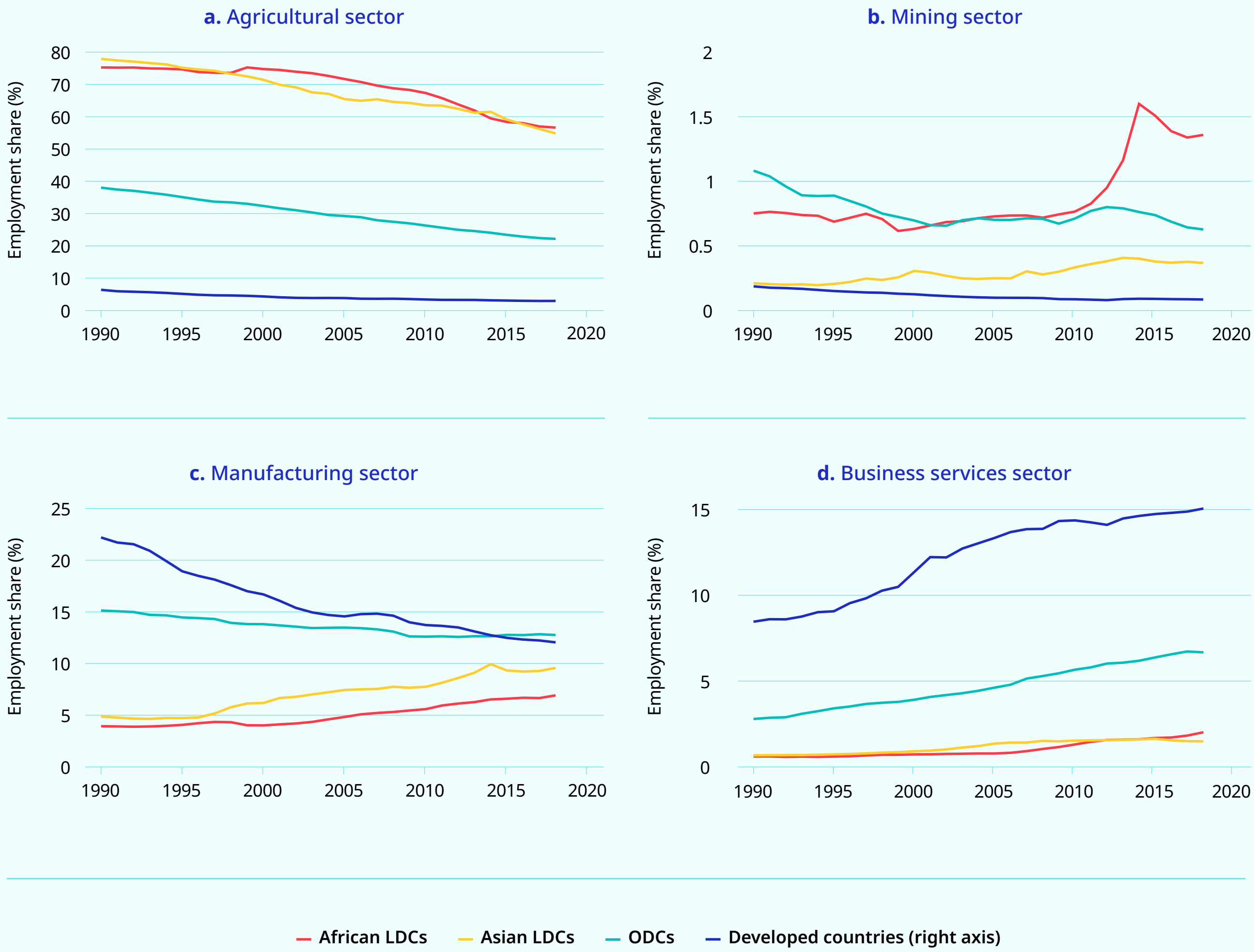
This and the following section look at the patterns of structural change in LDCs and the reasons behind their difficulties in generating productive employment and decent jobs via structural transformation. Due to data limitations at the sectoral level the analysis is restricted to a smaller number of LDCs, ODCs and developed countries, and the group of Island LDCs is omitted.

Changes in employment shares and productivity growth

Changes in the share of employment in key sectors such as agriculture, mining (including oil and gas extraction), manufacturing and business services in total employment are a good indicator of patterns of structural change, as they show changes in the composition of labour demand in a context of accumulation of physical capital, use of resources and changing sectoral productivity (figure 3.2).[7]

7 Agriculture, manufacturing, and business services sectors have been chosen for their relevance to the discussion of industrialization, as indicated above. The mining sector has been added for its relevance for the LDCs and consistency with the following discussion of productivity and employment. When other services with very low or stable employment capacity – such as real estate and financial services, utilities and government services – are excluded, the remaining sectors – such as construction, trade and transport, and other services – can be considered “traditional buffer” sectors in the LDCs. These sectors tend to absorb the workers who are displaced by agriculture and not employed in manufactures and modern services. Their employment share represents the flip image of the trends in the key sectors indicated above.

▶ Figure 3.2 Change in the employment share in key economic sectors



Source: ILO calculation based on the Economic Transformation Database (ETD), de Vries et al., 2021. Accessed 27 September 2021.

Notes: The ETD database covers 51 countries and regions and 12 sectors; the sectors reported in these figures are not collectively exhaustive. Due to large outliers, Rwanda is excluded for the 1990s.
Country groups:
1. African LDCs: Burkina Faso, Ethiopia, Lesotho, Mozambique, Malawi, Rwanda, Senegal, Tanzania (United Republic of), Uganda, Zambia.
2. Asian LDCs: Bangladesh, Cambodia, Lao PDR, Myanmar, Nepal.
3. ODCs: Argentina, Bolivia, Brazil, Botswana, Chile, China, Cameroon, Colombia, Costa Rica, Ecuador, Egypt, Ghana, Hong Kong (China), Indonesia, India, Kenya, Korea (Republic of), Sri Lanka, Morocco, Mexico, Mauritius, Malaysia, Namibia, Nigeria, Pakistan, Peru, Philippines, Singapore, Thailand, Tunisia, Turkey, Taiwan (China), Viet Nam, South Africa.
4. Developed countries: Israel, Japan.

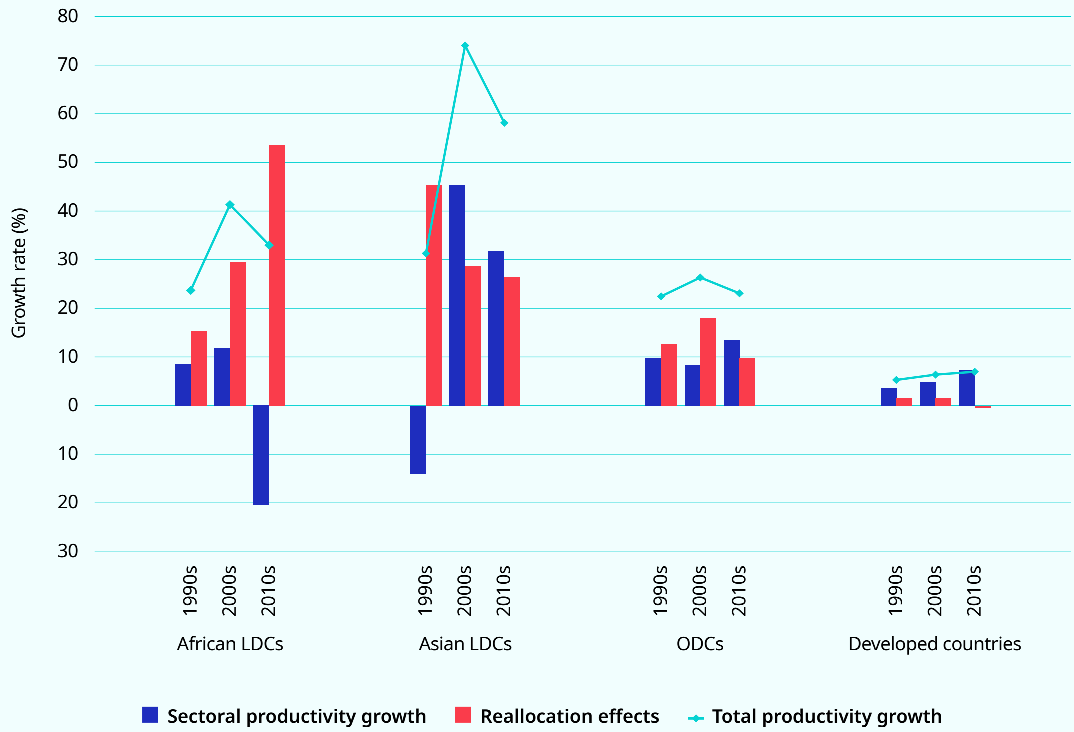
The share of agricultural employment in the LDCs has declined significantly over the past three decades, from more than 75 per cent to around 55 per cent. While this decline has been a common feature for developed and developing countries, the LDCs' share is still more than twice that of ODCs (see also table C.6). At the same time there has been an increase in the share of manufacturing employment, particularly in Asian LDCs.[8] The opposite pattern – a falling manufacturing employment share – is observed in developed countries and ODCs. This is evidence of deindustrialization, with a concomitant increase in the share of services and particularly of business services related to manufactures. Growth in employment in these services sectors has, however, been sluggish and is still at low levels in the LDCs. Mining remains a minor source of employment and has increased in Asian LDCs and even more so in African LDCs.

8 The LDCs have also experienced an increase in the share of manufacture output in total output (see Chapter 1). This analysis does not need to control for level of population and per capita income as in Chenery and Syrquin (1975) and more recently Rodrik (2016).

Total productivity in LDCs has risen significantly, but only Asian LDCs have outperformed ODCs. This has not, however, been sufficient to allow Asian LDCs to catch up with ODCs in terms of GDP per capita. Productivity in African and Island LDCs has been much lower and now diverges (on average) from that of Asian LDCs. [9]

Economy-wide productivity increases associated with structural change are typically decomposed into (i) productivity gains generated by reallocating resources and the creation of employment to more productive sectors, named "reallocation effects", and (ii) an increase in own-productivity in individual sectors, which affects total productivity according to their relative importance in the economy. The latter effects are called "sectoral productivity growth" or "within-sector effects".[10]

Figure 3.3 Total productivity decomposition in LDCs and other country groups



Source: ILO calculation based on ETD data. Accessed 27 September 2021.

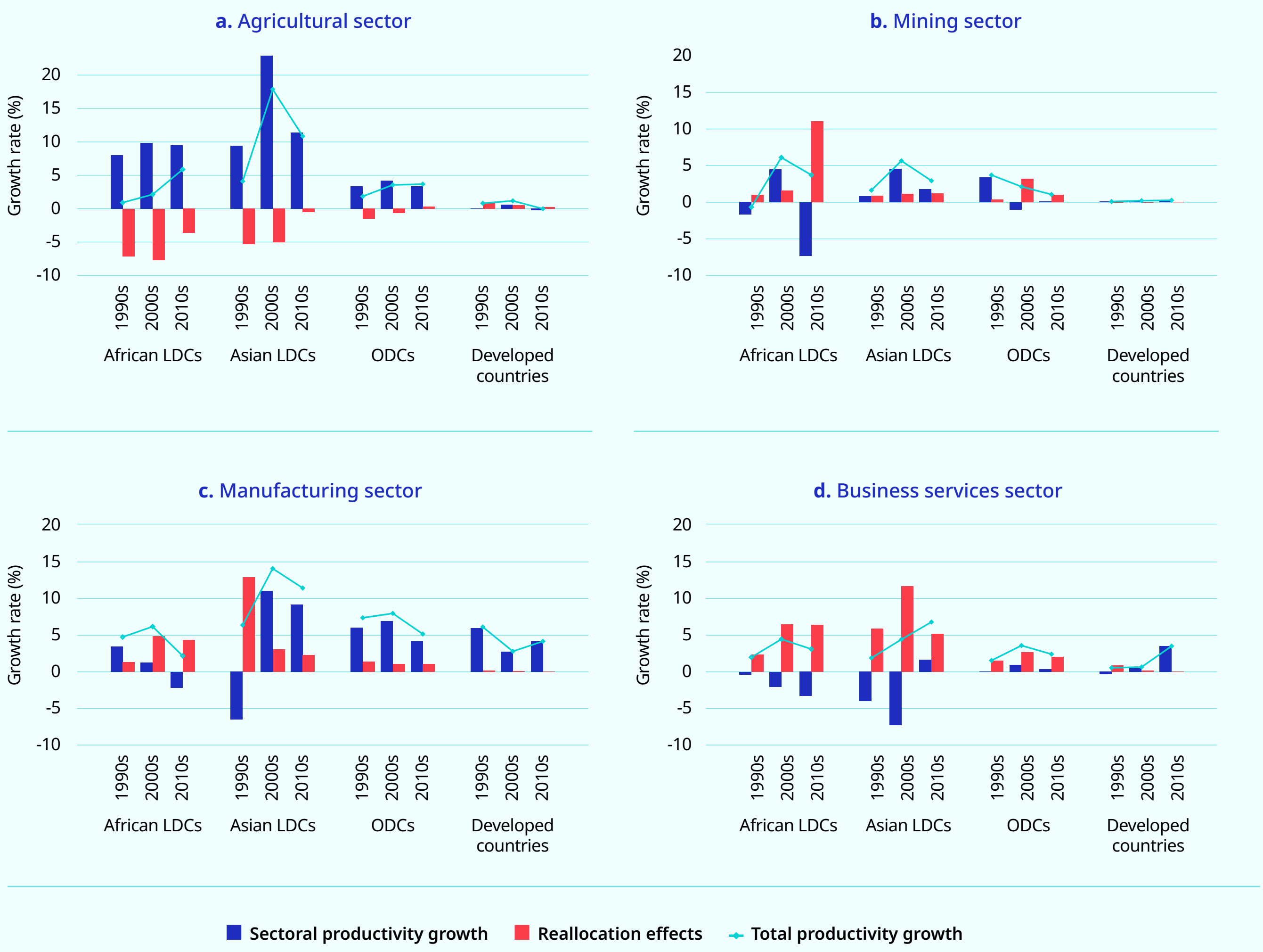
Note: The figure shows the productivity components of the four groups of countries for the 1990s, 2000s and 2010s. The red bar indicates the reallocation effect, the blue bar the within-sector effect and the line, the total productivity growth as the sum of the two components.

In the last decade, African LDCs experienced negative sectoral productivity growth (within-sector effects), and their weak aggregate labour productivity growth depended entirely on the reallocation effects of labour moving from the least productive sector, agriculture, to relatively more productive sectors – manufactures and services – even if in these sectors productivity was declining (figure 3.3). In Asian LDCs, the sectoral productivity growth effects were negative and reallocation effects were driving productivity growth in the 1990s, but the sectoral productivity effects became large and positive in the subsequent periods and were supported by substantial reallocation effects of labour moving into fast-growing productive sectors.

9 See Chapter 1.

10 See Appendix 3.1 for an analytical presentation of this decomposition. The concept of structural change is sometimes associated with pure reallocation of resources and changes in the sectoral employment composition, which can be simply considered as "reallocation effects" or "between-sector effects". This reductionist view of structural change can lead to structural analyses that do not consider the implications of the reallocation effects within broadly defined sectors when a more detailed classification of sectors is used. For instance, productivity increase within a sector can be due to the reallocation of resources from less productive to more productive subsectors associated with different technologies and/or products. This is typically the case in manufactures and the production of energy. Within-sector effects of productivity are to a large extent the result of reallocation of resources to new portions of the same broadly defined sector.

▶ **Figure 3.4 Productivity growth decomposition in selected sectors**



Source: ILO calculations based on ETD data.

Note: The productivity components of country groups are obtained as simple averages of the countries included. This allows us to observe the pattern of the typical country in the group rather than of the group as a whole.

These patterns are largely explained by the contribution to productivity growth at a sectoral level (figure 3.4). Agriculture shows sectoral productivity growth in all developing countries, which significantly contributes to total productivity growth mostly in Asian LDCs. Despite falling shares of employment in agriculture, the reallocation effects are negative, as the *level* of employment is growing in this low-productivity sector mostly due to strong population growth. Mining provides a small and volatile contribution to productivity relative to its size. The mining production and the employment level increased in some African LDCs (Burkina Faso, Lesotho, Rwanda and Uganda) generating large reallocation effects toward this low-employment but relatively more productive sector.

Increases in employment in manufactures, which are higher-productivity sectors, and their own-productivity growth contribute substantially to total productivity in Asian LDCs. African LDCs show the positive effect of an increase in employment in manufactures but also a recent negative own-productivity growth in the same sector. A similar pattern characterizes business services sectors, where Asian LDCs are also just beginning to show some productivity growth.

Some productivity growth in African LDCs seems to be rooted in very modest sectoral own-productivity growth, such as in agriculture, and the reallocation effects rooted in relatively more productive sectors, such as manufacturing and business services. As the productivity of manufacturing and business services is not increasing or is even decreasing, the reallocation effects can become weaker and weaker and total productivity growth can stall.

Such a within-sector productivity decrease can be the result of the relative growth of an informal or low-productivity subsector relative to a formal or higher-productivity subsector within each sector – that is, an exacerbation of the structural dualism existing in the LDCs.[11]

Productivity growth and employment

Productivity growth can be associated with employment losses at the sectoral or economy-wide level when the displacing effects of productivity growth are not offset by the expansion of product demand domestically or through trade. It can, however, generate employment gains as the result of increased product demand from increased incomes. Because of high population growth in the LDCs, employment gains and losses are better indicated by changes in the employment-to-population ratio.[12]

Episodes of growth or contraction of the employment-to-population ratio can be associated with episodes of growth or contraction in productivity (figure 3.5). Countries can experience positive or negative associations between the two outcomes. In African LDCs between 1990 and 2018, for instance, there were episodes of increasing labour productivity with increases in the employment rate almost 34 per cent of the time (upper right quadrant of figure 3.5, panel A), decreasing labour productivity with increases in the employment rate 13 per cent of the time (upper left quadrant, panel A), decreasing labour productivity and decreases in the employment rate 8 per cent of the time (lower left quadrant, panel A), and increasing labour productivity with decreases in the employment rate almost 45 per cent of the time (lower right quadrant, panel A).

For African LDCs, most of the observations represent episodes of increasing labour productivity accompanied by decreasing employment-to-population ratios, whereas for all other groups most of the episodes show increasing labour productivity and increasing employment-to-population ratios. This implies that, for African LDCs, increasing labour productivity has been associated with insufficient job creation compared to working-age population growth, more often than for other groups of economies. Yet, as discussed in Chapter 1 (see figure 1.1), the employment-to-population ratio has declined in all developing economies. This is because in Asian LDCs, Island LDCs and ODC the decline of employment-to-population ratios has been sizable in the last two decades and productivity growth has been on average associated with lower employment creation compared to working-age population growth.

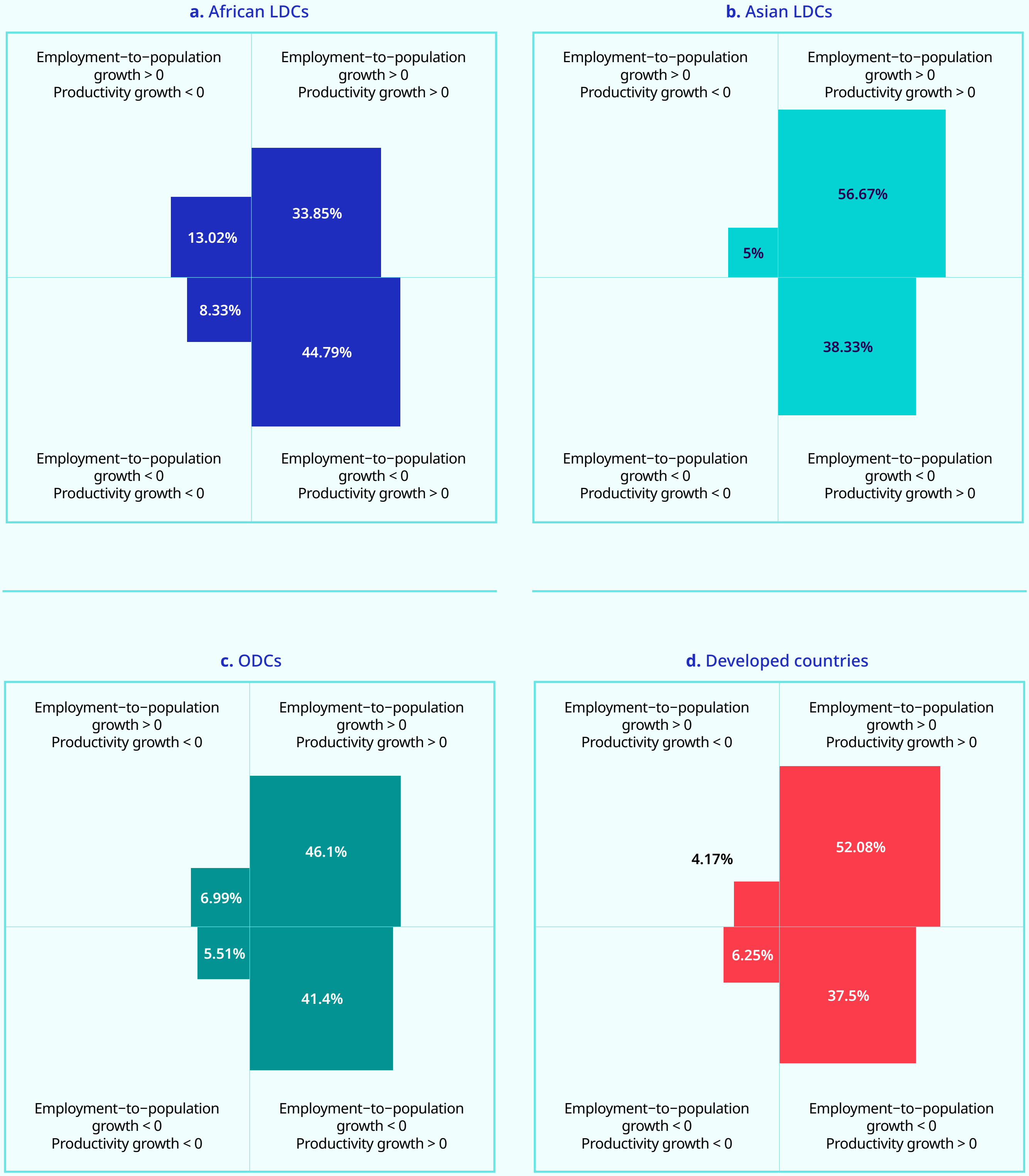
Slow productivity growth combined with declining employment rates is one of the enormous challenges for sustainable development faced by African LDCs. Looking at productivity and the employment-to-population ratio at the sectoral level, it is evident that strong productivity growth has not been accompanied by an equivalently strong job creation in both African and Asian LDCs.

The sectoral decomposition of “per capita output” into “product per employed person” and “employment over population” shows a relationship between output dynamism and employment rates. Employment rate changes are the difference between output per capita growth and productivity growth in each sector. Figure 3.6 shows this decomposition in four key sectors.

11 Using firm-level data, Diao et al. (2021) find that this is the case in Ethiopia and United Republic of Tanzania, where employment and output growth in manufactures has not been accompanied by an increase in manufacturing productivity, due to the low productivity of small enterprises and the low employment absorption of large and more productive firms. Similarly, Kruse at al. (2021), using the ETD data and industrial surveys for sub-Saharan Africa, find that non-registered firms have driven a recent expansion of manufacturing employment in those economies, which can explain the real productivity growth.

12 The employment-to-population ratio is defined as the proportion of the country’s working-age population that is employed. See Appendix 3.1 for an analytical presentation of the growth of the employment-to-population ratio as the difference between the growth of output per capita and the growth of productivity. In the following discussion we denote the employment-to-population ratio as “employment rate” and the ratio of output to working-age population as “output per capita”.

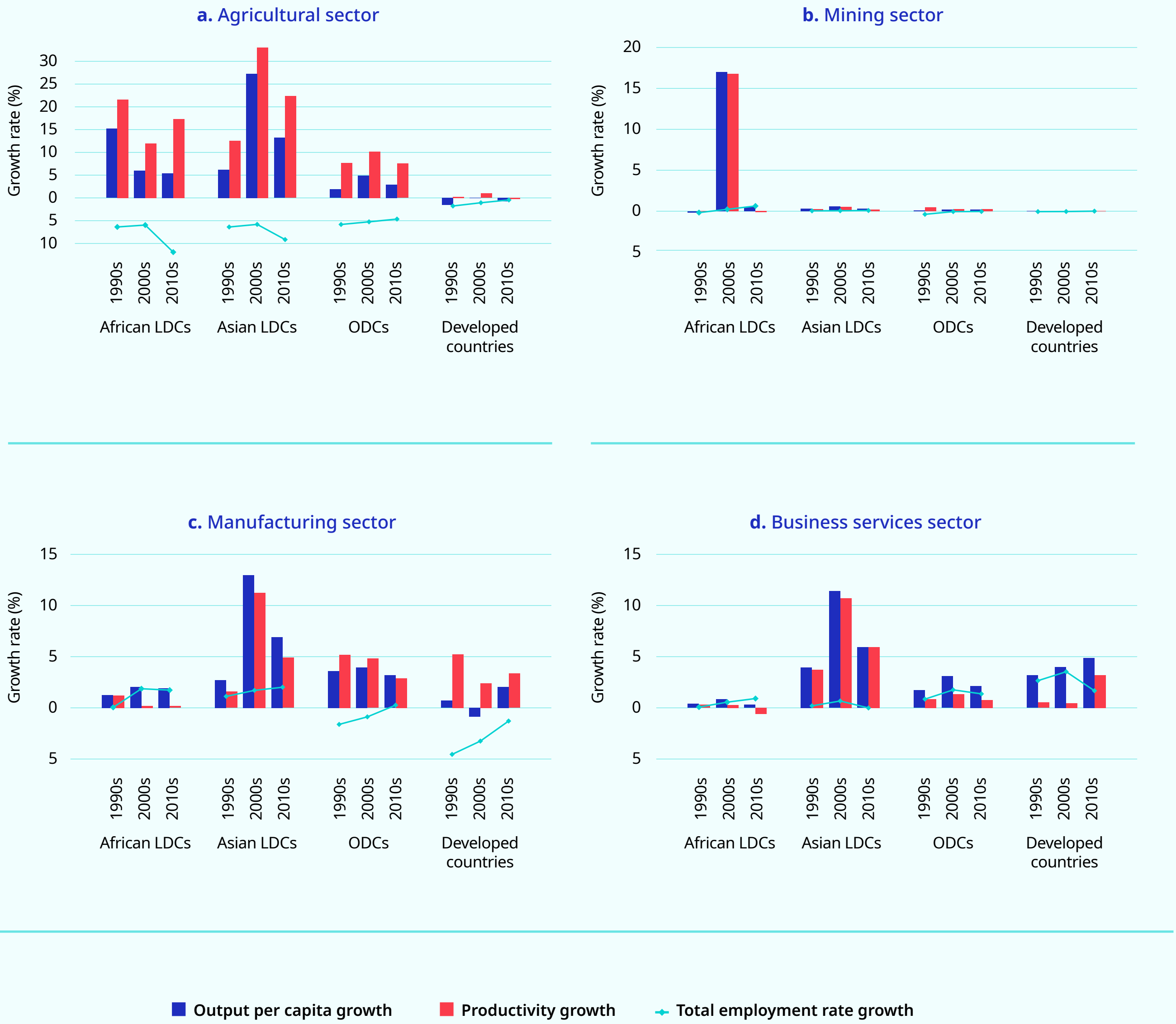
Figure 3.5 Employment-to-population ratio and productivity growth episodes



Source: ILO calculations based on ETD data and ILOSTAT data.

Note: Working-age population (WAP) is the population aged 15+. Data refer to the years 1990 to 2018 and points are obtained as the 5-year moving average for change in labour productivity and change in employment rate for each country in the sample.

▶ **Figure 3.6 Employment rate growth decomposition in selected sectors**



Source: ILO calculations based on ETD data and ILOSTAT data.

Note: The total employment rate growth shown here represents the change in the employment-to-population ratio and equal to the difference between output per capita growth and productivity growth. Sectoral productivity growth in figures 3.4 and 3.6 may vary, as different weights have been used for the regional aggregation: output shares for the former and employment shares for the latter.

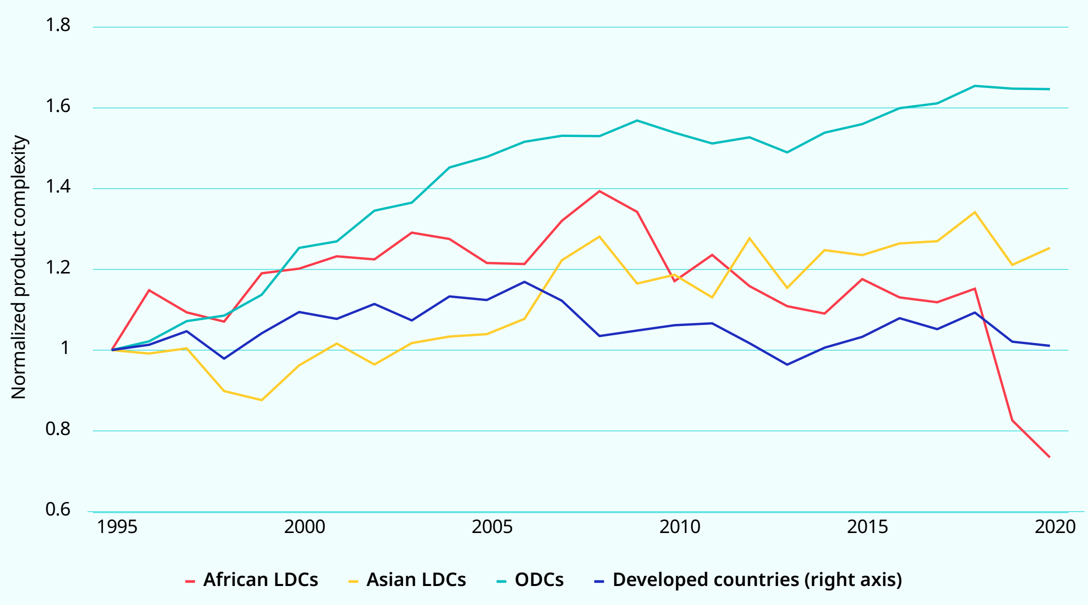
Modest output dynamism and larger productivity growth in agriculture have displaced labour in African LDCs and to a lesser extent in Asian LDCs, where both output dynamism and productivity growth have been stronger. The mining sector does not contribute to employment growth, as output growth translates into productivity increase. The manufacturing sector and business services generated some jobs in African LDCs, where both output and productivity growth have been sluggish, while in Asian LDCs strong output growth has been only partly offset by productivity growth, allowing for some employment growth.

3.3 The challenges to structural change

Pervasive dualism and the structural challenges that it generates can be at the root of the weak productivity and employment growth in LDCs and African LDCs in particular. The traditional mechanisms of employment reallocation to manufacturing activities – accompanied by *dynamic increasing returns* and *spillover effects* (via technical progress) that create productivity increases in manufacturing and non-manufacturing activities – are weakened by the currently limited human capabilities and firm structure within the sectors. The greater the extent of the dualism, the greater the polarization of firms between large, high-productivity and formal firms on the one hand, and small, low-productivity and informal firms on the other. The former can become increasingly productive by investing and adopting technologies, while the latter operate with very small profit margins, have high labour intensity and act as employment absorbers.[13] **For this reason, the greater the dualism, the weaker the economy-wide potential for productivity and employment growth.**

An analysis of the complexity of an economy's production and exports provides additional information on the structural change challenges faced by LDCs.[14] The notion of product complexity is based on two concepts: diversity and ubiquity. *Diversity* refers to the range of products that an economy produces and exports with comparative advantages. *Ubiquity* refers to the extent to which the capacity to produce and export a particular product among economies is widespread. A complex product is produced and exported by just a few countries (low ubiquity) and those countries also produce diverse products, so their productive knowledge is richer.[15]

Figure 3.7 Evolution of the product complexity index for manufacturing exports



Source: ILO calculations based on OEC data.

13 See Chapter 4.

14 See Hidalgo and Hausmann (2009), Hausmann and Hidalgo (2010) and Hausmann and Klinger (2007).

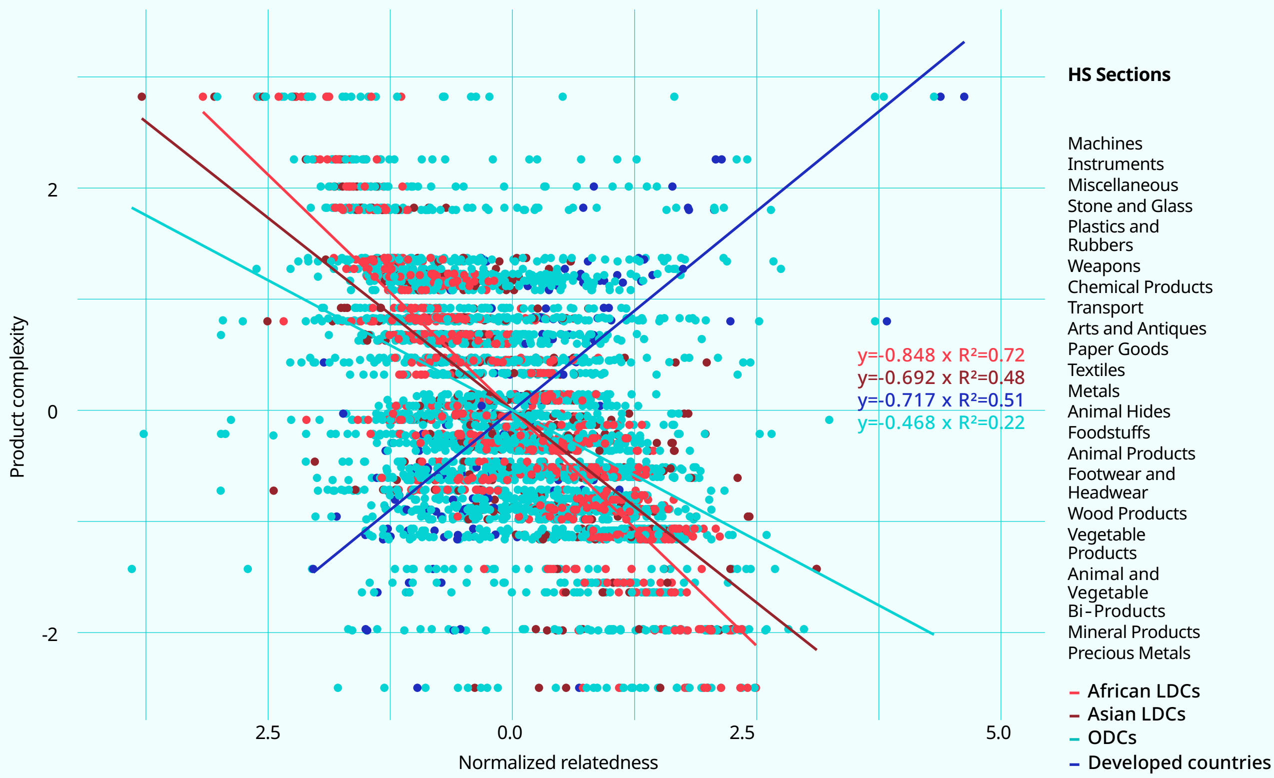
15 A product complexity index (PCI) can be calculated for each product based on detailed bilateral trade data (Hausmann et al., 2007). The Observatory of Economic Complexity (OEC) database publishes the PCI at detailed product level up to Harmonized System digit 6 (HS6). The acronym PCI can refer either to product complexity index or to UNCTAD's production capacity index. Here we use it solely in reference to the former.

In 1995 there were large differences in the complexity index for the manufacturing sector, ranging from -1.47 for African LDCs and -1.41 for Asian LDCs to -0.15 for ODCs and 0.75 for the developed countries. The index actually worsened in African LDCs, falling to -1.65 in 2020, and improved in Asian LDCs and ODCs, rising to -1.16 and 0.35 respectively.

The complexity index for the manufacturing sector has been averaged by country group and normalized to 1 for the year 1995 (figure 3.7). The index shows that product complexity for African LDCs slightly increased up to 2008 and has been declining ever since.[16] Asian LDCs have instead been increasing their manufacture product complexity steadily over time. ODCs have also undergone a very rapid increase in their product complexity for the past three decades, while for developed countries it has been relatively stable, since they produced and exported products with high complexity over the period under consideration. The complexity index confirms the slow aggregate labour productivity growth, accompanied by high reallocation and dualism of the manufacturing sector, in African LDCs.

LDCs, and African LDCs in particular, have difficulty in maintaining and raising product complexity. A “diversity frontier” for the country groups shows both product complexity and relatedness of products for an economy (figure 3.8). The latter is a measure of the similarity or compatibility between an economy’s capacity and the production of a particular product. The similarity or compatibility is measured by the probability that an economy will undertake a given economic activity, which is in turn measured by the number of related activities present in that economy based on the statistical principle of relatedness. An index of relatedness can be constructed based on the percentage of related activities that are present in a country group. For each product produced in and exported by a country group, we construct the complexity and relatedness indices and analyse their correlation (figure 3.8).

Figure 3.8 Diversity frontiers for the country groups



Source: ILO calculations based on OEC data. **Note**: Relatedness is normalized for each country individually.

16 The product complexity index used here is based on trade data and therefore represents the production of exporting firms, which can be quite different from firms that produce mainly for the domestic market. The complexity index is still indicative of the kind of products a country is producing over time, for two reasons. First, since most exporting firms tend to be large and formal, the complexity index is at least indicative of the kind of products this type of firm produces. Second, the type of product produced for export can be viewed as the “potential” for all firms in the sector to produce this type of product, due to the possibility of technological diffusion.

ODCs and Asian and African LDCs are all facing a trade-off between complexity and relatedness, which shows the difficulties in upgrading to more complex production. Such a downward-sloping diversity frontier indicates that producing products with higher complexity tends to be associated with lower relatedness. Since relatedness measures the compatibility between a productive activity and the existing productive capacity and knowledge of the economy, moving to products with lower relatedness would often require the acquisition of different technologies and expansion of productive knowledge, which implies the use of more capital and higher business risks. Since the production of products with high complexity almost always requires activities that are highly productive, thus, to some extent, the downward-sloping diversity frontier can be viewed as a "low-productivity trap", in which firms are discouraged from venturing into more productive and complex products due to the higher costs (in terms of risk and efforts) they have to absorb because of lower relatedness.

The negative relationship between complexity and relatedness is much weaker for ODCs than LDCs (in terms of both slope and fitness, i.e. R-square value). The negative relationship is also weaker for Asian LDCs than African LDCs. This indicates that the problem is more severe in African LDCs and that it is less difficult or costly for Asian LDCs or ODCs to upgrade their production, relative to the African LDCs. Finally, the diversity frontier for developed countries is upward-sloping, indicating some sort of positive productivity loop in the sense that products with higher complexity are associated with higher relatedness, so new and existing firms tend to face fewer obstacles when venturing into the production of goods and services with higher complexity.[17]

The current pattern of structural change has created weak employment growth in Asian LDCs and weak productivity and employment growth in African LDCs. The strong dualism characterizing all sectors and the increased difficulty and costs associated with engaging in more productive activities and more complex products are key factors.

To overcome these structural obstacles to transformation and development, LDCs need to strengthen both policies and institutions. Industrial policies are needed to encourage firms to venture into more complex products by reducing the difficulty and risks faced by the firms. Employment policies and an enabling environment for enterprises are needed to coordinate industrial strategies with skills, education policies and entrepreneurial capacity-building and also to encourage transition to formality. In the process of productivity growth and technical change, macroeconomic policies are needed to support sufficient domestic and international demand and employment throughout the process of structural transformation. Some key sectors with the potential for economy-wide spillovers and technologies with cross-cutting applications need to be actively supported by policies. The application and use of digital technologies stand out as an important factor for transformation, and the inability to introduce them can be a major constraint on sustainable development. Policies for adapting and using digital technologies do not substitute for other sectoral and employment policies but rather complement them. As more broadly discussed later in this chapter, the application and use of digital technologies needs to be part of the broader industrial and employment strategy in order to harness their capacity to improve productivity and generate quality jobs.

17 This result holds on average both for the small country sample included in the EDT and used in figure 3.8, and for larger samples of high- income developed countries.

3.4 Digital technologies to support structural change

The adoption and adaptation of digital technologies can be a powerful element of productive transformation that can benefit almost all sectors of an economy and generate widespread productivity and employment growth. Significant competitiveness and productivity-boosting opportunities are related to access to digital services that help optimize processes and production, reduce transaction costs and transform supply chains. Digital technologies can potentially enable firms to participate in global value chains and directly access customers in foreign markets in ways previously feasible only for large and established companies from advanced economies.[18]

Several digital innovations are typically listed in the policy discussion as potential complementary sources of productivity growth and even of leapfrogging potential for developing countries, including LDCs:

a. The use of automation and advanced robotization in manufacturing, in agriculture and even in services may enable businesses to improve performance by reducing errors and improving quality and speed in production, thereby raising productivity in a given sector. Although these technologies have been associated with negative direct employment effects in developed countries, much less is known about their impact in developing countries due to differences in the structure of production and the type of skills in the labour force.

b. 3D printing is another often-cited digital technology innovation used in manufacturing and construction that is expected to provide new opportunities for low-income countries to better integrate into global value chains, enhance service-manufacturing linkages and generate productivity gains (Zhu et al., 2018).

c. Generalized productivity gains can be obtained from the digitalization of key private and public services, such as financial and business support services (e.g., digital payments), healthcare, education and other administrative services and support to the institutions of work (e.g., e-formalization and public employment services).[19]

d. Digitalization is also gradually transforming the agricultural sector in low-income countries, with a diverse set of agricultural digital technologies already being used in several African LDCs. These technologies range from information-sharing and solution-finding on digital agri-platforms to using big data and satellite and drone imagery to increase productivity, reduce risk and combat crop diseases (OECD, 2021a).

The opportunities presented by digitalization are vast. Even though LDCs currently exhibit low levels of digitalization, experiences so far by businesses and customers provide a glimpse of how current modes of business and exchange might look in the near future. Digitalization may also act as a catalyst for LDCs to expand into new sectors and become more dynamic in responding to changes in local and global markets. E-commerce, for instance, has boomed during the COVID-19 pandemic due to shopping restrictions and self-quarantine measures. It has given customers access to a substantial variety of products from the convenience and safety of their homes, and has enabled firms to continue operations in spite of contact restrictions and other confinement measures.

While the potential benefits of digitalization for productivity and development in LDCs are sizeable, they require significant investment in capital and people to create the complementary skills and in general the human capability and productive knowledge necessary to use these technologies in a productive and inclusive way and support decent work. Connectivity, moreover, is becoming supportive of human rights, since medical services, education, training and work opportunities increasingly require connectivity and access to digital services. Unequal access to connectivity between and within countries means that many people and businesses in LDCs cannot benefit from high-speed networks for remote learning or from access to e-government services and e-commerce, thereby exacerbating intra- and inter-regional inequalities. These substantial

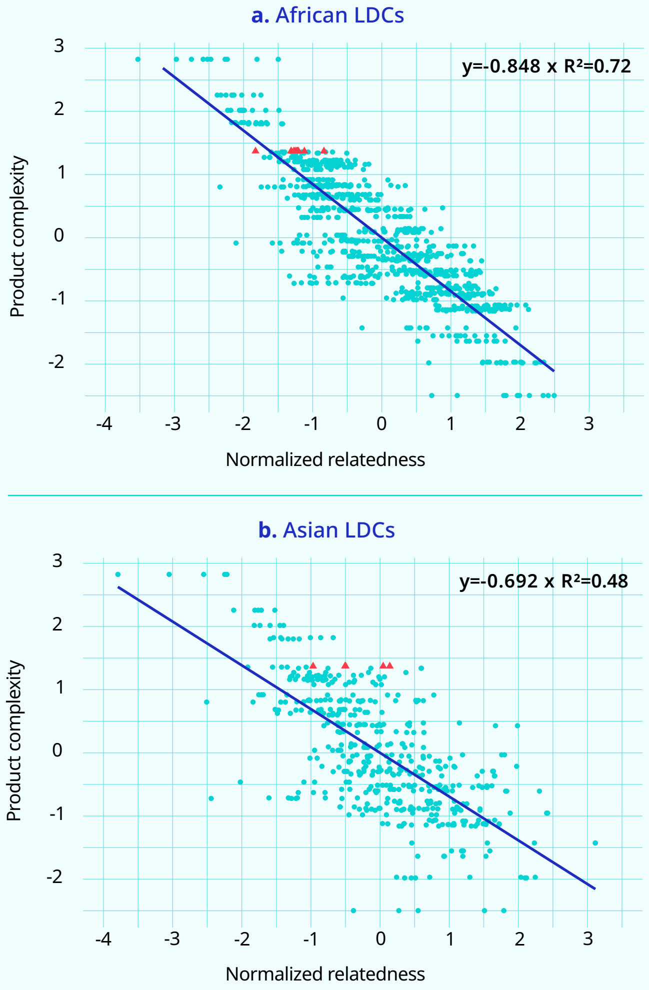
18 See Chapter 4 for a more extensive discussion of the effects of, and requirements for, enterprises to access digital technologies.

19 See also Chapter 4 on formalization.

digital gaps have become particularly evident during the COVID-19 pandemic, when limited digital capacity and connectivity have hampered online schooling, digital access to social protection and other administrative services, teleworking, and the use of e-commerce to comply with physical distancing requirements.

The use of digital applications can be pervasive across all economic sectors, and digital services and infrastructure must be supplied by a strong and sustainable information and communication technology (ICT) sector within the economy. This sector broadly consists of manufacturing and service activities that fulfil or enable the function of information processing and communication by electronic means. The functioning of the digital economy depends on the existence of digital infrastructure, which includes but is not limited to digital devices, internet networks, broadband, data centres and mobile telecommunication suites, most of which are classified as ICT products. Hence, to benefit from the opportunities in the digital economy, LDCs need a strong digital infrastructure and the development of ICT as a key strategic sector, together with the creation of skills, human capabilities and productive knowledge that enable both productivity gains and the creation of quality employment in the sectors that produce and consume digital services.

Figure 3.9 The diversity frontier for African and Asian LDCs and the ICT sector



Source: ILO calculations based on OEC data.

Note: Relatedness is normalized for each country individually. The ICT sector is represented by red triangles.

Effective access to ICT in the LDCs requires a challenging and risky leap in capacity-building and the use of resources, as demonstrated by the product complexity and relatedness relationship considered earlier. Figure 3.9 refers to the diversity frontier shown in figure 3.8 for all country groups but looking specifically at the ICT sector in African and Asian LDCs. It shows the overall downward-sloping relationship between product complexity and relatedness and the location of ICT-sector products in the complexity and relatedness space.

ICT products lie in the upper left-hand area of the diversity frontier for African LDCs, which means that for these countries, ICT products exhibit low relatedness. As mentioned in the previous section, products with low relatedness entail higher costs and risks associated with producing such goods and services. The main obstacle for LDCs in developing their digital economy is thus similar to the obstacles they face to raising the overall complexity of their products and overcoming low relatedness. This challenge must be overcome through comprehensive industrial policies that actively promote the ICT sector and integrate it into the rest of the economy. Such policies should reduce the risks and costs, including for ICT products, and/or should increase the potential payoffs for ICT enterprises. A well-defined industrial and employment policy framed within an integrated development strategy is essential to optimize private-sector participation and guarantee the productive and inclusive use of digital connectivity and related technologies in the LDCs.[20]

20 For instance, the majority of telecommunication networks are privately operated in the LDCs. While private companies bring capital and expertise essential for constructing networks and transferring knowledge, currently, companies must have sufficient resources to fund infrastructure deployment and abide by licencing terms and obligations (ITU, 2021). The economic, social and environmental sustainability of the telecommunication sector should be carefully assessed and monitored.

Besides, the strengthening of digital infrastructure and the use of ICTs in LDCs can also trigger knowledge spillover effects, which might directly raise productivities even in a non-digital economy. A strong digital infrastructure is only the first step towards a well-functioning digital economy, which ultimately stimulates within-sector productivity growth across the whole economy. While digital infrastructure has been developing fairly steadily in Africa, this growth has been uneven and there are still significant gaps in terms of availability, affordability and inclusivity in the use and benefits of digital technologies (Zhu et al., 2018; OECD, 2021a).

3.5 Digitalization, jobs, and youth employment

Digitalization will profoundly influence the world of work in LDCs. In the meantime, though, many of these countries are inadequately prepared to fully realize its opportunities. SDG target 9.c calls on States to "significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in Least Developed Countries". Bangladesh and Bhutan were the only two LDCs to accomplish the universality and affordability component of the target by 2020. However, even in those countries, and in others that have significantly improved their internet access, awareness of the potential uses of the internet and the skills it requires remains low (ITU, 2021). A survey in eight LDCs across Asia and Africa found, for example, that for almost 80 per cent of participants, the main reason for not using the internet was not knowing what it was (LIRNEasia, 2019).

The LDC population is young and becoming increasingly educated over time, which means there is great potential for harnessing digital technologies. Tertiary education enrolment rates have almost tripled, from 3.8 per cent in 2000 to 11.2 per cent in 2021, while NEET rates have been slowly declining since 2005. An increase in the proportion of educated young people in the working-age population can be an opportunity for enhancing both productivity and economic transformation, as younger people have more potential over their working life to acquire skills that are complementary and necessary for the adoption of new technologies and the creation of new productive capacities.[21] To translate this potential into actual productivity growth and decent employment, digital access and awareness need to improve, and workers must become better equipped with digital skills. This will complement investment in digital infrastructure and the production of ICT services to ensure that digital connectivity is accessible and affordable to most of the population and enterprises and that the benefits of digital technologies are widespread. As of 2021, for instance, fixed broadband subscriptions in the LDCs stood at one person per 100 people (ITU, 2021). At the same time, connectivity must be coupled with awareness measures to inform the population of the benefits of digitalization, as well as with provisions relating to digital skills. A variety of skills are required, including job-neutral digital skills, job-specific digital skills and job-neutral soft skills in such areas as communication, management, analytical and critical thinking and creativity (ILO, 2020d).

Education and training systems – at all levels – must play a central role in providing these new skills in order to drive the development of LDCs' productive knowledge. In this regard, national curricula reforms are critical and must include both ICT skills and other 21st-century skills that are aligned with the current employer-led consensus of placing strong emphasis on creativity, teamwork, employability and lifelong learning (ILO, 2020d). Education and training facilities will also require significant capital investment in digital equipment, such as computers and fixed broadband connectivity, to facilitate effective learning. This is because most internet access in LDCs is via mobile phone, which makes it challenging to learn how to use a word processor, spreadsheet or other digital technologies.

Although there are many benefits to digitalization in terms of enhancing productivity and competitiveness, and matching labour demand and supply, it also presents several challenges, especially for youth. For workers,

21 The number of people in Africa aged 15–29 with an upper secondary or tertiary education, for instance, has risen from 47 million in 2010 to 77 million in 2020, and under business-as-usual scenarios, this number will increase to 165 million by 2040 (OECD, 2021a). However, one study using LinkedIn data shows that the relative penetration of digital skills in sub-Saharan African countries was approximately half of the average global penetration level (Zhu et al., 2018).

these relate to the regularity of work and income, working conditions, social protection, technological substitution, skills utilization, freedom of association and the right to collective bargaining (ILO, 2021a). This is especially pertinent for youth employment, as young people are often confronted with poor employment opportunities (ILO 2020d; ILO, 2020e) and look for any alternative possibilities to earn an income (Aleksynska, 2021; Anwar and Graham, 2020).

Comprehensive policies are required to ensure that digitalization has a positive impact on youth employment in the LDCs. An integrated policy framework to support young people in securing decent jobs is critical for future socio-economic progress. While policies are needed to generate enough jobs and to equip young people with the relevant skills, they must also ensure decent working conditions. It is particularly important for policies to enable youth to access social protection and exercise rights at work, as well as encouraging them to join workers' and employers' organizations so that they are represented in social dialogue. Failure to generate a growth- and employment-enhancing transformation by taking advantage of technological opportunities and including youth in this transformation may mean a growing number of discouraged or idle young people and longer-term capacity losses in the LDCs.

Such policies should be part of an integrated strategy at the macro, meso and micro levels to ensure decent jobs for young people in the LDCs. Macroeconomic and sectoral policies are required, for example, to promote investment in key sectors, as well as in research and development for fostering innovation, creating jobs in new sectors and raising productivity. At the micro level, incentives should be created for young people to engage in technological entrepreneurship. Policies should also be gender-neutral and tackle the gender digital divide that limits the ability of girls and young women to participate in the digital economy on an equal footing with their male counterparts. Major barriers in this regard include cost, low literacy, poor digital skills, and safety and security concerns – all of which disproportionately affect women (ILO, 2020f).

With 20 per cent of their population under age 25, LDC have the world's youngest population. Based on current demographic trends, by 2030 one in five of the world's youth (persons aged 15–24) will be born in an LDC. An increase in the proportion of young people in the working-age population can be an opportunity to raise productivity and achieve economic transformation. In fact, younger people typically have greater potential for acquiring progressively higher levels of education and professional training over the course of their working life, along with the capacity to absorb the complementary skills needed for the adoption of new technologies and the creation of new productive capacities.

3.6 Coherence between industrial policy, employment policy and institutions of work

Sustainable growth and the generation of full and productive employment rely on environmentally sustainable economic transformation, which is socially inclusive and expands the productive capacities of economies. Policies and institutional reforms can create an enabling environment for businesses that fosters investment, growth and employment.[22] An environmentally and socially sustainable transformation calls for a transition to greener modes of production and consumption that build on the development of human capabilities and social dialogue.[23]

National development plans need to be operationalized through employment, industrial policies and international trade and finance frameworks that promote institutional, policy and regulatory reforms. Such reforms should be directed at strengthening sectoral productivity growth, technology transfer and adaptation, entrepreneurship, access to finance and formalization of the informal economy, with a focus on the promotion of decent work.

Employment and enterprise development policies that promote the formalization of employment would reduce dualism in all sectors,

22 See Chapter 4 on enterprise development and decent work and Chapter 7 on institutions of work.

23 See Chapter 5 on the concept of just transition and Chapter 7 on the role of social dialogue for development.

ultimately stimulating entrepreneurial capacities, human capabilities, innovation and further productivity growth. Institutions of work can support the process of structural transformation through social dialogue, protecting people and promoting social justice. Furthermore, structural transformation that is both *growth- and employment-enhancing* can generate the incomes and demand needed to unlock further employment and productivity expansion. Such policy considerations must also take into account key drivers of change in the world of work, including new technology, demography and climate change, while also focusing on a job-rich recovery from the COVID-19 crisis (ILO, 2020c).

National employment policies (NEPs) and more targeted policies such as youth employment strategies prepared by countries with the support of the ILO have been effective instruments in addressing such challenges.[24] NEPs have highlighted the importance of active dialogue and collaboration between governments, workers and employers in the identification of priority challenges and the design of policy measures.[25] They have also demonstrated the role of a holistic approach, including such demand-side measures as macroeconomic frameworks and sectoral policies, in supporting structural transformation from low-productivity to higher-productivity activities (ILO, 2016). Industrial and sectoral policies and skills policies more generally can be part of broader employment policies in order to fully address the challenges of LDCs' structural transformation.

A broader skills strategy to build productive capacities

LDCs can benefit from the opportunities offered by new technologies and can undergo a full structural growth- and employment-enhancing transformation if they integrate digital skills into a broader skills and employment strategy, adjust their traditional education and training systems and create new learning options and pathways. Work skills – such as critical thinking, collaboration, creativity and problem-solving – will become more vital in enabling people to move from school to work and between occupations and jobs, as well as to transition from the informal to the formal economy. Lifelong learning will be increasingly relevant for LDCs given the pace of technological change and their population dynamics. Education, training and apprenticeship programmes should favour skills acquisition by migrants and should develop their capacity to integrate into the labour market.[26]

A skills mismatch can be partly addressed by bringing education and training institutions closer to labour market needs. This requires enhancing tripartite collaboration through social dialogue at various levels to strengthen investment in training and policies, including work-based skills development schemes that incentivize companies to offer apprenticeships. Development cooperation can support skills development. Interventions typically include: (i) supporting national technical and vocational education and training reform initiatives and the modernization of training provision; (ii) developing the capacity of national constituents to establish and strengthen quality apprenticeships; (iii) boosting community-based training; (iv) upgrading informal apprenticeships; (v) rebuilding training systems for peace and resilience; (vi) promoting global skills partnerships on migration; (vii) developing the capacity of national constituents to anticipate and match skills needs; and (ix) supporting partners in developing forward-looking sectoral skills strategies.

Institutions that support skills development in the form of lifelong learning, transition from school to work and between jobs, and infrastructure investment included in broad employment and industrial policies should be strengthened and supported by reinvigorated social dialogue (ILO, 2019).

24 A national employment policy is defined by the ILO as a comprehensive, integrated policy framework that strives to orient the content of economic, sectoral and social policies towards full, productive and freely chosen employment and decent jobs for all. It provides an overall gender-responsive vision for interventions and actors concerned with employment in a given country by promoting coherence between a range of instruments, mechanisms and policies, including macroeconomic, trade, financial, industrial, sectoral and social protection measures. For a description of the design, process, evolution and lessons learned on national employment policies in the last 20 years see D'Achon (2021). A complete account of the scope, content and implementation of national employment policies and youth employment strategies in the LDCs and other countries is provided by the ILO Employment Policy Gateway, a knowledge platform. See the ILO Employment Policy Gateway https://www.ilo.org/empolgateway/

25 See the Employment Policy Convention, 1964 (No. 122), which has been ratified by 113 countries.

26 SDG 4 calls for "inclusive and equitable quality education" and "lifelong learning opportunities for all" as contributors to the creation of inclusive societies and opportunities for building productive capacities and creating decent work.

Physical investment for direct and indirect employment creation

Adequate physical and digital infrastructure is a prerequisite for enhancing connectivity, expanding markets and supporting sustainable economic growth and social development, laying a foundation for improving the quality of life in the LDCs (ILO, 2018b). Investment in infrastructure is an important component of any development strategy and supports both direct and indirect demand for labour by connecting people, expanding markets and increasing productivity.

In particular, productive environment-related, agricultural, transport or other infrastructures – including, for example, irrigation networks, water conservation, slope protection and land improvement and protection measures – have the potential to offer economic benefits while also protecting the environment and reducing poverty. Infrastructure that can be produced using employment-intensive approaches and local resource-based technologies fulfils both those potentials.

Construction-related employment can provide a significant additional opportunity, especially when work can be planned around and complement peak demands for agricultural labour. In urban areas, infrastructure development can also be a key strategy for job creation, particularly in upgrading informal settlements. Public employment programmes have proved effective as well in addressing underemployment and seasonal employment, increasing wages and incomes, reducing child labour, enhancing rural market capacity, halting distress migration and generating greater workforce participation by women in the LDCs. Well-designed employment programmes can contribute to multiple goals, such as the creation of physical infrastructure and skills development, while also providing a source of income to local communities.[27]

▶ Box 3.1 Sustaining peace

The 2030 Agenda for Sustainable Development recalls that peace and security are both an objective and a means to sustainable development. The "sustaining peace" resolutions promote an approach that prevents conflict from descending into violence. Full and productive employment is indispensable for reintegrating conflict-affected population groups, such as former combatants, returnees and other forcibly displaced persons, by providing them with concrete sustainable livelihood opportunities, especially for young people.

In June 2017, the ILO constituents adopted the Employment and Decent Work for Peace and Resilience Recommendation, 2017 (No. 205), a normative instrument that provides guidance to Member States, organizations and practitioners dealing with employment and decent work in fragile settings. The text also guides the ILO's work in policy advocacy and technical cooperation in the area of youth employment for peace.

Evidence of the impact of employment on peacebuilding illustrates the importance of combining employment-intensive investments; technical, vocational and entrepreneurial skills training; employment services; and private-sector and local economic development approaches in a coherent and context-specific manner. This calls for enhanced inter-agency collaboration aimed at contributing to both SDG 8 and SDG 16. In 2018, the ILO and the United Nations Peacebuilding Support Office (PSBO) aligned their programmatic approaches to enhance employment programmes as a key peacebuilding instrument and facilitate the broader UN effort to efficiently and effectively use employment programmes to sustain peace.

Promoting just, peaceful and inclusive societies (SDG 16) requires strengthening institutions, including institutions of work, that guarantee economic security, equal opportunities and freedom and dignity for all. Institutions of work – such as those supporting regulations, employers' and workers' organizations, collective agreements and labour administration and inspection systems – are the key building blocks for just societies (ILO, 2019b). Comprehensive development polices need to be based on social dialogue and country-specific diagnostics and solutions. Integrated policy frameworks for growth and employment, embedded in national development strategies and based on social dialogue, can address multiple development objectives in various contexts and add specific focus to selected target groups.*

* Chapters 4 and 5 will elaborate more on how enterprise development and transition to a greener and more sustainable economy are reliant on social dialogue and other institutions of work. Chapter 7 will describe the state of fundamental rights at work and social dialogue in the LDCs.

27 The ILO's Employment-Intensive Investment Programme has supported constituents in the design and implementation of programmes aimed at jointly addressing employment and public investment in infrastructure gaps, with a focus on specific needs such as generating decent work for young people, women, indigenous peoples and adaptation to climate change.

Appendix D. Productivity and employment decomposition

This appendix presents the algebra behind the decomposition of productivity and employment changes discussed in Section 3.2. Aggregate productivity can be decomposed into sectoral productivity growth and reallocation effects, which capture the contribution of the movement of labour between sectors with different productivities. Ideally an economy should experience increases in the productivity of its various sectors and also reallocation of employment from low- to high-productivity sectors. This decomposition has been used by Syrquin (1986) and appears widely in the literature. In the following discussion we use the notation of Ocampo et al. (2009, Chapter 3).

Given the output of sector ***i*** of an economy at time ***t***, X_t^i, then the growth rate of output between periods 0 and 1 is $\hat{X} = (X_1 - X_0)/X_0$ (where the hat [ˆ] denotes the growth rate). The total output of the economy at time ***t*** is $X_t = \sum_i X_t^i$. Similarly, given employment of sector ***i*** at time ***t***, L_t^i, total employment at time ***t*** is $L_t = \sum_i L_t^i$.

The share of output of sector ***i*** in total output at period ***t*** is $\theta_t^i = X_t^i / X_t$, and the share of employment of that sector is $\varepsilon_t^i = L_t^i / L_t$. Productivity in sector ***i*** at time ***t*** is X_t^i / L_t^i. Hence, the growth rate of productivity in that sector between periods 0 and 1 is:

$$\xi_t^i = \left(1 + \hat{L}^i\right)^{-1} \left(\hat{X}^i - \hat{L}^i\right) \tag{1}$$

If periods 0 and 1 are close enough (which is not necessarily always the case), the so-called interaction term $(1 + \hat{L}^i)$ is close to 1. Hence the growth in productivity is roughly equal to the difference between the growth in output and the growth in employment:

$$\xi_t^i \simeq \left(\hat{X}^i - \hat{L}^i\right) \tag{2}$$

Similarly, it can be shown that the growth rate of overall productivity is:

$$\xi_L = \left(1 + \hat{L}^i\right)^{-1} \sum_i \left[\theta_0^i \left(\hat{X}^i - \hat{L}^i\right) + \left(\theta_0^i - \varepsilon_0^i\right)\hat{L}^i\right] \tag{3}$$

Equation (3) shows (neglecting the interaction term for expositional purposes) that the growth in overall productivity of an economy can be divided into two components:

1. the growth rate of productivity of the various sectors, weighted by each sector's share in total output: $\theta_0^i(\hat{X}^i - \hat{L}^i)$;
2. the reallocation effect $(\theta_0^i - \varepsilon_0^i)\hat{L}^i$. By definition if sector ***i*** has higher-than-average productivity, its share of output is higher than its share of employment: $\theta_0^i - \varepsilon_0^i > 0$. Hence a growth in employment in this sector will have a positive effect on overall productivity. Similarly, overall productivity will grow if employment in sectors with lower-than-average productivity decreases.

Figure 3.3 uses the country averages of *total* sectoral productivity growth $\sum_i \theta_0^i(\hat{X}^i - \hat{L}^i)$ and *total* reallocation effects $\sum_i(\theta_0^i - \varepsilon_0^i)\hat{L}^i$ of the economies of a group. Figure 3.4 uses the country averages of sectoral productivity growth $\theta_0^i(\hat{X}^i - \hat{L}^i)$ and reallocation effects $(\theta_0^i - \varepsilon_0^i)\hat{L}^i$ of selected sectors to highlight their contribution to total productivity growth.

Employment growth decomposition is based on the fact that a sector can create jobs if the growth rate of output exceeds the growth rate of labour productivity. The employment-to-population ratio can be decomposed as follows: $\phi_0 = L_0/P_0 = \sum_i (L_0^i/X_0^i)(X_0^i/P_0)$, in which P_0 is the population at time zero. That is, ϕ_0 is the share of the population employed at time 0. Labour/output ratios (inverse average productivity levels) by sector are $b_0^i = L_0^i/X_0^i$ and sectoral output levels per capita are $\chi_0^i = X_0^i/P_0$. It can be shown that the growth rate of ϕ can be expressed as

$$\hat{\phi} = \sum_i \varepsilon_0^i \left(\hat{\chi}^i + \hat{b}^i + \hat{\chi}^i \hat{b}^i\right) \tag{4}$$

with ε_0^i being the sectoral employment shares introduced above and $\hat{\chi}^i \hat{b}^i$ as an interaction term. Each sector's growth rate of labour productivity is $\xi_L^i = (1 + \hat{L}^i)(\hat{X}^i - \hat{L}^i)$, so that it is related to the growth rate of the labour/output ratio as $\hat{b}^i(1 + \hat{X}^i) = -\xi_L^i(1 + \hat{L}^i)$. A final expression for $\hat{\Phi}$ becomes

$$\hat{\Phi} = \sum_i \varepsilon_0^i \left[\hat{\chi}^i - \xi_L^i \left(1 + \hat{\chi}^i\right)\left(1 + \hat{L}^i\right)\left(1 + \hat{X}^i\right)^{-1}\right] \tag{5}$$

with the terms multiplying ξ_L^i capturing the interactions.

The lead term (neglecting the interaction term for expositional purposes) is

$$\hat{\Phi} = \sum_i \varepsilon_0^i \left(\hat{\chi}^i - \xi_L^i\right) \tag{6}$$

The growth rate of the employment/population ratio is a weighted average of differences between sectoral growth rates of output per capita and productivity. Sectors with higher shares of total employment ε_0^i contribute more strongly to the average. One might expect that $\hat{\chi}^i > \xi_L^i$ in a "dynamic" sector, with the inequality reversed in one that is "declining" or just "mature".

Figure 3.6 shows the country averages of the contribution of output expansion $\varepsilon_0^i \hat{\chi}^i$ and of productivity growth $\varepsilon_0^i \xi_L^i$ of selected sectors to employment-to-population growth.

Chapter 4

Enterprise development and creation of decent work

4.1 Pre- and post-COVID-19 challenges to enterprise development

Enterprises and entrepreneurship play an integral role in expanding a country's productive capacities, while also reducing structural vulnerabilities and creating decent work. Enterprise development is a fundamental component of structural transformation and sustainable development for the LDCs. Since the adoption of the Istanbul Programme of Action for the LDCs in 2011, the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda on Financing for Development and various other major global conference agendas have underscored the central role of enterprises in fostering sustainable and human development and decent work.[1]

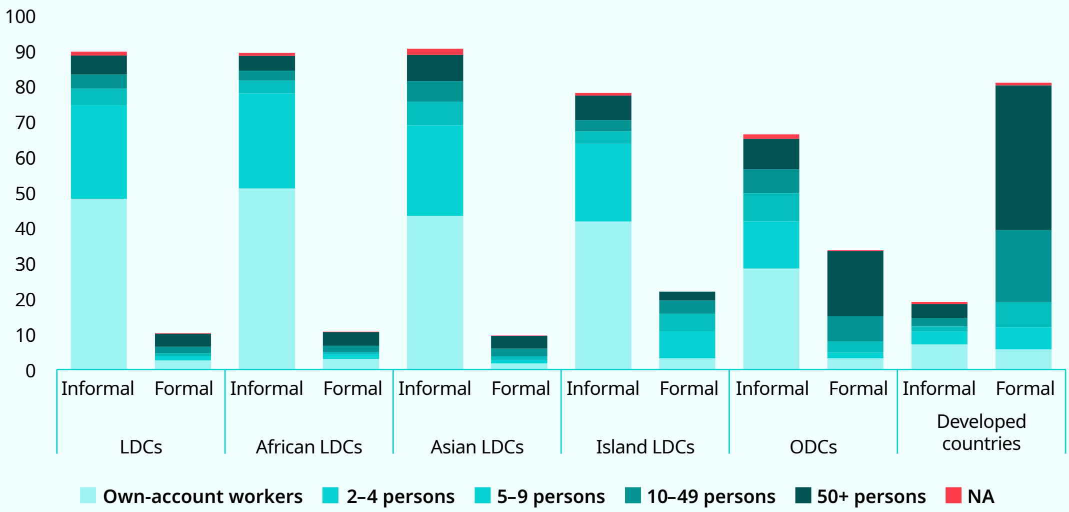
1 The Addis Ababa Action Agenda acknowledges the importance of diversity of the private sector, ranging from microenterprises to cooperatives to multinationals. It stresses the importance of inclusive enterprise development policies that support men and women equally and encompass persons with disabilities and youth. It also highlights several vital complements of a thriving enterprise ecosystem: access to finance, particularly for micro, small and medium enterprises; participation of LDCs in global trade; and increased and more durable foreign direct investment in a wider range of sectors in LDCs (see the Addis Ababa Action Agenda, Third International Conference on Financing for Development, 2015, para. 34). "Private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation" (see UN, 2015a, "Transforming our world: the 2030 Agenda for Sustainable Development", UN General Assembly resolution No. 70/1, para. 67). SDG target 8.3 seeks to "promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small-, and medium-sized enterprises, including through access to financial services". https://sdgs.un.org/goals/goal8.

Despite some progress, many LDCs are struggling to embark on a "growth- and employment-enhancing" structural transformation that is accompanied by enterprise development. Indeed, one of the most challenging aspects of enhancing productive capacities in the LDCs is to bolster entrepreneurial capacities. Such capacities require general human capabilities, skills and productive knowledge that have accumulated in societies over time, along with access to finance and physical investment (Chapter 3, figure 3.1).

A distinctive feature of LDCs is the dichotomy in size, structure and capacity of their enterprises. Employment in these countries is disproportionately generated in the informal sector by very small economic units (own-account workers and units employing 2–4 persons). Employment in the formal sector is characterized by its location primarily in larger units, such as those employing 50 or more persons, relative to other firm-size groups (figure 4.1). When only formal-sector firms are considered, it is apparent that very large firms (with 100 employees or more) generate more employment than all small and medium-size firms (figure 4.2).[2] This is in spite of the fact that small and medium-size firms represent a larger share of the firm population. Hence, formal firms tend to be disproportionately larger in LDCs than in developed countries. They also tend to be much larger than the average enterprise and less numerous in Africa than in other regions. While large firms are more numerous in Asian LDCs than in African LDCs, they are generally less numerous in LDCs than in ODCs and developed countries. A comparison between two periods (2006–2010 and 2011–2020) broadly confirms this pattern.

LDCs thus have a greater percentage of small informal and large formal enterprises than other country groups. This "missing middle" phenomenon is another manifestation of the strong structural dualism that characterizes LDC economies.[3] Moreover, as previously indicated, the share of economic units and employment in the industrial sectors is significantly lower in LDCs. Since there is strong polarization between enterprises of different capacities and productivity, employment and output growth have significantly different economic and social outcomes depending on whether they occur in large enterprises or small ones.

Figure 4.1 Distribution of employment by sector (formal vs. informal) and economic unit size across country groups (%)

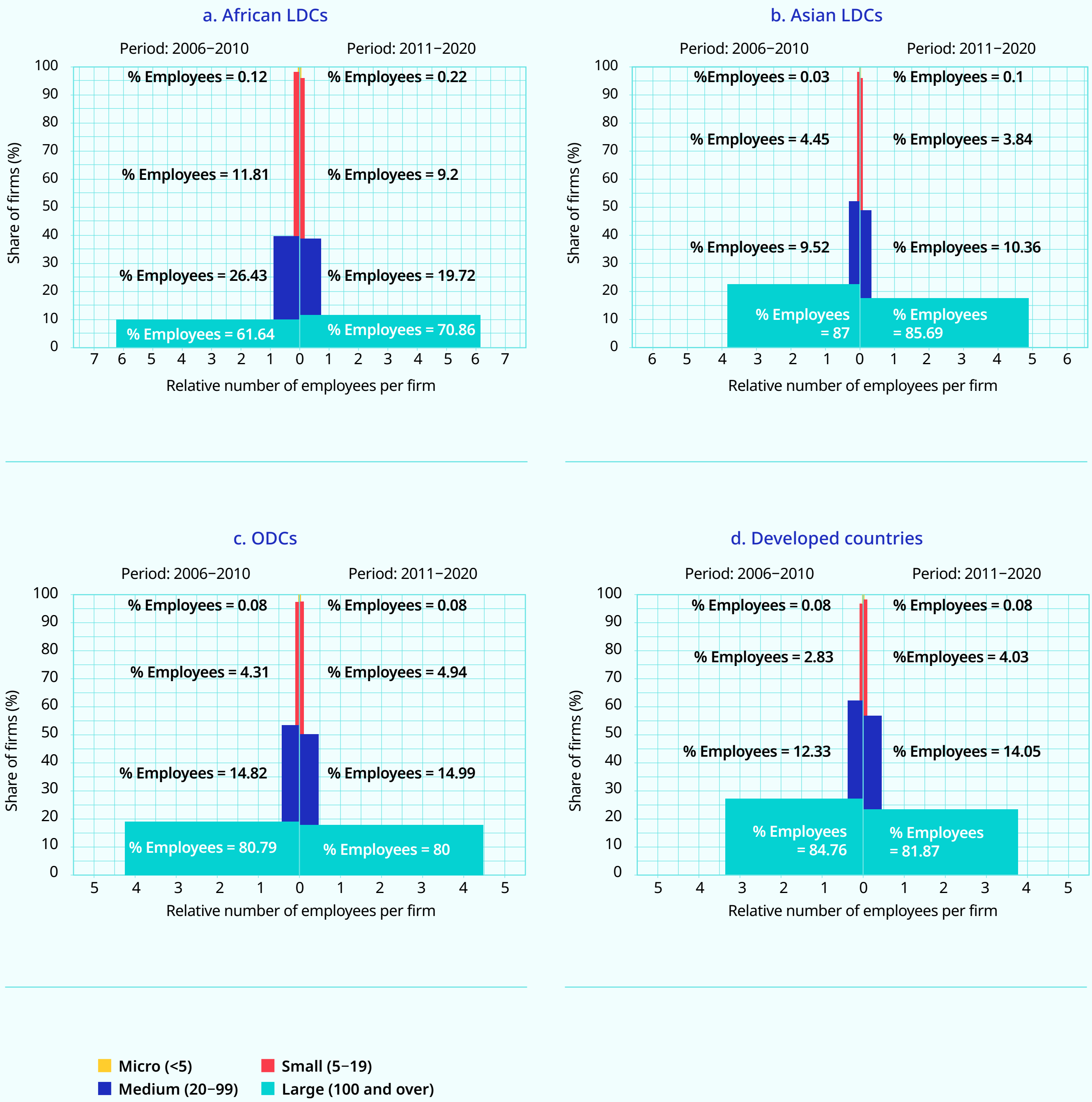


Source: ILO calculations based on data from ILO (forthcoming a).

2 More precisely, figure 4.1 refers to total employment, including agriculture and for all economic units, while figure 4.2 is obtained from surveys on enterprises in non-agricultural sectors.

3 See also Chapters 1 and 3 for a discussion of the structural dualism in production and employment that characterizes LDCs.

▶ **Figure 4.2 Distribution of employment and formal firms by economic unit size, across country groups (%)**



Source: ILO calculations based on World Bank enterprise survey (accessed 21 October 2021).

Notes: (i) For each reference period, there is only one entry per country (i.e. the earliest entry and the latest entry, respectively). Countries that have all entries in one period only are excluded. (ii) The number of employees is the number of permanent full-time employees at the end of the last fiscal year. (iii) "Relative number of employees per firm" is defined as the proportion of employees per firm of a firm-size group relative to the total number of employees per firm in the entire sample. (iv) The product of "Relative employees per firm" and the "share of firms" of a firm-size group is the proportion of employees in the same group relative to the total number of employees in the sample. (v) Data for Island LDCs are not available.

The COVID-19 pandemic and the economic and social shocks experienced by the LDCs (see Chapters 1 and 2) also affected many enterprises. The ILO estimated that by April 2020 around 436 million enterprises (including own-account workers) in the hardest-hit sectors worldwide were facing high risks of serious disruption due to the crisis (ILO, 2020h). Also, own-account workers and small enterprises together account for more than 70 per cent of global employment in retail trade and nearly 60 per cent in the accommodation and food services sectors, which were and still are the sectors hardest hit. Furthermore, 197 million informal workers in low-income countries – or 68 per cent of their total employment – were significantly affected by lockdown measures and/or were working in the hardest-hit sectors (ILO, 2020h).

COVID-19 and its economic and social fallout have only added to previously existing challenges to structural transformation and employment creation in the LDCs, as indicated in earlier chapters. What do these combined challenges imply for enterprise development in these countries? Resilience against future economic shocks, including climate crises and pandemic-related crises, requires strengthening the current activities of enterprises, reinforcing the strategic sectors of the economy and accelerating structural transformation towards more productive and sustainable activities. It also calls for capturing the unused potential of small enterprises and of workers who are underemployed and/or working under conditions of vulnerability, especially those who are enduring the worst of the crisis. A particular challenge in this regard is to support enterprise development for those segments of the population, such as youth, women and migrants, who were already disadvantaged before the outbreak of the pandemic and who suffered disproportionately during the crisis.

Another observation stemming from the fallout of the pandemic is the need for more coordinated action and stronger policy coherence, embedding enterprise development in a broader national development strategy and a renewed social contract of improved governance and development of human capabilities (ILO, 2019a; ILO, 2019b). This implies, especially for LDCs, a holistic enterprise development strategy that recognizes not only the important function of large enterprises in fostering structural change and increasing productivity, but also the dual role of small and medium enterprises (SMEs) in providing employment to most of the population and of the social and solidarity economy in meeting social and environmental goals and overcoming market and State failures. Social dialogue, respect for labour standards and universal human rights, and the promotion of social justice and social inclusion are also key factors for enterprise development in a context of sustainable socio-economic transformation. Other crucial elements of a holistic enterprise strategy for LDCs are upscaling, formalization and improving productivity with growing domestic production. This also points towards the need for an adequate response to ever-faster technological development in order to harness its potential. Empowering groups with underused potential, such as youth, women and migrants, can further reinforce such a strategy.

4.2 A multipronged enterprise strategy in LDCs

Enterprises are key actors in economic growth and development and an important engine of structural transformation. National development policies aimed at generating productive capacities need to address the challenges of weak productivity growth and insufficient employment generation by creating an enabling environment and promoting a multipronged strategy for enterprises. Enterprises—whether micro, small or medium (MSMEs)—undertaking activities in the most relevant sectors need to be supported to advance their entrepreneurial capability, increase productivity and expand to generate more employment. Government policies to support growth within existing activities and in those sectors that are currently most relevant for the economy are fundamental for LDCs. They enable enterprises to meet the basic needs of workers and their families and to expand and create jobs. However, deeper structural transformation is necessary for development and employment, and capital needs to be most productively allocated to more dynamic productive sectors and activities.

As discussed in previous chapters, a shift from agriculture and natural resources extraction to manufacturing and services sectors with higher value added and greater possibilities for scaling up production and employment is still the main way forward for the LDCs. Manufacturing is particularly important, as it fosters forward and backward linkages, dynamic economies of scale, innovation and technology diffusion, and positive spillover effects within and across sectors (Stiglitz et al., 2013; Lopes and te Velde, 2021). MSME development should also foster linkages between large and highly productive firms (including local affiliates of multinational enterprises (MNEs)) and the rest of the economy to maximize spillovers and should allow smaller firms to absorb displaced labour, if needed. Such policies should also aim to reduce the gap between small, informal and low-productivity firms and large, formal and competitive ones. To that end, policy interventions must follow a two-track strategy that supports both growth of productivity and employment within existing sectors and structural reallocation of resources, guided by coherent enterprise, industrial and employment policies and an appropriate enterprise-enabling environment.

Enterprise development and structural transformation

Large firms can play a critical role in further enterprise development and structural transformation, especially in LDCs. The case is often made for attracting more FDI and supporting large firm growth in LDCs, as such firms are instrumental in creating enterprise systems that accelerate economic growth (World Bank, 2020a). Large firms are significantly more likely than small ones to innovate, export and offer training, and also to adopt international quality standards. Their productivity advantages enable them to operate with lower production costs, while their economies of scale and scope generate more revenue to invest in quality improvements, value-enhancing R&D and expanding market reach. Large firms also create demand in their supply chains, grow markets for previously unavailable products and services, generate surpluses that can improve workers' income and employment conditions and produce know-how in ways that benefit other companies of all sizes. These distinct features of large firms can translate into improved outcomes for them and the workers they employ and can help support the growth and development of smaller enterprises integrated into their supply chains.

In the LDCs large firms are often local affiliates of MNEs. These firms have a distinct developmental role in the structural transformation of economies within the class of large enterprises. The majority of enterprises in LDCs suffer from low productivity, which results in low earnings and investment financing, and this in turn traps enterprises in continuing low levels of productivity and competitiveness. FDI helps LDCs break out of this economic growth trap when it is part of an enterprise development strategy consistent with comprehensive industrial and employment policies. Of equal importance is that foreign firms can facilitate the transfer of more advanced management practices and technology between developed and developing countries. Moreover, efficiency-seeking FDI generally flows to higher value added sectors, stimulating the reallocation of resources from the least productive to the most productive sectors; it also helps open economies to international markets. Capacity-building programmes of investment promotion agencies in LDCs should help them attract the right kind of investment to assist with this structural transformation.

In addition to providing new technology and knowledge, MNEs can offer other economic and social development advantages. The local transfer of good managerial and production processes, improved access to technology and additional incentives to adopt standards are particularly important in fostering the growth of SMEs and can be a channel of enterprise growth and larger-firm creation. Yet as many empirical studies confirm, the relationship between FDI and development is highly country-specific (Pineli et al., 2019). If the skills of the host workforce are limited, this can impede absorption of technology; and low institutional quality in the host country can mean a negative effect of FDI on structural transformation (Mamba et al., 2020). More generally, the impact of FDI on LDC host countries depends largely on the characteristics and compatibilities of the host country and its foreign investors (Fu et al., 2021).

An estimated four fifths of world trade (approximately US$17 trillion) occurs along global value chains (GVCs) coordinated by MNEs. Large firms and MNEs also provide a critical link in enabling LDCs to participate in GVCs, which is a vital step towards graduation.[4] There is a strong positive correlation between GVC participation and the growth rate of economies. This is because global trade in goods strengthens and expands the manufacturing sector where labour productivity and job creation capacity are higher, enabling the shifting of labour and other productive resources away from agriculture towards industry, and later into services. However, low-skilled processing and assembly work do little to build domestic capacity or transfer knowledge. Thus, although barriers to entry in such GVCs are low, the positive impact on industrialization and structural change in host developing countries can eventually be more limited than initially expected.[5]

Developing small and medium-sized enterprises

LDC economies are characterized by heavy dependence on a limited number of activities that create little value added for local producers – usually, agriculture, natural resources extraction and some services (see Chapter 3). Policies for boosting existing sectors and activities need to consider the range of enterprises and their particular functions in supporting entrepreneurs, workers and their families to meet their immediate basic needs while also contributing to job creation, growth and market expansion. MSMEs constitute the largest number of enterprises globally and in the LDCs. Within this group of countries, such enterprises play a crucial role in economic development and employment, representing 82 per cent of total employment (figure 4.1).[6] This dynamic is even more pronounced in the LDCs than in other country groups, as an estimated 70 per cent of the labour force are own-account workers or contributing family workers, and poverty eradication fundamentally depends on raising labour incomes and productivity levels.

The pervasiveness of MSMEs in LDCs and their central role as job creators therefore make them a key priority area for achieving the SDGs, especially with a view to reducing poverty, increasing household incomes and creating full employment. They are located somewhere between enterprises run by survivalist entrepreneurs, which typically operate at subsistence level and sell to low-income consumers in exchange for cash, and larger enterprises that are connected to global markets.

However, many MSMEs in LDCs are unable to seize all the business opportunities available in different sectors and realize their full potential as contributors to innovation, economic growth and job creation. Instead, the productivity gap between frontier firms (i.e. the most productive

4 As the United Nations Development Programme (UNDP) puts it, "[t]his is at the heart of all LDC graduation processes" (UNDP, 2021, p.27).

5 See also Fu et al. (2021).

6 The term "small economic units" refers to self-employment and micro and small enterprises.

firms of an economy) and other firms is continuously growing, with MSME productivity growth lagging further and further behind (World Bank, 2020b). They remain marginalized in terms of their competitiveness and access to markets and, ultimately, their sustainable growth and ability to create jobs. There are many reasons for this. First, a weakly developed support system tends to hamper MSME growth. This includes, for example, underdeveloped business development services and difficulties in accessing finance. Second, policies that support entrepreneurship and MSME growth are an important enabling factor for sustainable business development, and where the policy environment for MSMEs is fragmented or ineffective, enterprise development tends to suffer. Third, strong linkages in local, regional and global value chains are a key element in ensuring MSMEs' market access and competitiveness and thus their sustainable growth and job creation. Evidence shows that MSMEs which export products and services to foreign markets tend to be more productive and growth-oriented, and this in turn translates into higher growth rates and job creation. Put differently, MSMEs can "trade up" as one pathway to improving productivity, growth and job creation (Atkin and Jinhage, 2017).

Harnessing technology

Access and adoption of technology represent an important avenue for accelerating sustainable enterprise growth and economic transformation in LDCs. Available evidence suggests that digital tools and technologies help enterprises to access information, reach new markets (e.g. through e-commerce and platforms), tap into digital services (such as financial and business development) and identify efficient pathways for formalization. They also facilitate opportunities for substantial transformation of business models and processes (e.g. towards green business) (ILO, 2021b).

However, despite these opportunities, MSMEs have been slow to adopt digital tools and technologies. Few LDCs (for example, Bangladesh, Rwanda and Togo) have policy frameworks that explicitly mention the importance of harnessing ICT to improve competitiveness or identify new niche sectors (UNCTAD, 2018). The barriers are manifold and especially pronounced in LDCs. It has been estimated that doubling the digitalization rate is associated with an increase in manufacturing labour productivity of 11.3 per cent in middle-income countries, but only 3.3 per cent in low-income countries (Banga and te Velde, 2018). Hence, the effect of digitalization on productivity is 8 per cent lower in low-income countries than middle-income countries. As the economy becomes more digital, technological progress can spread across activities and bring about productivity increases. However, digitalization can actually widen the gap if LDCs are not able to adopt the new technologies across the economy due to the importance of tacit knowledge and the increasing complexity of digital technologies. To increase the impact of digitalization, skills development is needed.[7] A skilled workforce can not only enhance the impact of technological progress on productivity but can also produce an outsize benefit for LDCs as more skills, and specific skills, are required to make better use of digital technology.

Digital divides and limited infrastructure prevent many MSMEs from accessing reliable digital technologies in a cost-effective manner. Evidence confirms that this results in a major loss of productivity: all else being equal, MSMEs may in fact be benefiting more than larger firms from similar levels of connectivity (e.g. in terms of bundles of bandwidth, number of connected devices, and so on) (Cataldo et al., 2020). Many MSMEs also lack the skills and readiness needed to adopt digital tools. Despite initial expectations that technology could help reconfigure power dynamics in global value chains and afford MSMEs greater opportunities to improve their

7 See Chapter 3 for a more extensive discussion of the digital and other complementary skills needed to benefit from the opportunities offered by new technologies, in particular for youth.

value chain positions and linkages, which would boost their productivity and growth potential, apparently this happens only rarely. Instead, technology tends to enhance existing value chains rather than reconfigure them – thus reducing the incentives for MSMEs to invest in the adoption of new technology (ILO, 2021c).

Digital entrepreneurship services also have the potential to further foster an entrepreneurship culture, yet the use of technology seldom figures prominently in policy documents on microenterprises and SMEs. There is thus scope for more LDCs to explore the potential of digitalization in supporting the start-up and growth of MSMEs, especially given the rise of e-commerce and the digital economy, as well as to define policy elements to nurture an entrepreneurship culture. For example, Rwanda has identified ICT as a sector that can enable entrepreneurship development and knowledge-based structural transformation, and the government has committed to developing a superior internet and mobile telecommunications infrastructure and prepared five-year national policy plans on ICT infrastructure aimed at establishing the country as an ICT hub in the East African Community. The Smart Rwanda Master Plan 2015–2020 intends to power the country's socio-economic transformation into a knowledge economy.

The role of the social and solidarity economy

Social and solidarity economy refers to the production of goods and services by a broad range of organizations and enterprises that have explicit social and often environmental objectives. It includes cooperatives and other forms of social enterprise, self-help groups, community-based organizations, associations of informal economy workers, non-governmental organization (NGO) service providers and solidarity finance schemes, among others. The social and solidarity economy can serve to widen the structure of a local economy and labour market and address unmet needs with various goods and services in LDCs. Its organizations can facilitate access to finance, inputs, technology, support services and markets, as well as enhancing the capacity of producers to negotiate better prices and income. They can reduce power and information asymmetries within labour and product markets and enhance the level and regularity of incomes. The low capital requirements needed for forming certain types of cooperatives can be beneficial for informal workers seeking to engage in enterprise activities.

The social and solidarity economy also provides a vision of local development that proactively regenerates and develops local areas through employment generation, mobilizing local resources, community risk management and retaining and reinvesting. By organizing economically in agricultural cooperatives, and politically in associations that can engage in policy dialogue and advocacy, its organizations and enterprises can address both market and State failures in LDCs. This also includes overcoming the long-standing neglect of agricultural production and employment in developing countries. Furthermore, the tendency of social and solidarity economy organizations to employ low-input, low-carbon production methods and respect the principles and practices of biodiversity and agro-ecology bodes well for sustainable agricultural intensification. Alternative food networks associated with fair trade, solidarity purchasing and collective provisioning highlight the role that solidarity can play in fostering more equitable agri-food systems.

4.3 Transition of enterprises and workers to the formal economy

A key challenge for LDCs

Today, more than six in ten workers and eight in ten economic units in the world operate in the informal economy (ILO, 2018c). In LDCs, the share of informal employment represents 88.9 per cent of total employment on average and is above 90 per cent in more than one third of the countries (see Chapter 1). Informality jeopardizes enterprise survival and growth, reduces the likelihood of decent work and prevents economic and social progress. Transition to formality means including enterprises and workers under a regulatory framework. It involves extending the scope of fiscal, labour and social security regulation; compliance with legal requirements; and access to advantages such as adequate protection for all enterprises and workers without exception as to size, sector or other criteria. Addressing the different manifestations of informality is thus a key priority in creating more sustainable enterprises, decent work, equitable societies and, more generally, sustainable development in LDCs.

Measuring informality among economic units involves determining whether they are registered, the nature of such registration with the relevant administrative entities and the extent to which they comply with applicable regulations (such as those on business, tax, social and labour issues) (ILO, 2021d; ILO, 2021d). Enterprise formalization concerns directly all independent workers owning and operating informal enterprises (45 per cent of total informal employment in LDCs). Formalization of enterprises is also a prerequisite for the formalization of informal sector employees (who represent one fourth of all informal employment in the LDCs). For employees who are informally employed (whether by informal enterprises, formal enterprises or households), transition to formality means providing them with adequate labour and social protection. Depending on the situation, this can involve one or more of the following actions: (1) extending legal coverage to those excluded or insufficiently covered; (2) providing an adequate level of legal protection; and (3) ensuring effective compliance with laws and regulations (ILO, 2021d).

Particularly in LDCs, the large majority of enterprises and workers are informal.[8] There are nonetheless important differences among them in terms of the reasons for operating in the informal economy; the capacity – and willingness – to formalize; and the broader capacity of economies to generate formal firms and jobs. Given the structural diversity and complexity of economies with many informal activities, strategies for the formalization of enterprises and jobs need to be gender-responsive and gender-differentiated, and should also ensure that the approach is adapted to the context and characteristics of the relevant subsegment of enterprises or categories of workers. There is no "one-size-fits-all", either across or within countries (ILO, 2021d).

Benefits of the transition to formality

Operating in the formal economy has several advantages for workers, enterprises and society as a whole. For workers, transition to formality is a condition for access to decent work. It reduces poverty and leads to greater equality.

For enterprises, transition to formality helps enhance their position in the market through increased consumer trust and confidence and opens up opportunities to source to companies operating in the formal economy. Formalization also eases access to new markets—both domestic markets (through requirements set by formal firms) and international markets (through exports). Enterprises operating in the formal economy can also obtain better terms for credit. They can participate in public tenders, become a client of the public sector, access enterprise development programmes and may qualify for tax credits (ILO, 2016a). The formalization of enterprises is also a prerequisite for adequate labour and social protection and, more broadly, for decent working conditions for both employer and employee.

8 In this section, the term "enterprises" refers to "economic units", as defined in Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

Formalization benefits society as a whole because it enlarges the government's scope of action, notably by enabling increased public revenues and strengthening the rule of law. It also contributes to fairer societies by distributing rights and obligations among its members more equitably. The COVID-19 crisis has revealed the vulnerability of enterprises and workers in the informal economy. A gradual shift towards the formal economy facilitates access to financial relief and other forms of government support, such as business development services for enterprises and social protection benefits for workers (including business owners).

While many LDC governments acknowledge the challenges associated with a high proportion of enterprises and workers operating partially or fully outside the legal framework, policies and programmes to support formalization are yet to be widely implemented. Nevertheless, some promising practices have been identified to lower the costs and enhance the benefits of formalization. In order to put in place effective incentives to formalize, effective and integrated responses need to take into account: (i) macroeconomic and structural causes; (ii) the legal, regulatory and institutional framework; and (iii) the particular characteristics of enterprises and workers. An integrated approach, informed by inclusive social dialogue processes, is crucial for developing resilient and sustainable enterprises that are capable of operating in the formal economy and creating decent work opportunities.

Tackling the causes of informality

In line with the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), the ILO conducts research and provides advisory services to constituents to facilitate the formalization of enterprises and jobs (ILO, 2015a). ILO experience in supporting formalization in LDCs shows that a thorough analysis of the informal economy, based on primary and secondary data collection, is required to understand the dynamics of the economic context and institutional landscape and to design the most appropriate interventions. Such diagnostics provide an assessment of the underlying causes of informality and drivers of formalization in their economic context. They also assess the political and institutional environment and the regulatory framework, with respect to the characteristics of enterprises and workers, that pose obstacles to formalization (ILO, 2021d; ILO, 2021e).

The causes of informality associated with workers' characteristics, including those of business owners, encompass (i) a low level of education or limited technical and management skills; (ii) discrimination on the grounds of gender, age, religion or ethnicity; and (iii) poverty. Such factors also imply low levels of organization and representation along with a limited capacity for workers to have their voices heard. There are numerous contributing factors for enterprises as well, including their small size – often affected by adverse conditions in the business environment, such as limited access to finance – and low business productivity. Survivalist entrepreneurs, many without any real entrepreneurial aspirations, lack the means, knowledge and ambition to formalize. Women may face additional challenges to formalization.

Other causes of informality and drivers of formalization relate to the environment in which workers and enterprises operate. There are drivers related to economic changes – namely, inclusive growth through diversification, technological upgrading and innovation (ILO, 2020i). New technologies are also drastically transforming labour markets, generating new forms of informality such as platform work and gig economies. There are institutional factors that influence the transition to formality, including rules, regulations and the governance of the economy, as well as the social assets and attitudes (such as respect, autonomy, discrimination, cooperation) of people who engage in an economic activity to make a living. Weak laws, regulations, institutions and enforcement induce informality, which can be exacerbated by a lack of trust. There are also drivers of informality rooted in social and economic resilience to shocks, with fragile economies being more prone to increases in informality.

Immediate formalization might not always be the right response to address the informality of some categories of workers and enterprises in LDCs. For those at the lower end of the income spectrum, it can be more effective to move gradually, with the objective of supporting formalization in the future. This can be obtained by addressing decent work deficits and vulnerabilities, reducing income insecurity (including through guaranteed social protection benefits) and enhancing capabilities to seize opportunities (strengthening workers' skills and the managerial and productive capacity of entrepreneurs and enterprises).

Interventions are more effective when they are combined and when they tackle different causes of informality.[9] Effective formalization strategies in most cases combine interventions to increase the ability of the economy to absorb informal economy workers and enterprises (inclusion) but also to strengthen the ability of individuals and enterprises to enter into the formal economy (insertion). This two-way logic presupposes actions at two levels: at the level of workers and enterprises in the informal economy, and at the level of the political and institutional environment. Interventions may include supporting the development of appropriate and well-coordinated legislation, policies and compliance mechanisms, combined with direct measures to support enterprise and job formalization. These can be (i) the extension of adequate social protection to all workers regardless of status and forms of employment or enterprise characteristics; (ii) business development services; (iii) access to training and retraining; (iv) productivity enhancement; and (v) measures that make business and workers' registration and workers' recognition cheaper, easier and more attractive while also making informality a less attractive option.

The identification of effective incentives to formalize is a crucial aspect of formalization strategies. Strengthening the ability to comply is very important but it is also essential to strengthen the willingness to comply. This in turn is largely driven by the perception of fairness and by the accountability of institutions, which is, in many LDCs, a central issue to address. In some instances, the creation of simplified legal status, combined with incentives and support to formalize, has been effective in shifting economic units to the formal economy (ILO, 2021b).[10]

In this regard, digitalization can support the transition to formality in the form of *e-formality* (ILO, 2018d). This has been a trend in many developing countries in areas such as the registration and formalization of businesses, workers and even transactions. While the use of e-formality does not replace addressing the structural drivers of formality, it does have the potential to facilitate their implementation.

Integration into the value chains of large enterprises, in particular MNEs, and gaining market access can be a crucial motivation for SMEs to formalize (ILO, 2016b). Being a registered enterprise with a fully registered workforce is a frequent prerequisite to doing business with an MNE. Formalization and the subsequent establishment of economic relations with an MNE allows SMEs to be part of the MNE's strategies for market positioning, both nationally and regionally. SMEs in MNE supply chains typically receive higher prices for their output and often benefit from technology transfer and access to information. Furthermore, engaging with MNEs often pushes SMEs to adopt administrative controls and techniques that lead to better enterprise management. Although still an emerging area for MNE contributions to development, some MNEs are aligning their supplier development strategies with government policies to help foster public-private partnerships (PPPs), notably in the development of joint projects to establish business linkages with SMEs and enhance their productive capacities in the integration of value chains. Such PPPs can be effective and efficient for the development of inclusive businesses and formalization.

9 This is part of Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), ILO (2015a), and is supported by evidence, including a meta evaluation which found that effects of individual interventions are typically small and tend to disappear over time, calling for integrated (multidimensional), coordinated and sustained efforts (Jessen and Kluve, 2019).

10 The Individual Micro Entrepreneur statute in Brazil, for example, has encouraged the registration of 7.7 million individual micro-entrepreneurs and 5 million micro- and small enterprises from the time of its creation in 2008 up to 2018. Formerly informal micro-entrepreneurs cite access to social security, enterprise formalization and permission to issue invoices as the main reasons for formalizing. See ILO (2021c).

4.4 Enabling environment, good governance and decent work

Policy coherence for an enabling environment

Enterprise policies in LDCs should have a dual focus. They should ensure that conditions at work result in equity, including gender equality; poverty eradication; and social welfare; and they should aim at increasing productivity and employment, leading the process of structural change (ILO, 1998). Enterprise development policies for inclusive economic growth require an effective legal, policy and institutional framework that optimizes the quantity and quality of the jobs created while also enabling enterprises to strengthen themselves and grow. Elements of such a framework include: entrepreneurial culture; an enabling legal and regulatory environment; education, training and lifelong learning; access to financial services; trade and sustainable economic integration; respect for universal human rights, social justice and social inclusion; adequate social protection; and responsible stewardship of the environment (ILO, 2007).

Support to LDC ministries working on a human-centred approach to enterprise development needs to be holistic and inclusive. A holistic approach incorporates policies and programmes for creating an enabling environment based on a market-systems approach; fosters appropriate pathways to enterprise formalization; and promotes entrepreneurship, productivity and innovation. It also fosters development of an inclusive financial system to start, manage and grow enterprises and reduce vulnerabilities. Equally important, a holistic approach harnesses technology to accelerate enterprise development at the micro, sectoral and national levels.

Many LDCs recognize the importance of addressing business environment issues and related policies, but their implementation is often poor, undertaken mostly as isolated interventions with no connection to substantive policy direction where business environment issues should be based. LDCs have weak institutional capacity, which limits progress. Limited connections exist between policies for structural transformation, entrepreneurship development and, more importantly, for the basic provision of infrastructural services, which are fundamental to creating the most elementary conditions for an enabling business environment in LDCs.[11] The pandemic conditions since 2020 have drastically reduced the possibilities (financial, technical, and institutional) for the LDCs to address business environment issues, since their priorities are rightly focused on coping with basic health and other emergencies.[12]

Essential policies to support enterprise development for structural transformation include: (i) reform of the business environment (e.g. business and land registration, legal framework for enforcing contracts, tax reform); (ii) development of financial services (both access to capital and mechanisms for managing risk); (iii) skills development as a part of industrial and employment policy; (iv) strengthening access to external markets; (v) expanded access to capital; and (vi) promotion of productivity and employment to enhance inward FDI.

In particular, LDCs need ambitious administrative simplification efforts to encourage new enterprises; simplified small-firm taxes and administrative tax requirements; simplified and clear legal frameworks on land and property rights; expedited resolution of commercial disputes; and a consistent approach to infrastructure investment regulation and access to basic utilities. Regulations at the sectoral level are key, and a continuous effort to modernize them is another priority task. Coordination across different government agencies is often a major constraint to improving the business environment, and coordination and decision-making at the senior level is often required to drive business regulatory reform.

As indicated above, the two-pronged approach to enterprise development calls for pairing policies that foster MSME development with policies that encourage large-firm creation from FDI through investment promotion. Spin-offs from other large firms are also a vital part of strategies to enhance large enterprise development. Policies to support enterprise development in key economic sectors

11 See also Chapter 3.

12 See also Chapter 2.

and to expand their productivity and employment include: (i) infrastructure development (e.g. roads, ITC and education); (ii) promotion of good managerial practices; (iii) strengthening domestic markets to stimulate competition for innovation and productivity improvement; (iv) prioritizing sustainable business development and growth through constructive dialogue with the business community; (v) enhancing productivity of the agriculture sector; and (vi) facilitating entry into global value chains. LDC enterprise development policies should clearly address the distinctive needs of MSMEs and large business units as part of a coherent strategy to promote their expansion and integration.

Fostering decent job creation by enterprises

The ILO Centenary Declaration calls for a human-centred agenda that is based on investing in people's capabilities, institutions of work and decent and sustainable work (ILO, 2019). Defining characteristics of LDCs include the persistent lack of decent work opportunities, insufficient investment in people and capital and low living standards. Putting job creation at the heart of enterprise development is essential to ensuring inclusive economic development that lifts everyone in LDCs out of extreme poverty. Effective enterprise development policies and programmes generate decent work opportunities that in turn fuel more robust, inclusive and poverty-reducing growth. This virtuous circle advances sustainable development and is beneficial for the economy and the people.

Decent work has also become a priority concern in global supply chains. The UN Guiding Principles on Business and Human Rights, unanimously endorsed by the Human Rights Council in 2011, recognize "(a) States' existing obligations to respect, protect and fulfil human rights and fundamental freedoms; (b) The role of business enterprises as specialized organs of society performing specialized functions, required to comply with all applicable laws and to respect human rights; and (c) The need for rights and obligations to be matched to appropriate and effective remedies when breached" (OHCHR, 2011). These principles apply to all enterprises and countries, regardless of level of development.

The *ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy* provides guidance to both governments and enterprises on how to maximize the positive impact of FDI and GVC participation on decent work and local enterprise development in host/exporting countries, and on how to minimize and resolve potential difficulties of business operations. It recognizes that MNEs often operate through business relationships with other enterprises as part of their overall production process and, as such, can further contribute to the achievement of decent work.

Businesses are expected to carry out "due diligence" to avoid causing adverse human rights impacts in their own operations. They are also expected to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to them. In practice, companies must pay particularly close attention to their operations in countries with weak institutional capacity to protect human rights and with a workforce that is highly vulnerable due to endemic poverty, civil unrest, few opportunities for work in the formal economy and inadequate social protections to meet their basic needs—conditions often found in LDCs.

Some governments have enacted, or are currently developing, legislation on mandatory due diligence.[13] The rapid growth in legal requirements for MNEs to undertake due diligence in their supply chains means that LDCs seeking to advance structural change need to start integrating decent work and human rights considerations into their enterprise development policies and programmes and put in place a conducive policy framework, including legislation and strengthening of labour administration and governance.

13 For instance, the German Supply Chain Law creates new legally binding due diligence obligations that apply to companies' "own business activities, their first-tier suppliers and to a certain extent to all tiers of the supply chain" (IOE, 2021). The European Union is also developing legislation on sustainable corporate governance and due diligence, and is amending its Corporate Sustainability Reporting Directive (CSRD) to take account of due diligence requirements.

Social dialogue and effective enterprise development

Decent work is productive and delivers a fair income. It provides safety and security in the workplace and social protection for families. Employers respect workers' rights, and conditions of decent work allow workers to improve their families' prospects for personal development and social integration. Workers enjoy the freedom to express their concerns and to organize and participate in the decisions that affect their lives. Furthermore, all women and men benefit from equality of opportunity and treatment. These aspects of decent work do not manifest all at once. They require social dialogue as a continuous process that includes employers and workers and enables a gradual progression to advance decent work without hindering enterprise growth and economic development.[14]

LDC enterprise development policies must be tailored to the specific economic, social, political, natural and cultural conditions unique to each country. Delivery programmes should account for the distinctive local productive, educational and knowledge structures, as well as the formal institutions (such as the regulatory framework) and informal institutions (such as social norms, attitudes, values and traditions). Social dialogue is the mechanism for optimizing design and delivery of policies and programmes for enterprise development. It is also essential for maximizing the positive contribution of FDI in specific local contexts. Regardless of a country's openness to foreign investment, structural transformation is a process that requires deliberate and appropriate policy programmes; stripping host governments of their ability to achieve this to attract inward direct investment is thus not conducive to long-term prosperity. As a complement to a cohesive industrial strategy, LDC host countries must regulate MNE activities to promote synergy with domestic development objectives and decent work outcomes, avoid crowding-out effects and ensure the appropriateness of technology to maximize positive spillovers and innovation (Fu et al., 2021). National tripartite focal points to promote the use of the MNE Declaration in enterprise development can play an important role in facilitating cooperation between government, employers' and workers' organizations and MNEs for the creation of decent work in LDCs and other countries (ILO, 2017b). For example, Sierra Leone established national focal points–located in the Ministry of Labour and Social Security, the Sierra Leone Local Content Agency, and employers' and workers' organizations—to enhance decent work outcomes from FDI and global value chains. With ILO technical assistance, these focal points are helping to foster interministerial cooperation to engage more effectively with MNEs in advancing decent work in the country.

Box 4.1 The global garment industry as an entry point for *industrialization* and *decent work*

The garment industry can be a vital opportunity for industrialization in LDCs due to its low entry barriers, high labour intensity and low skills requirements. When the jobs being created are decent jobs, there can be spillovers for economic, social and human development. The ILO flagship programme for the garment industry, Better Work, builds on the Organization's tripartite structure of engagement with national governments, employers' organizations and workers' organizations and adds to that a strong partnership with global supply chain actors, such as global brands, global retailers and global manufacturers. When thinking of a post-Covid-19 global garment industry, robust labour governance and effective social dialogue are critical. Both are built on strong institutional actors with the active participation of independent employers' and workers' organizations. In this context, and as set forth in the garment industry's Global Call to Action in response to the Covid-19 pandemic, the ILO's convening role and expertise in the sector can be leveraged in conjunction with government agencies and labour inspectorates, employers' associations and trade unions, as well as firms in the supply chain in order to build their capacity, facilitate and strengthen social dialogue, promote the gradual transition to formality and help build resilience through stronger systems of social protection (ILO, 2020j).

14 Chapter 7 elaborates more on the role of institutions of work in promoting social dialogue in the LDCs.

Women's empowerment, equal pay and entrepreneurship

Women are over-represented in the types of work most likely to yield poverty-level incomes – own-account and unpaid family work in agriculture and informal services. Achieving SDG 5 on gender equality and the empowerment of all women and girls will require decisive action across a range of issues that impede gender equality at work. Over the last two decades, women's significant progress in education has not been accompanied by a comparable improvement in their position at work. In many developing countries, including LDCs, women are more likely to become and remain unemployed and to have fewer chances to participate in the labour force; and when they do participate, they often have to accept lower-quality jobs.[15] Even when gaps in labour force participation and employment have narrowed and women shift from contributing family work to employment in the services sector, the quality of their jobs remains a concern.

More and better-quality jobs for women, universal social protection and measures to recognize, reduce and redistribute unpaid care and household work are indispensable to delivering on the new transformative sustainable development agenda for the LDCs.[16]

In those LDCs with more extensive wage employment, such as in the manufacturing and services sectors, there is a worrisome gender wage gap, and the unequal treatment of men and women in the labour market needs to be eliminated by addressing its underlying causes. Promoting equal pay for work of equal value through wage transparency, training and gender-neutral job evaluation methods, together with supporting adequate and inclusive minimum wages and strengthening collective bargaining, are central mechanisms in this regard.

To overcome the motherhood wage gap, attitudes towards unpaid care work need to change and good quality part-time work and limits on long paid hours and overwork must be promoted. A comprehensive framework for the harmonization of work and family responsibilities and an end to discrimination at work are vital to advancing women's empowerment. Key components of such a framework are maternity protection for all women; social protection systems that reduce and redistribute unpaid care work; a basic infrastructure, particularly in rural areas; parental leave; quality early childhood care and education; and quality jobs in the care economy, including for domestic and migrant workers.

Tackling the root causes of unequal opportunities requires addressing discrimination and sectoral and occupational segregation. Promoting women's entrepreneurship and supporting their participation and leadership in decision-making, including in governments and employers' and workers' organizations, are important means of breaking down barriers to advancement.

Promoting women's entrepreneurship is particularly critical to supporting livelihoods in LDCs. Women-owned enterprises make substantial contributions to economic growth, and their number is increasing at a faster pace than businesses owned and operated by men. Women own approximately 8 to 10 million SMEs in developing economies and account for 31 to 38 per cent of all SMEs in emerging markets (IFC and GPFI, 2011). Overall, entrepreneurship represents a large proportion of women's paid work in many countries and is thus one of the main avenues through which to support their economic empowerment (de Mel et al., 2012). Women's entrepreneurship holds strong potential for spurring economic opportunity and job creation in developing countries. In addition, growing evidence suggests that economically empowering women may reap substantial benefits for the health and well-being of families and communities (World Bank, 2011).

For women entrepreneurs to fully benefit and flourish, however, they must have access to, and make use of, a comprehensive bundle of services, including skills development, entrepreneurship training, access to finance, and structures to support them in their family responsibilities. Such services should be tailored to women's particular needs and time constraints, and should be provided over a longer period, to allow the enterprises to take root. In order to limit the risks of backlash, attention should be paid to ways in which men can be involved in these interventions. Where national government structures and capacities are low, which is often the case in LDCs, working with and through such actors as NGOs, international NGOs (INGOs) and even trade unions can help ensure that the needed

15 See Chapter 1 of this report and ILO (2016c).

16 See also Chapter 6.

support reaches women, especially in hard-to-reach places such as rural areas.[17]

Decent work for migrants and refugees

The 2030 Agenda (SDG targets 8.8 and 10.7) recognizes "the positive contribution of migrants for inclusive growth and sustainable development" in countries of origin, transit and destination and makes a commitment to "cooperate internationally to ensure safe, orderly and regular migration involving full respect for human rights and the humane treatment of migrants regardless of migration status, of refugees and of displaced persons". Migration today is linked, directly or indirectly, to the quest for decent work opportunities. Migrant workers, especially women, in low-wage and less-skilled jobs are often forced to find work in the informal economy. They may be subject to exploitative working conditions and violations of international labour standards, in particular fundamental principles and rights at work, including freedom of association and collective bargaining.[18]

At its 106th Session (2017), the International Labour Conference adopted conclusions to support the development of rights-based, gender-responsive transparent and coherent labour migration legislation and policies, including through promoting technical cooperation and capacity-building activities and the collection and production of labour migration statistics at the national, regional and global levels. **Action needs to be extended to working with governments and social partners to support refugee populations, in particular with regard to their protection and integration into the labour market.**[19]

Refugees are becoming a major focus area for promoting inclusive enterprise development in LDCs. Conflicts, climate change and other massive disruptions to communities have displaced many populations. Many LDCs are coping with large displaced populations that need livelihoods to support themselves and their families, while already facing enormous challenges to provide decent work for their own citizens (UNHCR, 2020a). The magnitude and protracted character of most of these displacement situations has led countries to engage with a wider range of partners in growing recognition of the imperative need, on both humanitarian and development grounds (the so-called humanitarian-development nexus), to secure sustainable solutions for migrants (ILO, 2017c). Progress is best achieved where enabling public policies are combined with close cooperation between humanitarian and development organizations, working in support of governments and helping local communities to move out of the emergency phase to address development issues, strengthen social protection and support the forcibly displaced to be free to move and have access to decent work. In these contexts, entrepreneurship programmes for economic inclusion of displaced persons require a comprehensive analysis of the target group's motivations and potential markets, and also require the technical assistance capacity of the supporting institutions. Governments should cooperate closely with humanitarian and development organizations so that the short-term prioritization of meeting urgent needs does not impede the more sustainable solution of entrepreneurs providing needed goods and services.

17 The Women's Entrepreneurship Development programme of the International Labour Organization (ILO-WED) has operated for 20 years. During this time it has provided support to several LDCs, including Cambodia, Lao People's Democratic Republic, Sierra Leone, Somalia, Uganda and United Republic of Tanzania, providing insights into which interventions have the greatest impact for promoting women's entrepreneurship (ILO, 2018e). Governments often spread their support to women entrepreneurs between Ministries (family/gender, agriculture, trade and industry, etc.), with the lead typically being the Ministry of Gender or Family Affairs. The focus there is on "women" and not on their role as economic actors, which can undercut the effectiveness of such policies and programmes. Effective coordination between Ministries—with a strong focus on the economic role of programmes for women—is essential.

18 See ILO fundamental Conventions Nos. 87 and 98 and Chapter 7.

19 The ILO plan of action mandated the Office to work closely with the Special Representative of the Secretary-General who coordinated the development of the Global Compact for Safe, Orderly and Regular Migration, adopted by the United Nations in December 2018. Indeed, the preamble notes that the Global Compact rests on human rights standards, including the ILO Conventions related to decent work and migration. These include the Migration for Employment Convention (Revised), 1949 (No. 97) and the Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143), which have been ratified by 49 and 23 countries respectively.

4.5 An enabling international environment for LDCs

To be fully effective, the national measures LDCs need to undertake to foster enterprises and create decent work must be complemented by an accommodating international environment and international support measures for LDCs in the areas of trade, external finance, transfers of technology and capacity-building for entrepreneurship.

Such measures should include development assistance to ease fiscal and financial constraints to sustainable development, such as fulfilling the long-standing commitment by developed countries to provide the equivalent of 0.15 to 0.20 per cent of their gross national income (GNI) in the form of ODA to LDCs (in parallel with a commitment to provide the equivalent of 0.7 per cent of GNI in ODA to developing countries).[20] To increase their export potential, LDCs would benefit from the different proposals they have tabled at the World Trade Organization (WTO) concerning tariff cuts, rules of origin and administrative procedures for duty-free and quota-free regimes. These measures can stimulate the growth of the local enterprise base and international investments when they are aligned with the productive and institutional capacity of LDCs (UNCTAD, 2021).

Enterprises in LDCs also suffer disproportionately from the volatility of international financial flows. The international financial and fiscal system has been unable to fully provide an international financial safety net for LDCs in the wake of the global pandemic, as resources for these countries have been too limited and have often been subject to policy conditionality that hampered alignment of support with national policy plans for enterprise development and employment creation. A review of the international financial system to leverage support and provide more policy space would lead to more and stronger enterprise development in the LDCs (van der Hoeven and Vos, 2021). Despite some success in certain LDCs, the income, productivity and technological gaps between LDCs and developed countries remain large and might even have increased during the pandemic.

Resilient enterprise development that creates decent work in LDCs calls for stronger international partnerships for developing and reinforcing their productive capacities.[21] A stronger enabling environment for enterprises, the effective application of labour standards and the strengthening of social dialogue in LDCs in turn requires bold international policy changes and a unified commitment by the international community to supporting their economic, social and governance objectives.

20 These commitments have been reiterated in the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development and the Programme of Action for the Least Developed Countries for the Decade 2011-2020 (Istanbul Programme of Action).

21 Over the past decade, the ILO has developed or strengthened several projects to build enterprise capacities in LDCs: The Enabling Environment for Sustainable Enterprises (EESE) project is active in Burkina Faso, Cambodia, Central African Republic, Lao PDR, Lesotho, Malawi, Mauritania, Mozambique, Nepal, São Tomé and Príncipe, Sierra Leone and Zambia. Start and Improve Your Business (SIYB), providing a modular training programme to build the capacity and business skills of entrepreneurs and business owners, operates in almost all LDCs, and is especially active in Afghanistan, Benin, Burundi, Myanmar and Yemen. A new programme (Sustainable & Resilient Enterprise, SURE) training MSMEs to bolster their resilience against any kind of hazard, crisis or disaster has been successfully tested in some countries and is ready to start operating. The Lab: Market systems development for decent work applies new methodologies for job creation and MSME development in countries with thin institutions and thin private markets, and shows promising results in such countries as Afghanistan and Zambia. The Making Finance Work programmes enhance the provision of inclusive and human-centred financial services to small entrepreneurs, workers and refugee communities in LDCs, including Ethiopia, Nepal, Sierra Leone and Uganda. The ILO Sustainable and Competitive Enterprises Programme (SCORE) has been working in Ethiopia and other LDCs, improving SME productivity by enhancing workplace cooperation and decent working conditions.

Chapter 5

Just transition for more sustainable and human-centred development

5.1 Climate change impacts and challenges for the LDCs

Climate vulnerabilities of the LDCs

The most recent report by the Intergovernmental Panel on Climate Change (IPCC) reconfirms that human influence has warmed the climate at a rate that is unprecedented in at least the last 2,000 years, and that many changes in the climate system become more pronounced in direct relation to increasing global warming. They include increases in the frequency and intensity of hot extremes; marine heatwaves; heavy precipitation, and agricultural and ecological droughts in some regions; the frequency of intense tropical cyclones; and reductions in Arctic Sea ice, snow cover and permafrost (IPCC, 2021).

Compared to other country groups, LDCs' economies and societies are particularly vulnerable to climate change. Four factors characterize their specific climate vulnerability: (i) their geographic exposure, (ii) economic structure, (iii) labour market composition, and (iv) low adaptive capacity, which is related to their physical and social infrastructure, financial resources and political institutions. The LDCs have thus to deal with the twin challenges of structural transformation and climate change.[1]

In terms of geographic exposure, most LDCs are located at lower latitudes around the equator and/or in highly endangered environments like mountain areas. Climate change-induced extreme events, such as droughts, heat waves, hurricanes and floods, are projected to occur in greater frequency around the equator than at higher latitudes. Temperatures around the equator are also projected to rise faster than the global average during the twenty-first century, causing increased heat, drought and long-term higher temperatures (IPCC, 2014).

The most dramatic consequences of climatic events are the loss of life that can be directly or indirectly induced by crop failure, famine and conflict. Once an extreme climatic event occurs a vicious cycle unfolds, affecting labour markets, future income and long-term development. In African LDCs, an annual average 376 working-life years per 100,000 people of working age, and thus future income, were directly lost because of environment-related disasters between 2008 and 2015, among the highest rates in the world (ILO, 2018f).

Climate change and sectoral impacts in LDCs

In fact, economic damage and labour market disruptions due to climate change depend on the sectoral configuration of a country's economy, making the LDCs most vulnerable. These countries' economic and labour market structure is to a large extent based on the primary sector.[2] The primary sector in turn relies on a stable climate and environmental services (ecosystem services), which provide income and employment from farming, fishing, forestry, natural resources and tourism (UN, 2015b).

With most of the LDC population working in agriculture, a stable predictable climate, sustained rain and the regulating services of nature, such as its regulation of the nitrogen and water cycle, provide for their main source of income. Modified rainfall patterns and extreme climatic events such as droughts, hurricanes and flooding, will produce direct changes in crop phenology and yields and have a negative impact on labour and incomes (IPCC, 2021; Fatima et al., 2020).

Soil depletion and erosion, water shortages, changes in salinity and desertification further hinder agricultural productivity. Movement of pests and plant pathogens to different latitudes will affect crop production in new areas previously unaffected by them. With LDCs' GDP, employment and income depending largely on the whims of nature, these countries also rely on precisely those industries where the largest economic damage of climate change is expected (IPCC, 2018; Bebber et al., 2013).

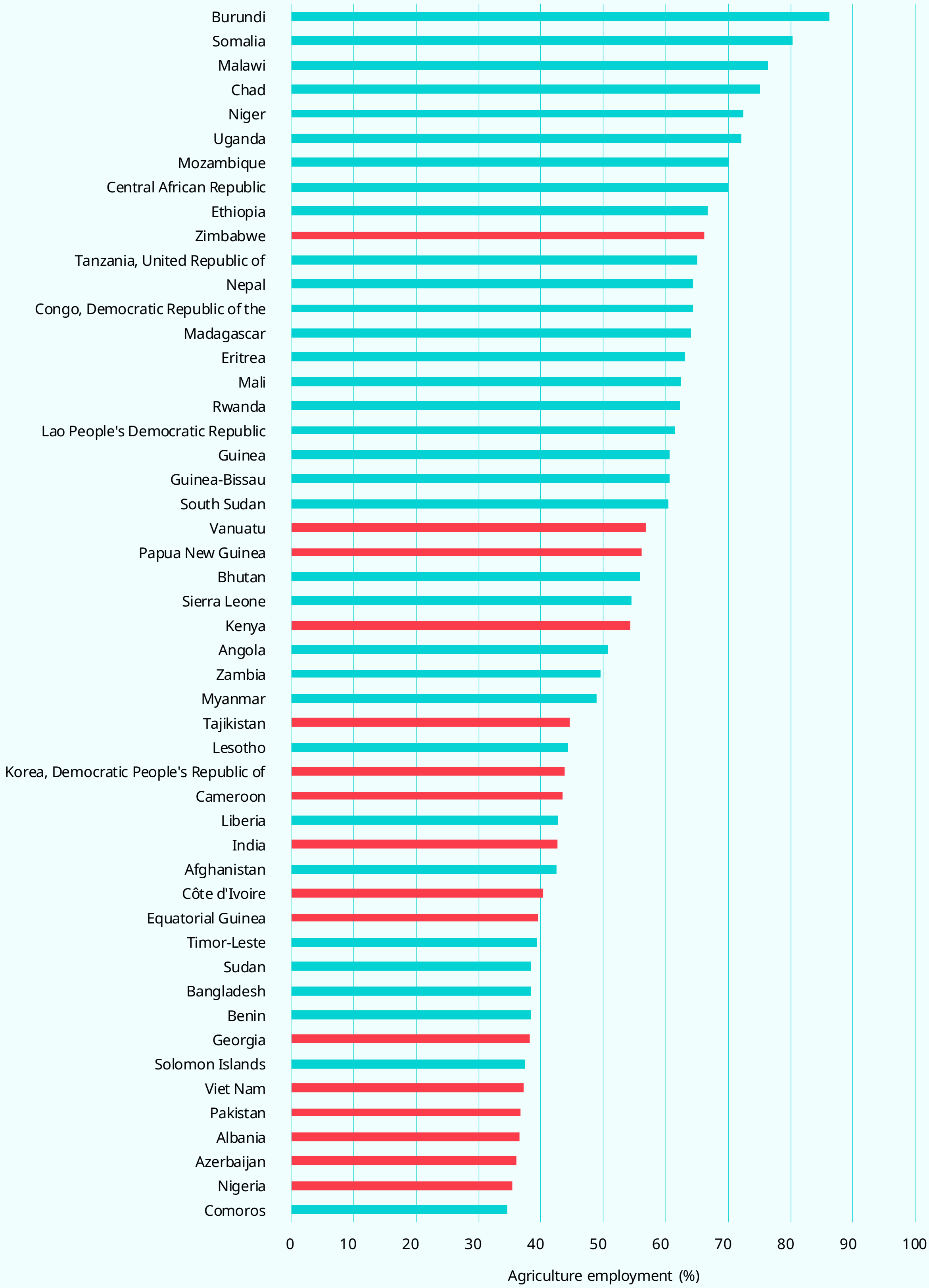
Farmers are likely to adapt to these changes as best they can, but technical and financial adaptation capacity is limited in LDCs, which means that jobs and income are at high risk of disruption. In half of the LDCs, agriculture provides more than 50 per cent of total jobs, with rates as high as 86 per cent in Burundi, 80 per cent in Somalia and 76 per cent in Malawi. In a global ranking of the 50 countries with the highest employment share in agriculture, 34 are LDCs and thus the most vulnerable to a changing climate (see figure 5.1 and ILO, 2018f).

In African LDCs, the agricultural sector accounts for 61 per cent of total employment, or more than 163 million workers, who directly rely on rain as only 4–6 per cent of cropland is irrigated. Farmers who depend on rain-fed agriculture are thus most exposed and vulnerable to climatic events, as crop productivity is directly linked to the effects of climate change on precipitation (Wiggins and Lankford, 2019).

1 See also Chapter 3.

2 See also Chapter 3.

Figure 5.1 Share of employment in agriculture (first 50 countries), 2019



Source: ILOSTAT.

Note: The LDCs are represented in turquoise.

Desertification, land degradation and disaster events such as floods, heavy precipitation, heatwaves and insect outbreaks not only reduce productivity in agriculture but also destroy jobs in the rural economy more generally (IPCC, 2014 ; ILO, 2020k). For example, the income of 7 million people (or 10 per cent of the population) in agriculture and related rural activities was lost when severe droughts hit Ethiopia's primarily rain-fed agricultural sector in 2003 (Harsdorff et al., 2011). In Uganda, predicted temperature increases will very likely have significant negative effects on the coffee industry and the 3.5 million households that rely on the sector for employment and income (Markandya et al., 2015). A 50-per-cent decline in fisheries-related jobs is predicted for West Africa by the 2050s under a conservative warming scenario (Lam et al., 2012).

Climate change and decent work

A change in the climate and rainfall patterns not only alters productivity, income and the total number of workers and farmers in agriculture and related activities but also affects the dimensions of decent work (ILO, 2013a). In terms of child labour, effects may be counter-intuitive and depend very much on the country context. There are two competing incentives and trends when the seasonal weather pattern changes and affects agriculture production. On the one hand, if agriculture becomes more productive through increased rain and increased harvest, sending children to work on the farm yields a bigger return (the impact channel runs through return of work) and may even be required, as there is a lack of labour and/or a lack of farmers' resources to pay for external labour, which leads farmers to turn to children to do the work. Child labour may increase. On the other hand, if agriculture becomes less productive, household income decreases (the impact channel runs through income) and it may be necessary to send children to work to make up for the decline in production. For United Republic of Tanzania, one standard deviation increase in rainfall leads to an increase of 4.6 days per year in child labour for children aged 6–13 (Dumas, 2020).

As temperatures around the equator are projected to rise faster than the global average, increased heat stress will influence workers in LDCs more than in other regions. Heat stress affects labour productivity and leads to negative occupational health effects and workplace injuries, especially in low-skilled labour-intensive outdoor sectors. LDCs in Africa and around the equator in South-East Asia are particularly vulnerable to heat stress because of their high heat exposure and low adaptive capacity (ILO, 2019c).

Increasing temperatures mean that workers must spend more working hours slowing down, resting and cooling down their bodies to keep core body temperatures below 38°C and thus avoid heat stroke. People working in factories and offices with poor cooling systems, such as in the garment industry in Bangladesh or Cambodia, and those working outdoors, notably in agriculture, construction and forestry in Chad, Benin, Burkina Faso, Mali, Niger or Togo, will be particularly affected. While impacts vary regionally, of the ten most affected countries in terms of percentage loss of GDP, eight are in Africa (ILO, 2019c).

Assuming a global temperature rise of 1.5°C by the end of the century, estimates suggest that by 2030, Chad, Burkina Faso and Togo will lose more than 7 per cent of working hours and between 6 and 9 per cent of GDP due to heat stress. In terms of sectors, agriculture is expected to account for more than 90 per cent of the total working hours lost owing to increasing heat stress by 2030 and thus affecting LDCs more than other country groups (ILO, 2019c).

Climate change and labour displacements

Reduced labour demand due to economic shocks and economic and social instability, as well as to the political instability that often results from such shocks, creates additional obstacles to productive employment opportunities outside agriculture due to reduced business interest and investment, including foreign and domestic investments. The negative impacts on business assets and the disruptions in the transportation of goods can further fuel potential conflicts and the displacement of people. The workforce and, with it, business assets, transport modes, basic manufacturing and informal services, are further incentivized to move to already sprawling cities, thereby accelerating rapid urban concentration in LDCs. Most often, cities in LDCs already lack the required physical and social infrastructure. They are unable to cope with ever more rapid urbanization, and thus the risk only increases when they are hit by disaster events (Castillo, 2018).

Political institutions in LDCs are overwhelmed by climatic events and economic shocks. The lack of support for farmers, rural economies and the agricultural sector reinforces existing inequalities and exacerbates the vulnerability of women, migrants, youth, indigenous and tribal peoples, people in poverty and people with disabilities. These groups tend to have less access to resources for climate change adaptation, including land, credit and agricultural inputs, and lack the support of institutions and decision-making bodies. Poor people also live and work in more vulnerable locations, which themselves lack access to technology, social insurance and training. For vulnerable individuals working in the informal economy and in small enterprises, it is especially difficult to recover from the effects of environmental disasters when productive assets are lost (ILO, 2018f).

Threats in coastal areas

Low-lying LDCs, such as Bangladesh, face additional threats as coastal land is increasingly lost and damaged due to sea level rise, erosion and extreme weather events like hurricanes. This is destroying jobs in agriculture, tourism and fishing, and also in vital export and manufacturing sectors, which are heavily affected by environmental damage (IPCC, 2014).

Overlay maps of apparel factory locations in Bangladesh and Cambodia, with elevation maps and climate projection maps of land that will fall below sea level, indicate that 50 to 60 per cent of factories will experience at least one major coastal flood per year by 2030.

This will have a major impact on the economy of such countries as Bangladesh and Cambodia. The garment industry is the main employer in Bangladesh, with some 4.4 million workers, overwhelmingly women who will be directly affected. In the long term, the light manufacturing sector producing such goods as textiles is considered by economic development theory as an economic stepping-stone towards higher income and economic development. The textile industry thus not only provides for the largest share of current GDP and export revenues – 80 per cent – but is also a main conduit for future economic development.

Assuming a yearly flooding of 50 per cent of factories and a linear relationship, some 2 million workers and 40 per cent of export revenues will be hit annually. As four out of five workers in the garment industry in Bangladesh are women, they will be affected disproportionately. This in turn will have an impact on food security, schooling and the health of children through second-round effects. The long-term development consequences for the country could be devastating. Reinvesting in destroyed productive assets – which are financed and depreciated over many years – may be prohibitive, eroding the competitive advantage of Bangladesh and other Asian LDCs in textile manufacturing, economic development and global catch-up with industrialized countries (Judd and Jackson, 2021).

5.2 Opportunities and challenges for the LDCs in the response to climate change

Opportunities

Despite their high vulnerability to climate change, the LDCs can obtain developmental gains in the response to climate change. In fact, there are significant opportunities for economic and social development and transformation through decisive climate action that responds to the needs and priorities of the LDCs and through deliberate just transition policies.

The majority of LDCs currently present a low-carbon profile, due to their low levels of carbon emissions. Their economies rely significantly on natural capital assets, such as agriculture, forest resources, biodiversity, tourism, minerals and oil extraction. While large economies face sizeable economic and social costs from decarbonization and the retirement and upgrading of old and inefficient infrastructure, the LDCs have the opportunity to jump-start a green economy transition by taking advantage of cleaner technologies, more sustainable know-how and practices and more integrated policy frameworks, addressing the economic, social and environmental dimensions of sustainable development (UNEP, UNCTAD and UN-OHRLLS, 2011).

In addition to deep transformations in industrial sectors,[3] climate action requires revolutionizing the land use, land-use change and forestry (LULUCF) activities, which account for little more than a quarter of total global emissions (IPCC, 2014; IEA, 2020). And it is in agriculture and LULUCF that many LDCs have a competitive advantage. This is due to their low population densities, the vast availability of arable land, renewable energy resources, low levels of fossil fuel-based energy systems and significant unused agricultural assets. In addition, the agricultural production system – which by default is mostly organic and low-input – provides LDCs with the opportunity to rapidly move towards more sustainable forms of farming, in line with growing global consumer demand for organic foods and drinks. The LDCs may thus leapfrog to climate-smart and organic agriculture and renewable energy systems. They may reap economic benefits from their vast stock of unused land and natural capital. For example, Uganda, Africa's largest producer of organic agricultural products, has shown that it is possible to create decent jobs, increase exports with higher revenues for local producers and position the African agricultural sector in the rapidly expanding global market for organic foods and beverages, estimated at US$198.1 billion in 2020. This market is projected to grow by an annual 14 per cent, to US$495.9 billion, by 2027 (Global Industry Analysts, 2021). Other large producers include United Republic of Tanzania and Ethiopia (Gueye, 2017).

The LDCs may mobilize their renewable energy potential, agricultural sector, natural capital and forests for economic growth, employment creation, social development and export (FAO, 2014; World Bank, 2016; Africa Progress Panel, 2015).

Challenges

Despite this potential, the LDCs face structural constraints along with policy and capacity challenges. The first such challenge is that climate change mitigation measures to reduce energy-related emissions – which account for just over 70 per cent of total emissions – are taken primarily by industrial countries, with consequences for economies around the world.

Globally, the ILO estimates that the energy transition will result in approximately 0.3 per cent or 18 million more net jobs worldwide by 2030, when compared to a business-as-usual scenario (ILO, 2018f). However, the global picture masks significant regional and country differences, notably for LDCs. LDCs are expected to experience very small or no net job creation, in particular if the current structure of their economies and trade remains unchanged from historical trends – that is, from heavy economic reliance on agriculture and/or fossil fuels. For example, those LDCs with a small or non-existent renewable energy industry and patent ownership will only grow, if they grow at all, from a very small base, and in absolute terms will grow only marginally in low-carbon technologies and output (ILO, 2018f).

In addition, the LDCs that are more reliant on natural resource rents are more likely to experience net employment losses or lower

3 See Chapters 3 and 4.

net employment creation. A 1-percentage-point increase in reliance on natural resources, notably fossil fuels, is associated with less than a 0.03-percentage-point decrease in net job creation. The LDCs with fossil fuel-dominant regions also tend to have relatively poor human development indicators (Montt et al., 2019).

A rapid structural change of the LDC economies towards climate-resilient and green industries could generate significant opportunities for social, economic and long-term development. However, this will depend on the countries' policy choices. The ILO Just Transition Guidelines provide a framework for such policy choices with a view to maximizing positive and minimizing negative impacts – and also to fostering the attainment of the SDGs. For this to become a reality, just transition policies must accompany strong climate policies.

5.3 A framework for just transition

Why a just transition?

The 2015 Paris Agreement on climate change notes the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities as an important dimension of the global response to climate change. "Just transition" refers to an accelerated and policy-induced transformation to a low-carbon and climate-resilient economy, which ensures that social disruptions are minimized and social and economic benefits maximized. At the centre of attention are workers, communities, consumers and other stakeholders who may otherwise be disproportionately affected (ITUC, 2017; UNFCCC, 2016).

The Guidelines for a just transition towards environmentally sustainable economies and societies for all, adopted by the ILO in 2015, provide an internationally agreed set of recommendations with practical orientation for governments and social partners on how to formulate, implement and monitor a policy framework for a just transition. They set out a common vision, identifying the opportunities in a transition to environmentally and socially sustainable economies for the creation of decent work and the challenges the transition represents. The Guidelines underscore the critical role of engaging governments, employers and workers as agents of change and social dialogue as a means of ensuring a "Just Transition for All" (ILO, 2015b).[4]

Importantly, among the basic principles of the ILO Guidelines is the notion that there is no "one-size-fits-all". Policies and programmes need to be designed in line with the specific conditions of countries, including their stage of development, economic sectors and types and sizes of enterprises. The Guidelines note that the path to environmentally sustainable development involves a wide range of efforts and activities from ILO Member States that have widely varying capabilities and abilities to act in accordance with the reality of each State. Cooperation, information-sharing and joint action within the mandate of the ILO will be invaluable in that context.

Transformation necessary for a just transition

For the LDCs to respond to the challenges of climate change and other environmental changes, including biodiversity loss, pollution and deforestation, as well as to maximize opportunities in policy responses and advance their national needs and priorities, deep economic and social transformation is indispensable. Transforming economic structures, modes of production, trade patterns and social behaviour can best be achieved within a comprehensive and coherent policy framework for a just transition, leaving no one behind.

To limit global warming to 1.5°C or well below 2°C will require the energy system to radically change,

4 As a precondition to ensuring a transition that is just, workers' and employers' organizations and representatives of the informal sector and government need to engage in social dialogue. The ILO has developed a methodology and network of Institutions for Green Jobs Assessment (GAIN) to provide the quantitative and qualitative evidence for such social dialogue to guide joint actions for evidence-based policy planning. A just transition should further adhere to international labour standards that offer a sound framework for addressing the challenges in the transition to sustainability (ILO, 2017d). See also Chapter 7.

becoming carbon-neutral by 2050 and winding down most fossil fuels by 2030 (IEA, 2020). In the absence of a comprehensive managed decline in temperature, economic diversification and a just transition strategy, this may negatively affect a large number of workers and communities in highly disruptive ways. Their opposition may hinder the transition altogether. There is thus an urgent need for scaling up policy support to smooth out the shift towards a low-carbon economy (Robins, 2020; Klinsky and Winkler, 2018).

In fact, the transition away from fossil fuels could come at a high social cost for some LDCs. It has been estimated that a transition consistent with a 2°C pathway would lead to at least 6 million job losses in fossil fuel-dependent sectors. At the same time, some 12 million jobs could be created in the renewable energy industry, depending on the policy choices of LDCs and other countries (ILO, 2018g; IRENA, 2020).

The agricultural sector is expected to expand in a 2°C pathway scenario, as organic and climate-smart production systems tend to create more employment opportunities than the conventional alternatives. Organic fertilizer production and pest control systems, and climate-smart agricultural practices require a higher labour share and thus may benefit the LDCs in particular. Globally, some half a million additional net jobs could be expected under a conservative scenario (ILO, 2018g).

Governments have been increasing their attention and commitments to just transitions. The Solidarity and Just Transition Silesia Declaration, adopted at the Katowice Climate Change Conference in 2018, was signed by more than 50 Heads of State (UNFCCC, 2018). The concept has gained further traction driven both by ethical considerations and by strategic opportunities and imperatives (Atteridge and Strambo, 2020).

In recent years, a number of ILO Member States have considered the development of national plans and strategies for a just transition. At the United Nations Climate Action Summit 2019, 46 countries (including four LDCs) made commitments to support a just ecological transition. This would involve formulating national plans for a just transition through social dialogue and creating decent work through green jobs, thus enabling ambitious action towards a sustainable future of work. With the increased policy engagement on just transition, the UN Secretary-General has called on "all countries to embrace the ILO Guidelines for a Just Transition towards Environmentally Sustainable Economies and Societies for All and adopt them as the minimum standard to ensure progress on decent work for all".[5]

5.4 Key elements of just transition policies for the LDCs and country examples

The ILO Guidelines present a clear roadmap to just transition and lay out nine concrete policy areas in which to act: growth and macroeconomic policies, industrial and sectoral policies, enterprise, skills, occupational safety and health, social protection, labour market policies, rights, and social dialogue and tripartism. They pay particular attention to unemployed workers and workers at risk of unemployment in communities and industries affected by climate change, resource degradation or structural change, including those in the informal economy.

Macroeconomic and growth policies – such as well-designed green fiscal policy, market-based instruments, public procurement and investments – are part of a toolbox of economic policies to link climate, employment and economic development. The Democratic Republic of the Congo, for example, holds the largest standing stock of carbon within its Congo Basin rainforest, after Brazil's Amazon. It may sell carbon credits and, probably, future biodiversity credits to countries and multinationals required to offset non-abated emissions. Neighbouring Gabon, for example, packaged 6 per cent of its rainforest into an international credit scheme and bond, which may provide a blueprint for other LDCs with large stocks of natural capital. Yet another example is to be found in Rwanda, which successfully turned its natural capital, the Rwenzori Mountain reserve and its gorillas, into a stable economic

5 The UN Secretary-General issued such calls during his video message to the Powering Past Coal Alliance Summit on 2 March 2021 and in his report to the General Assembly, "Our Common Agenda" (UN, 2021c, p. 57).

income stream of an annual US$300 million in government revenues from nature tourism (FT, 2021).

Investments in climate proofing and climate-resilient infrastructure could further stimulate economic development and address LDCs' infrastructure deficit. Such investments could build societal resilience and create jobs in construction and related sectors. LDCs' current economic and social infrastructure of roads, ports, airports, railroads, water and sanitation, electricity and communications, hospitals and schools is already insufficient to achieve the SDGs. Linking climate action to development could increase levels of investments, which currently remain below what is required. Employment in the construction sector – particularly in sub-Saharan Africa – is far lower than in other regions of the world. An increase in investments as a share of GDP could thus boost infrastructure, economic development and job creation. Bringing the LDCs, and particularly in Africa, up to par with other countries could easily double the number of people working in the sector, which has one of the highest employment multipliers (ILO, 2018f). Investments in climate-resilient infrastructure, housing, schools and hospitals have specific beneficial economic and social impacts when based on local resource approaches. Local participation in planning with the utilization of locally available skills, appropriate technology, materials and work methods has proven to be an effective and economically viable approach to infrastructure works and jobs creation. Investments that integrate human capital development will foster local skills and capabilities, maximize the use of local enterprises, value traditional knowledge and adopt gender-responsive approaches. Technology choices need careful consideration; labour-intensive and environmentally friendly construction methods should be selected where possible (ILO, 2018f).

Industrial and sectoral policies – such as financial incentives and regulations to stimulate green agriculture, clean energy, green buildings, recycling, green manufacturing, nature tourism and public transport – may further promote employment and growth in LDCs. For example, agriculture-related sector policies, such as natural resource management and nature-based solutions for climate change adaptation or disaster risk reduction – offer significant potential for employment creation. Local approaches often provide the most cost-efficient way to adapt or reduce disaster risk using local means, knowledge and practices (IUCN, 2020a; 2020b).

However, some benefits take time to materialize, and thus *rapid action for immediate benefits* is needed. A carbon tax for the richest, for example, could pay dividends and transfers to the poorest with immediate effect. The Just Transition Fund established by the European Union (EU) uses the proceeds from taxing CO_2 pollution (which is progressive because the richer the household is the more CO_2 it emits and hence pays) to finance economic development and a structural change away from the fossil fuel industries in regions suffering from the socially negative effects of fossil fuels . Public employment programmes – such as Ethiopia's Productive Safety Net Programme (PSNP) – could directly employ rural un- and underemployed youth with direct effect. Other examples include reforestation and afforestation to regulate water flows and protect against landslides, large-scale watershed restoration to improve water quality and availability for entire regions, and coastal mangrove restoration to protect against storms, erosion and sea level rise (Reid et al., 2019). ILO's Rebuilding the Forests project in Mali, for example, contributes to the preservation of forest resources through labour contracts between the forestry department and local villagers (ILO, 2013b).

With respect to ***employment and labour market policies***, an informal and unorganized labour force is a defining characteristic of the LDCs. Two billion people – more than 61 per cent of the world's employed population – make their living in the informal economy, with shares as high as 90 per cent in the LDCs.[6] The predominance of informal workers in many of these countries, along with poorer human development indicators, will require just transition planning for broad-based socio-economic development to ensure that development outcomes form part and parcel of Just Transition policymaking, including food, energy and water access, and poverty eradication. The possible establishment of just transition funds, public employment programmes and transfers from carbon tax revenues should target informal workers, youth and women most in need.

MSMEs are the main engines of job creation in most countries and are key drivers of private sector growth and building resilience for effective adaptation solutions (Chapter 4). For example, in Zambia, in collaboration with the ILO Green Jobs Programme Zambia, a green construction industry was initiated, with MSMEs creating at

6 See also Chapter 1.

least 5,000 green jobs, particularly for young people. An enabling business environment is key to such private sector growth that supports green entrepreneurship and greening of business. By upgrading skills, providing access to finance and introducing modern local and green technology – such as compressed earth blocks and solar power, which are relatively inexpensive – a diversified green economy with local jobs can result (ILO, 2018f).

Skills policies are a key enabling factor in any climate-friendly and green economic restructuring. Sound technical and vocational training systems are needed to address existing skills shortages (ILO, 2019d). In Bangladesh, for example, the 2008 national renewable energy policy promotes solar systems to address the energy poverty of some 90 million people – half the population – who lack access to electricity. In order to meet the massive need for qualified technicians, the Government, in partnership with the ILO and Grameen Shakti, the technology and micro-credit provider, introduced technical and vocational training and standardized skills acquisition. Today, more than 100,000 quality jobs have been created and more than 1.8 million systems installed.[7]

As will be discussed in more detail in Chapter 6, *social protection systems* are key to enabling workers to transition from declining industries to sustainable jobs, such as from coal to clean energy. Social protection is also crucial in protecting workers from the impacts of climate change (e.g. droughts) and climate response measures (e.g. the removal of fossil fuel subsidies). The core set of international labour standards on social protection covers nine contingencies, such as health, unemployment and old age pension, to support the transition. For example, the LDCs reliant on coal may learn from China, which expects to lay off 1.8 million workers in the coal and steel industries and which put in place social protection systems to smooth the transition. The United Nations High Commissioner for Refugees (UNHCR) forecasts up to 1 billion environmental migrants by 2050, many from LDCs; environmental migration is the single most important cause of migration.[8] Social protection floors promoted by the ILO Social Protection Floors Recommendation, 2015 (No. 202), linking environmental and social objectives, are particularly powerful mechanisms. Ethiopia's PSNP, aimed at providing work in climate change adaptation, is one such example.[9]

Linking social protection and *public employment programmes* to climate change adaptation has other benefits, including employment generation, water security, human health, livelihoods, disaster risk reduction and climate change mitigation. Such action increases resilience and productivity in key sectors such as agriculture, fisheries, forestry and tourism. This in turn creates jobs, generates income and supports livelihoods, particularly for vulnerable groups (Reid et al., 2019).

Green infrastructure approaches (building with nature, such as restored mangroves) can protect coastal assets and communities in coastal LDCs like Cambodia and Bangladesh. In some circumstances they can even replace or complement built sea walls or breakwaters. Similarly, riverbank regreening provides an alternative to river training in the context of reducing disasters and downstream flood risks. Such adaptation and disaster risk reduction measures – if implemented with locally based resource approaches – can be effective and can generate significant employment for local communities (Conservation International, 2019; UNEP, 2021). Following Hurricane Jeanne in 2004, local communities in Haiti were trained and continue to plant vetiver, a sort of grass, for water retention services and reduction of disaster risk from flooding. An additional benefit for the communities derives from the associated commercial use and income (ILO, 2018b).

Significant job opportunities arise when such approaches are integrated into large-scale initiatives, such as public employment schemes and *regional interventions*. The Great Green Wall for the Sahel and Sahara Initiative, an initiative of the African Union, reportedly has the potential to create 10 million environmentally oriented jobs while also restoring degraded land, saving biological diversity and building the resilience of the Sahelian people. Local technologies, developed by local workers and enterprises, can lead to spillovers from soil scientists, plant breeders, irrigation specialists and livestock specialists to other economic sectors. In Niger, for example, farmers have developed soil and water conservation practices to ensure productivity and extend agricultural activities by growing vegetables outside the rainy season (Seydou, 2020).

7 Grameen Shakti, https://www.gshakti.org/.

8 See UNHCR (2017) and UNHCR (2020b).

9 Ethiopia Productive Employment Programme, https://essp.ifpri.info/productive-safety-net-program-psnp/.

Occupational safety and health (OSH) policies should ensure that existing jobs in recycling and new occupations such as in the solar industry are decent, safe and healthy. OSH standards and training are supported by the ILO. For example, of the globally estimated 19–24 million workers in waste management, only around 4 million are formal, with safety regulations in place. Examples from emerging economies such as Brazil and Sri Lanka show that waste pickers can be organized into cooperatives, leading to formalization, improved income and OSH for workers (ILO, 2018g).

5.5 The way forward to a just transition in LDCs

The LDCs are among the countries least responsible for the global climate and environmental crisis facing the world today. However, by default, they have found themselves at the forefront of the battle, owning to the negative impacts of environmental change on their economies and societies, their high vulnerability and the additional challenges posed by the economic and social transformations indispensable to sustainable development.

The specific needs and concerns of LDCs in the face of climate change remain unaddressed to the full extent required, whether with respect to external financial requirements, support for capacity-building and accessing technology and markets, or with respect to the benefits from emerging opportunities in the green economy.[10]

Yet despite their lack of sufficient resources, the LDCs present numerous examples of innovative policy approaches and promising business solutions and community initiatives. The scale and speed of transformation required of the LDCs today calls for much more investment, drastic policy change and international cooperation.

Comprehensive and coherent policy frameworks are essential to pursuing and achieving simultaneously the goals of decent work, climate adaptation and resilience, as well as a just transition for all. Institutional coordination, involving policymakers in the fields of economics, development, trade, labour, environment and education, is vital to synergy. Central to the context of LDCs is their population dynamics, with a large proportion of young people posing both an opportunity and a challenge for policymaking.

The ILO tripartite structure and its ability to bring together representatives of governments, employers' organizations and workers' organizations is uniquely valuable in forging the strong and broad consensus that the most vulnerable countries need in order to undergo such profound and drastic changes within relatively short time horizons.

10 These needs and concerns have been reiterated and acknowledged by the G20 Rome Leaders' Declaration of 2021, which states: "We also commit to scale up adaptation finance, with a view to achieving a balance with the provision of finance for mitigation to address the needs of developing countries including by facilitating mechanisms, conditions and procedures to access available funds, taking national strategies, priorities and needs into account. We recall and reaffirm the commitment made by developed countries, to the goal of mobilizing jointly USD 100 billion per year by 2020 and annually through 2025 to address the needs of developing countries, in the context of meaningful mitigation actions and transparency on implementation and stress the importance of meeting that goal fully as soon as possible. In this regard, we welcome the new commitments made by some of the members of the G20 to each increase and improve their overall international public climate finance contributions through to 2025 and look forward to new commitments from others" (G20, 2021, para. 25).

Part III

Investing in people and good governance

Chapter 6

Social protection in LDCs

6.1 Introduction

The COVID-19 health and economic crisis hit the world at a time when many developing countries had not yet embarked on a path of structural transformation needed to attain the SDGs by 2030. Most LDCs were still struggling to address the social, economic and environmental challenges to structural transformation, which have now been exacerbated by the pandemic and its repercussions. This combination of circumstances has further raised the stakes for social protection. Despite positive trends in some LDCs, the group as a whole still faces significant challenges in closing gaps to social protection coverage, adequacy and comprehensiveness, and making the human right to social security a reality for all. Social protection systems in LDCs operate in a context of high, and sometimes growing, levels of informality and inequality, marked by limited fiscal space, institutional fragmentation and competing priorities, as well as climate change, digital transformation and demographic shifts. The proven capacity of social protection to reduce and prevent poverty, and to address inequality, is thus as relevant as ever.

This chapter looks at overall needs and the progress made in improving social protection systems and building social protection floors in LDCs, drawing largely from the wealth of evidence of the ILO *World Social Protection Report* and its regional companion reports (ILO, 2021f; ILO, forthcoming b; ILO, forthcoming c; ILO, forthcoming d; ILO, forthcoming e; ILO, forthcoming f). It highlights the role and function of social protection in improving the socio-economic conditions of people in LDCs by addressing economic insecurity, persistent poverty, rising inequality, extensive informality and a fragile social contract. It also gives an account of the impacts of COVID-19 on the needs of LDCs for effective social protection responses, including a global public health response for supporting access to vaccines and healthcare, thus ensuring a human-centred recovery. It shows how national efforts to improve social protection can be bolstered by targeted and appropriate international support and stronger international fiscal and financial systems.

6.2 The state of social protection in the LDCs and the social protection policy response to the COVID-19 pandemic

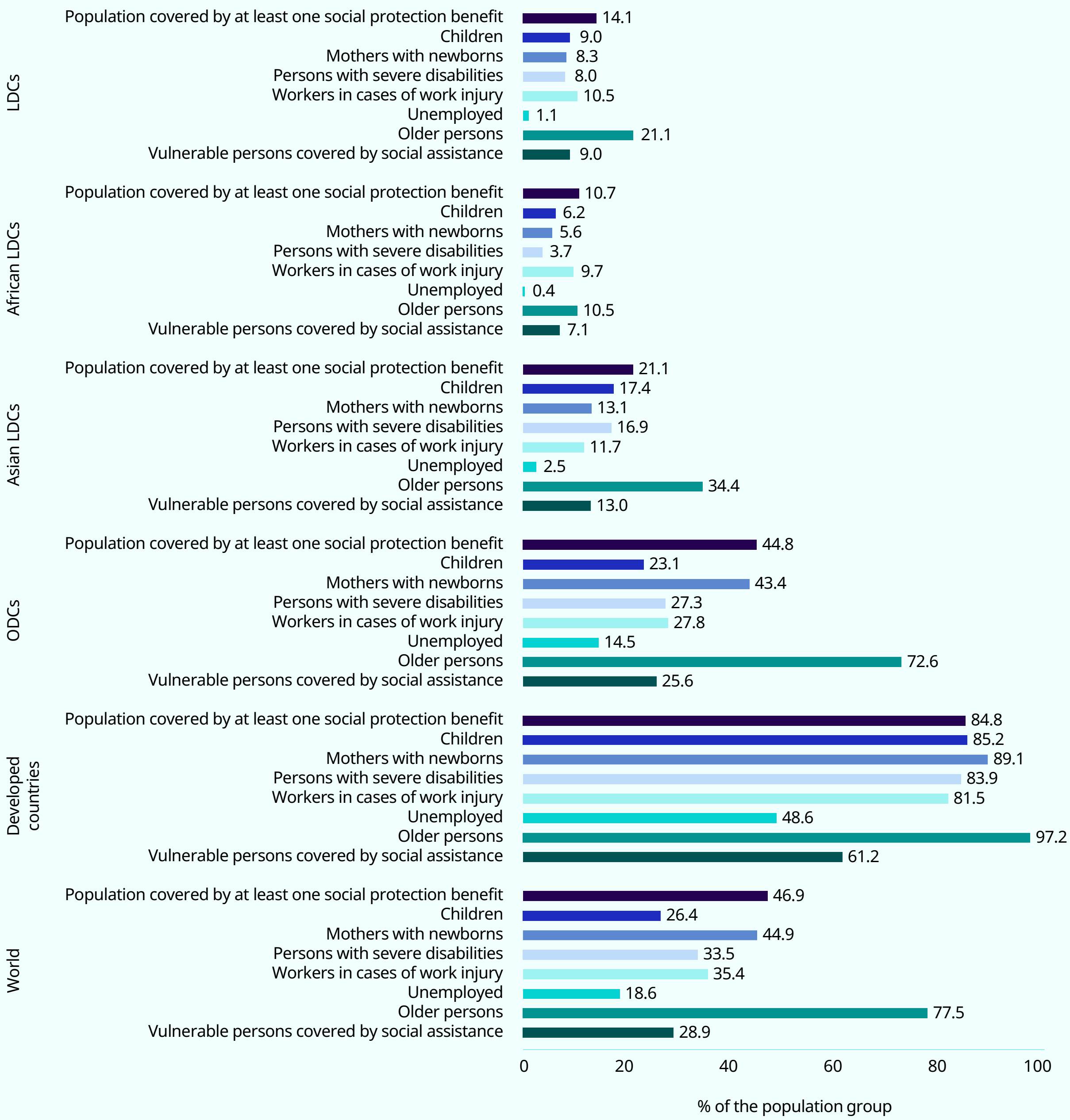
Social protection in the LDCs

Despite progress in some countries, only a small proportion of the population in the LDCs (14.1 per cent) is covered in at least one area of social protection (excluding healthcare and sickness benefits), while the large majority (85.1 per cent, or 878 million people) is excluded from social protection coverage altogether (figure 6.1).

Only 9.0 per cent of children in LDCs receive child or family benefits that can play a major role in supporting their development. Despite the positive developmental impacts of supporting childbearing women, only 9.0 per cent of women with newborns receive a cash maternity benefit that would provide them with the income security necessary to recover from childbirth and care for their babies. A mere 1.1 per cent of unemployed people receive unemployment cash benefits in the event of job loss, largely owing to the absence of unemployment protection schemes in LDCs. Less than one in ten persons with severe disabilities (8.0 per cent) receive a disability benefit that would support them in meeting disability-related costs. Similarly, only 10.5 per cent of the labour force is protected through employment injury insurance in case of work injury. Despite the extension of pension coverage in some countries, only 21.1 per cent of people above retirement age receive a pension. Moreover, social assistance cash benefits are limited and cover only 9 per cent of vulnerable persons, comprising children, people of working age and older persons not otherwise protected by contributory schemes. Lastly, and of particular relevance during the current pandemic, fewer than one in five people are protected by social health protection in LDCs. Despite renewed commitments linked to SDG target 3.8 on universal health coverage, these countries have not benefited from global efforts to expand social health protection coverage, which currently protects two thirds of the global population. Such efforts have paid off in upper-middle-income countries, where coverage rates are now comparable to those of high-income countries. This lack of protection against healthcare costs is compounded by major coverage gaps in cash sickness benefits, leaving people to bear the costs of both healthcare services and income loss during sickness (ILO, 2021f).

The low coverage of social protection in LDCs is due not only to low government expenditure, but also to limited participation in contributory schemes, especially by women. Only 6.2 per cent of the labour force in the LDCs (and only 4.2 per cent of women in the labour force) contribute actively to a pension scheme, as compared with 53.1 per cent (55.6 per cent of women in the labour force) in other developing countries (figure 6.3). Similarly, only 4.2 per cent of the total working-age population (6.2 per cent of men

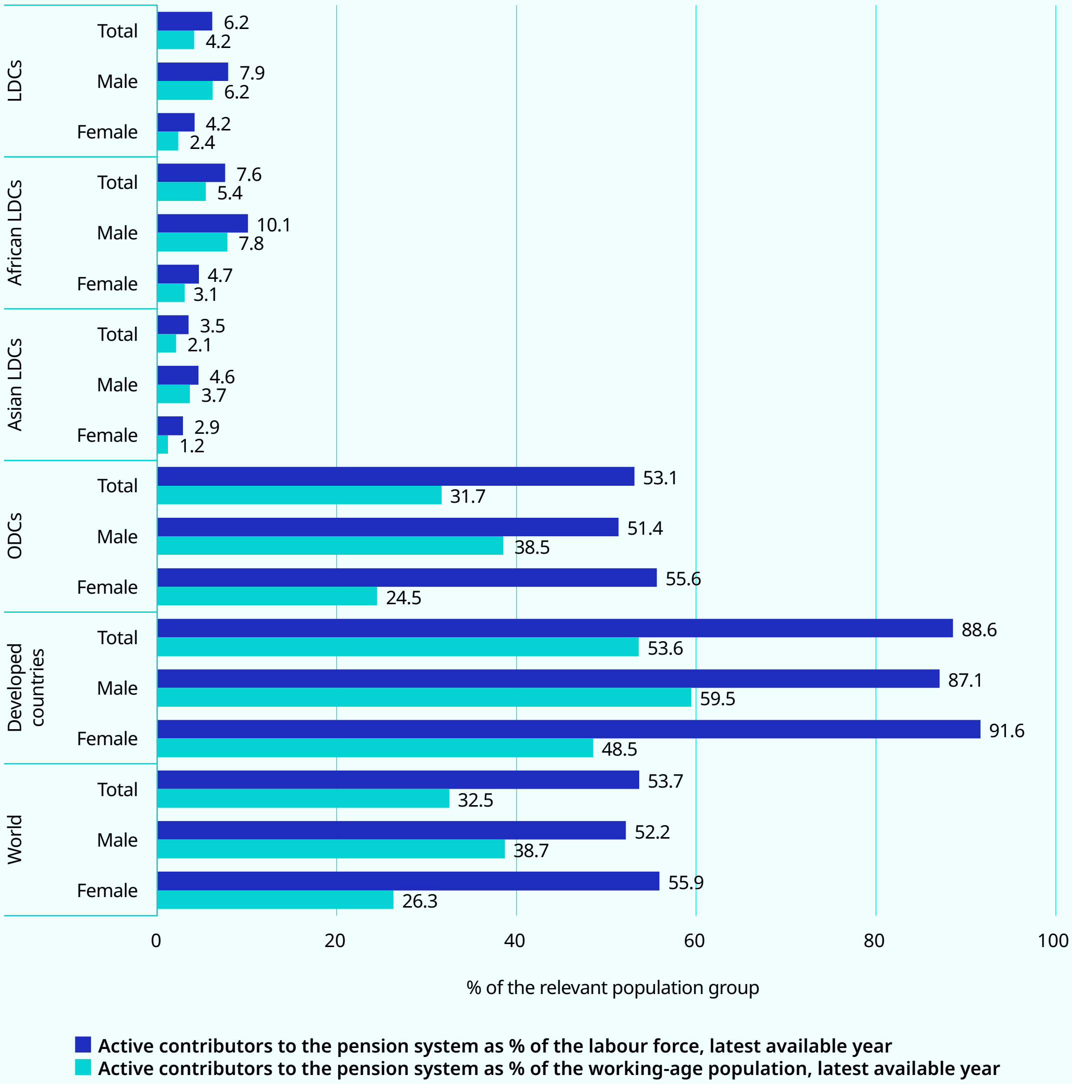
Figure 6.1 SDG indicator 1.3.1 Effective social protection coverage (%) by population group, 2020 or latest available



Source: ILO. World Social Protection Database, based on the Social Security Inquiry (SSI). https://wspd.socialprotection.org.

Note: Regional estimates are weighted by a relevant population group. See Annex 2 of the *World Social Protection Report 2020-22* for methodological explanation.

Figure 6.2 Active contributors to a pension scheme as a percentage of the labour force and the working-age population, 2020 or latest available year



Source: ILO. World Social Protection Database, based on the Social Security Inquiry (SSI). https://wspd.social-protection.org.

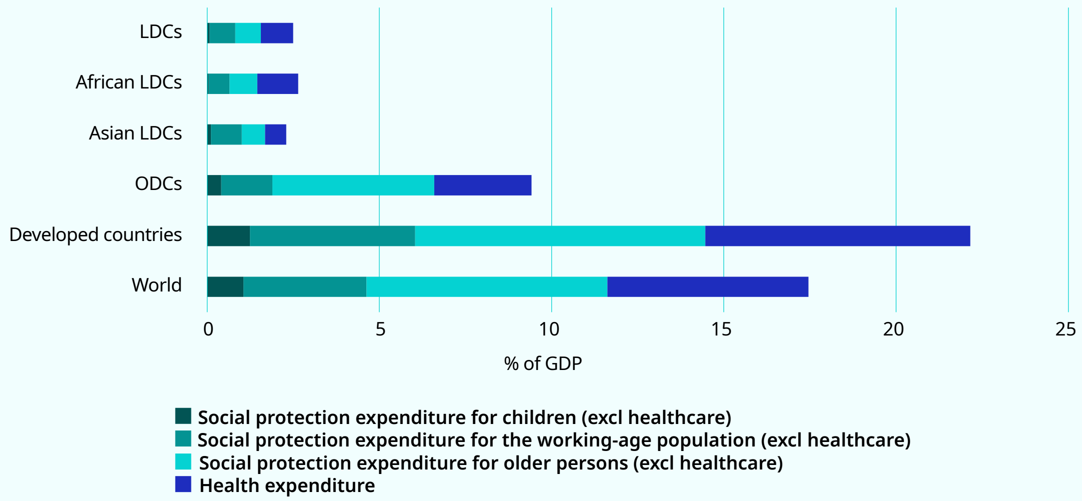
Note: Regional estimates are weighted by labour force and working-age population, respectively. See Annex 2 of the *World Social Protection Report 2020-22* for methodological explanation.

and just 2.4 per cent of women) contribute to a pension scheme.

The low level of social insurance coverage in today's working-age population limits LDCs' capacity to guarantee adequate social protection to their populations today and tomorrow. Additional efforts are necessary to extend the coverage to those in the informal economy and to facilitate their transition to the formal economy (ILO, 2021g; ILO, 2021h).

The low level of coverage is also associated with the limited capacity of governments to mobilize sufficient resources amidst low levels of productivity and high levels of informality and, also in many cases, weak institutional capacities to develop a full-fledged social protection system, along with weak governance structures. The LDCs spent on average only 1.14 per cent of GDP on social protection excluding healthcare and 0.94 per cent on healthcare – together accounting for only 2.08 per cent of their GDP, less than a tenth of social protection expenditure in advanced economies. Comparable figures for ODCs are 7 per cent and 2.82 per cent respectively. In view of the LDCs' demographic structure (see Chapter 1), the low level of social protection expenditure for children – only 0.08 per cent of GDP – is particularly striking and points to the need for sustained investment in the social protection of children and youth in order to break the vicious cycle of poverty (figure 6.3). Higher investments in universal social protection for children are an important precondition of social and economic development and a key policy priority for the elimination of child labour (ILO and UNICEF, 2019, 2021; ILO, 2021f).[1]

Figure 6.3 Expenditure on social protection and healthcare, % of GDP, latest available year



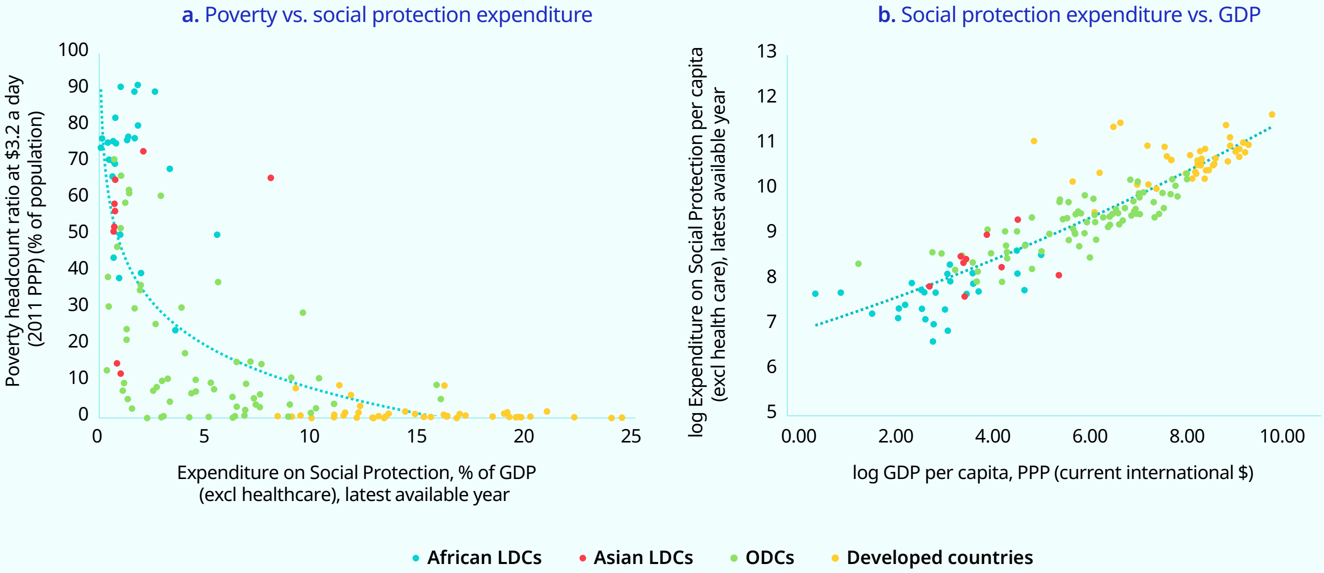
Source: ILO. World Social Protection Database, based on the Social Security Inquiry (SSI). https://wspd.social-protection.org.

Note: Regional estimates are weighted by GDP. See Annex 2 of the *World Social Protection Report 2020-22* for methodological explanation.

1 See also Chapter 7 on elimination of child labour.

In view of the limited social protection coverage, it is not surprising that LDCs' capacity to mobilize social protection systems for the reduction and prevention of poverty is limited as well (figure 6.4).

Figure 6.4 Expenditure on social protection per capita and GDP per capita



Sources: ILO, World Social Protection Database; World Bank World Development Indicators (data accessed January 2021).

Note: GDP per capita is international US dollars.

Figure 6.4, panel A shows the inverse relationship between poverty and expenditure on social protection and how LDCs are unable to offset their high levels of poverty given the low levels of social protection expenditure. Figure 6.4, panel B shows how expenditure on social protection per capita increases with GDP per capita across countries. The shape of this latter correlation also implies that richer countries have higher levels of expenditure on social protection as a percentage of GDP than poorer countries. Although social protection can potentially mitigate poverty, provide income to people in vulnerable situations and support growth, developing countries and LDCs in particular are limited in their capacity to use it as an effective instrument for socio-economic development.

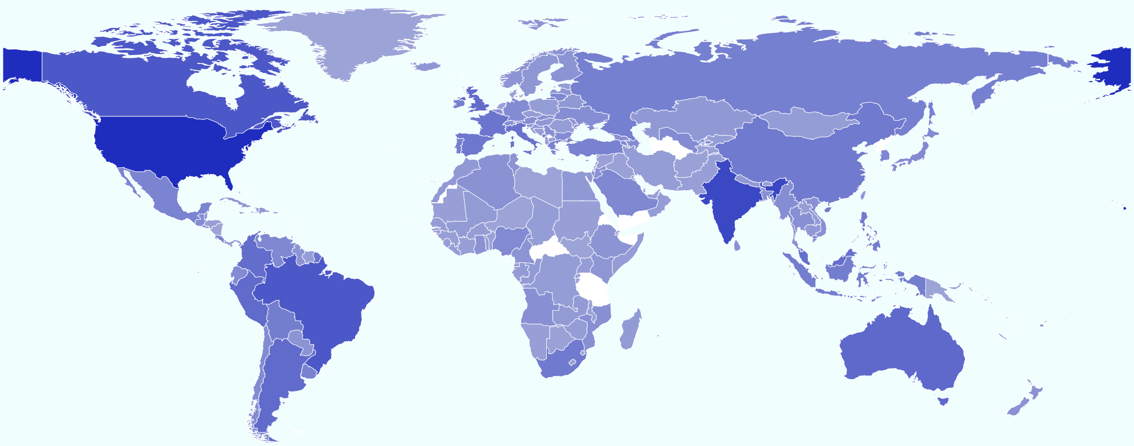
The social protection policy response to the COVID-19 pandemic in LDCs

The pandemic has led to greater inequality within most countries, as indicated in Section 6.1, and placed great stress on all countries' social, economic and political systems. Many countries responded quickly to combat the pandemic and took exceptional measures to stimulate their economies and offer more social protection. More than any recent economic crisis, the pandemic and its social and economic consequences have reinforced the need for comprehensive social protection systems. In 2020, virtually all countries and territories took some action. Countries with solid social protection systems in place before the crisis could rely on pre-existing statutory schemes that automatically fulfilled their protective function, while injecting further financing where needed and focusing on emergency programmes to help groups in need of additional support (ILO, 2020a). Countries with weaker social protection systems faced greater challenges. While they were also able to rely on pre-existing statutory schemes, many of them had to urgently fill gaps by introducing new measures or extending the coverage, comprehensiveness and adequacy of existing benefits, and also to adapt delivery mechanisms to public health objectives. The measures adopted covered all functions of social protection. Approximately three quarters of them comprised non-contributory responses, the remainder being delivered through contributory schemes (ILO, 2021f).

Figure 6.5 gives a global picture of the special social protection measures taken since the beginning of the pandemic. Many LDCs with relatively weak social protections systems (as shown in Section 6.2.1) could not muster a fiscal response comparable to that of richer countries, as their economies were also severely hit by the economic fallout from the pandemic, and external support did not match the tremendous challenges they have faced since the first COVID outbreak (ILO, 2020l; ILO, 2021f; van der Hoeven and Vos, 2021). However, many of them adopted measures to provide support to previously unprotected categories of their populations, partly funded by external support (ILO, 2020m; ILO, 2020n). Bangladesh, Ethiopia, Somalia and Togo responded particularly rapidly (see box 6.1).

▶ **Figure 6.5 Countries with social protection responses to the COVID-19 pandemic**

Colours range from minimum number of measures (light blue) to maximum (dark blue)



Source: ILO, online Social Protection Monitor https://www.social-protection.org/gimi/ShowWiki.action?id=3426, accessed 19 September 2021.

▶ Box 6.1 Some examples of rapid social security protection responses to the COVID-19 pandemic

Several LDCs have introduced temporary social protection measures in response to the crisis in order to facilitate access to healthcare, protect jobs and mitigate income loss. Many of these measures have focused on extending coverage, at least temporarily, to workers in the informal economy.

For example, Togo implemented the three-month-long Novissi mobile cash transfer programme – via a phone app – for informal economy workers, reaching over half a million workers within a month. Ethiopia amended its productive safety net programme to allow participants to receive a three-month advance payment and also waived work obligations for that period; a similar income support benefit has been extended to other low-income groups. Somalia launched the Baxnaano programme to provide – for the first time – cash transfers to 1.2 million people, laying the foundations for social protection systems. Elsewhere, Tuvalu, with donor support, has implemented a similar emergency universal basic income response, providing just over US$17 a month to all citizens (approximately 11,500) for the duration of the crisis (RNZ, 2020). In Yemen, 1.42 million recipients of the emergency cash transfer programme received a one-time COVID-19 top-up of 45 per cent of their quarterly base amount.

Such efforts often relied on the availability of external funds, such as solidarity or "basket" funds co-financed by governments and international partners – for instance in Bangladesh and Togo – sometimes with longer-term solutions already in mind.

Going forward, it is not yet clear whether additional efforts to extend coverage, along with policy and administrative innovations, will help to reinforce social protection systems and to extend coverage in a more sustainable way. Reflections on this issue are ongoing in some countries, and the question of whether they will lead to a lasting improvement in social protection for the population depends on political commitment and the availability of resources (ILO, 2021f; ILO, 2020l).

However, despite some rapid responses in LDCs, the pandemic has had particularly harsh effects on vulnerable groups and those lacking social security coverage, owing to pre-existing social inequalities. Intersecting health and social inequalities and increased morbidity (comorbidities) accounted for disproportionately high rates of infections and fatalities among ethnic minority communities (Razai et al., 2021) and lower-income groups (Marmot et al., 2020). Moreover, pre-COVID-19 austerity increased the virus's impact by weakening these population groups even before the crisis erupted (Marmot et al., 2020).

Several other groups have been severely and disproportionately affected by the pandemic. Indigenous peoples and persons with disabilities found that pre-existing barriers and inequalities were further accentuated by COVID-19 (De Schutter, 2020; Lustig et al., 2020; UNPRPD et al., 2020). Migrants and forcibly displaced persons, many of them from LDCs, were among the first to lose their jobs during the pandemic and face significant barriers to re-entering the workforce. They are also coping with multiple hurdles to social protection because of their lack of citizenship or legal residency status, and in numerous cases also because of the informal nature of their employment. Many are compelled to return to their countries of origin or to live in unsanitary and overcrowded conditions, increasing their susceptibility to contracting the virus (ILO, 2020o).

6.3. Harnessing the multiple roles of social protection for LDCs

Cross-cutting driver of sustainable development

COVID-19 has acted as a stress test for social protection systems around the world, but particularly in LDCs. The large pre-existing gaps in coverage, comprehensiveness and adequacy of protection have widened. There is real concern that the health, economic and social repercussions of the pandemic may derail progress towards the 2030 Agenda and the realization of human rights. The United Nations is predicting (UN, 2020) that decades of progress in reducing poverty and improving living standards could be reversed, and there is emerging evidence of significantly reduced life expectancy across all countries. Such regression is likely to threaten in particular the lives of those living in LDCs and those left furthest behind, and could worsen their situation. In view of this challenge, the UN Secretary-General has called for concerted efforts to deliver for people and the planet, emphasizing the role of universal social protection (UN, 2021d).

To live up to their promise, social protection systems in LDCs need to be vigorously reinforced to support an inclusive and sustainable recovery, promote social justice and realize the human right to social security for all, thereby placing progress towards the SDGs back on track and indeed accelerating it. Investing in social protection in LDCs is an essential lever for the SDGs, contributing to multiple goals, in particular the elimination of poverty (SDG 1) and hunger (SDG 2), the promotion of good health and well-being (SDG 3), gender equality (SDG 5), decent work and economic growth (SDG 8), reduced inequalities (SDG 10), climate action and just transition (SDG 13), and peace, justice and strong institutions (SDG 16) (figure 6.6).

Figure 6.6 Social protection in the 2030 Agenda: Relevant goals and targets

Source: ILO, 2021f, *World Social Protection Report 2020–22*.

Investments in universal social protection will be essential to improving people's living standards and preventing or at least alleviating poverty, as demonstrated by the fact that higher social protection expenditure is associated with lower poverty levels (see figure 6.4a). Strengthened social protection systems will help put LDCs on a path to higher levels of economic development and strong institutions, which are closely interrelated (Barrientos, 2010). Achieving this objective by 2030 requires strong political will, translated into effective strategies and policies, legal frameworks and sustainable financing mechanisms. Less than nine years remain to achieve the 2030 Agenda, including SDG targets 1.3 and 3.8. In a world where the majority of the population today has no, or insufficient, access to social protection and is locked in a vicious cycle of vulnerability, poverty and social exclusion, it is imperative that individual countries and the global community step up efforts to make the right to social security a reality for all.

Support for structural transformation

Reinvigorated social protection systems are a key ingredient of an inclusive recovery and a just transition towards a more digital, greener, fairer and human-centred future of work. As a facilitator of change, social protection systems support structural transformations, contributing to the promotion of decent, productive and freely chosen employment, providing a conducive environment for sustainable enterprises while supporting those hitherto left behind. In other words, social protection is essential if a human-centred future of work is to become a reality. In order to fulfil this important transformative function, national social protection systems need to adapt to new realities, in particular by ensuring that workers in all forms of work are adequately covered. This requires, as a matter of priority, building a social protection floor that as a minimum guarantees access to essential

Box 6.2 How social protection plays an important role in structural transformation

- Social protection facilitates investment in human capabilities by supporting better nutrition, hygiene and access to healthcare, education and skills development; increasing household incomes; reducing poverty and inequalities; and promoting social cohesion (ILO, 2014; ILO, 2017e; ILO, 2021e; Bastagli et al., 2016).
- By helping people to manage risks better, social protection can foster innovation and entrepreneurship, especially among people living in poverty (Social Protection Floor Advisory Group, 2011; Mathers and Slater, 2014).
- Social protection also contributes to the productivity and competitiveness of enterprises, as well as to business continuity, as amply demonstrated during the COVID-19 crisis (Lee and Torm, 2017; Torm, 2019; ILO, 2020p).
- Social protection can reduce precautionary savings, stimulate aggregate demand and have significant effects on economic growth, particularly through countercyclical spending during economic downturns (UNCTAD, 2020c). It can help channel resources into rural communities and stimulate local markets, especially where the cash-based economy is underdeveloped (Davis et al., 2016).
- Social protection, and social policies more broadly, account for a sizeable sector of the economy that provides substantial employment opportunities, especially for women, in the areas of healthcare, childcare and long-term care, social work and social security administration (ILO, 2018h).
- By smoothing life and work transitions and enhancing labour market mobility (see Section 5.1.2), social protection systems contribute to the better functioning of labour markets, fostering productivity gains and the creation of decent jobs (ILO, 2021f).

healthcare and a basic level of income security throughout the life course for children, for persons of working age unable to earn sufficient income, and for those in old age. It also requires coordinated employment and social protection policies with a view to ensuring transitions to formal employment accompanied by higher levels of social protection for as many people as possible, as soon as possible. Establishing such two-dimensional social protection systems reflects a transformational approach that puts people at the centre of policies.

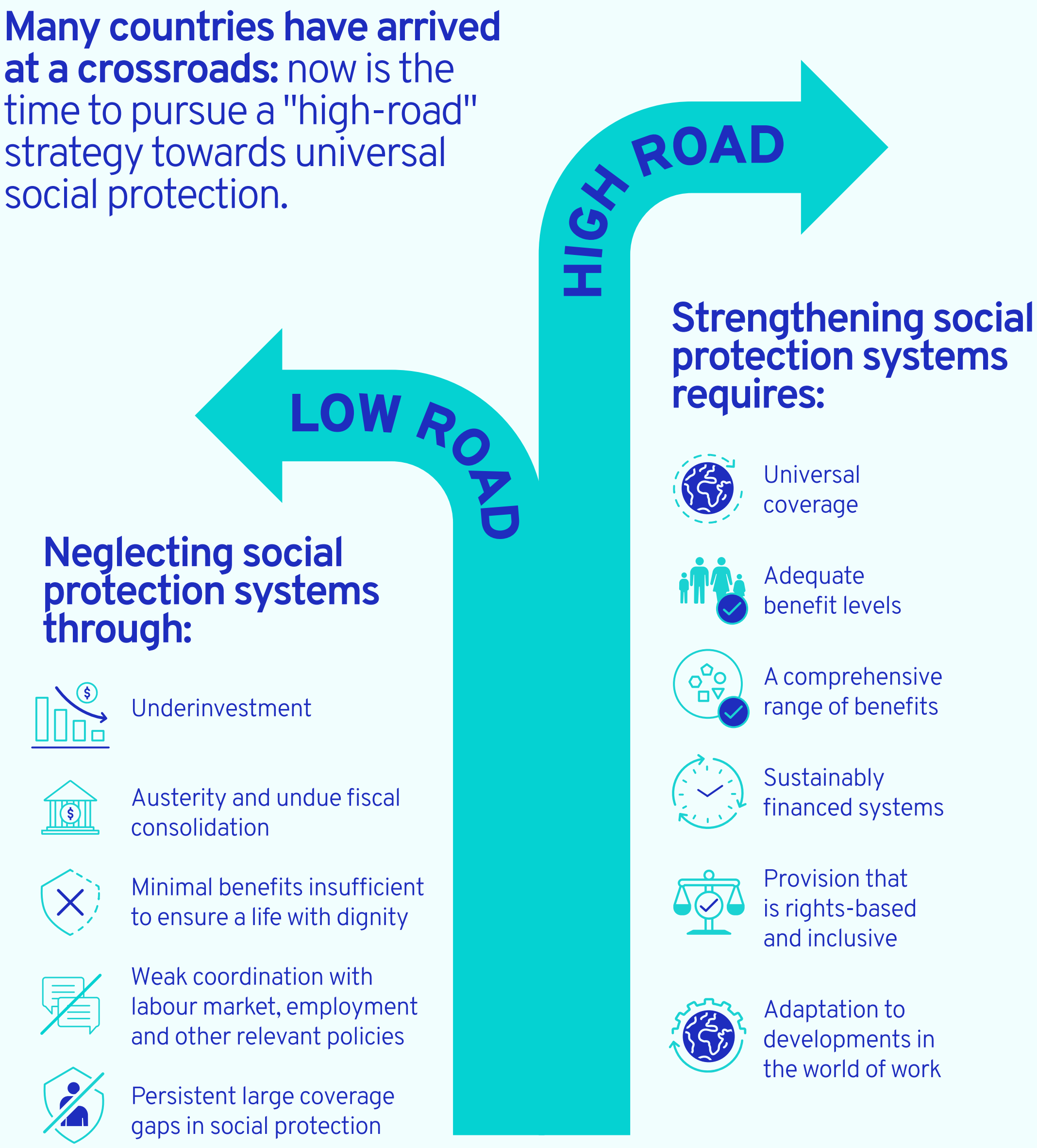
An inclusive recovery from the COVID-19 crisis requires more than lifting lockdown measures. It necessitates a shift in policymaking to tackle persistent obstacles to inclusive growth, including poverty, informality, low productivity and inequality. Inclusive social protection policies are a major part of coordinated efforts to put full employment and decent work at the centre of macroeconomic, trade, monetary and fiscal policies (UNCTAD, 2020c; ILO, 2021d; ILO, 2021i). The IMF recognizes the need to safeguard social expenditure and to invest in social protection systems as automatic economic stabilizers (IMF, 2019; IMF, 2020). Social protection can play an essential role in fostering an inclusive recovery and the productive transformation of the economy, in particular structural shifts to higher-productivity activities (ILO, 2021i; ILO, 2020n; UNCTAD, 2020c). It can do this through three broad economic channels: by enhancing labour supply, strengthening and stabilizing aggregate demand, and improving the allocation of labour (box 6.2).

From collateral social and economic damage to a high-road social protection strategy

The impacts of the COVID-19 pandemic have been a potent reminder of the critical importance of social protection and the need to follow a high-road strategy (figure 6.7). It is evident that countries can pursue such a strategy in different ways; there is no one-size-fits-all approach. This underlines the point that there are different means by which to progressively reach the objective of universal social protection, using different types of benefits and financing mechanisms. Nevertheless, to make progress along a high road requires several policy actions to be taken and several critical challenges to be tackled. These are discussed in detail in ILO (2021f) and are summarized here as follows:

- ensuring universal protection for all people, so that they can access benefits if and when they need them;
- overcoming serious structural challenges that predated the pandemic but were accentuated by it;
- designing and implementing ambitious formalization strategies by closely coordinating employment, social protection and other relevant public policies;
- ensuring that the State effectively assumes its responsibility by enshrining social protection in law and being answerable to rights-holders;
- ensuring that social, economic and employment policies cohere;
- leveraging the comparative advantages of universal social protection – rights fulfilment, inclusivity, ease of entitlement uptake, non-stigmatizing provision, shock responsiveness – across both contributory and non-contributory schemes and programmes;
- closing social protection financing gaps in sustainable and equitable ways by considering a diversity of mechanisms based on national and international solidarity as a matter of priority – both during this crisis and beyond it;
- making full use of social dialogue and social participation;
- further enhancing coordination between United Nations agencies, development partners and international financial institutions (IFIs) on the design and financing of social protection.

Figure 6.7 Taking the high road towards universal social protection for a socially just future



Source: ILO, 2021f, *World Social Protection Report 2020–22*.

6.4. Ensuring sustainable and equitable investment in social protection

Coherence with social, economic and employment policies

Especially in times of great upheaval – as demonstrated during the COVID-19 response, but also with a view to supporting work and life transitions and structural transformations more generally – it is crucial that social protection is coordinated with other social and economic policies, including employment and sectoral policies. This is essential for achieving greater policy coherence, creating synergies and ensuring maximum impact. Policy areas that would benefit from coordination with social protection policies include policies that promote the formalization of enterprises and employment, policies promoting the transition from the brown to the green economy and policies that bolster public investment in the care economy. Employment policies and active labour market policies will hasten and sustain recovery and ensure decent work beyond the crisis. Close coordination among these policies can support integrated solutions, such as providing unemployed workers with income security through employment retention, public employment or unemployment support schemes and giving them training opportunities to reskill or enhance their existing skills.

Addressing financing gaps

Social protection expenditure in the LDCs remains insufficient. Currently allocating only 2.08 per cent of their GDP to social protection and health (see Section 6.2.1), they face large financing gaps and are thus far from achieving SDG targets 1.3 and 3.8.

In order to guarantee at least a national social protection floor, they would need to allocate an additional 11.1 per cent of their 2020 GDP as a minimum (Durán Valverde et al., 2020; ILO, 2020q).[2] This would require a further annual investment of US$122.7 billion for all LDCs, US$38 billion of it for LDCs in Asia (including Yemen) and US$84.7 billion for LDCs in Africa and Haiti (see table 6.1). While the amount required to fill the financing gap is not insignificant, neither is it an inconceivable amount to muster, especially given that approximately US$17.1 trillion was mobilized as a global fiscal stimulus response in a matter of months. Such an investment would allow the LDCs to guarantee at least a basic level of social security to their population, including child benefits for all children aged 0–5, maternity cash benefits for all childbearing mothers, disability benefits for all persons with a severe disability, basic old-age pensions for all persons aged 65 and above, and access to essential healthcare. A social protection floor of this nature could provide the basis for broader efforts to secure the sustainable and equitable financing of social protection systems, and to offer progressively higher levels of protection to as many people as possible as soon as possible, as reflected in the Social Protection Floors Recommendation, 2012 (No. 202) and the Social Security (Minimum Standards) Convention, 1952 (No. 102).

2 A nationally defined social protection floor should ensure basic income security over the life cycle and access to essential healthcare. For the purpose of this report, the costs of providing the following benefits were calculated: child benefits for all children aged 0–5, set at 25 per cent of the national poverty line; maternity benefits set at 100 per cent of the national poverty line during four months around childbirth; disability benefits for persons with a severe disability, set at 100 per cent of the national poverty line; old-age pension benefits for all persons aged 65 and above, also set at 100 per cent; and access to essential healthcare as estimated by the World Health Organization (WHO) (Stenberg et al., 2017).

Table 6.1 Annual financing gap in achieving SDG targets 1.3 and 3.8, by subregion and income classification, 2020 (billions of US$ and percentage of GDP)

	Financing gap for basic child, maternity, disability and old- age benefits		Financing gap for health		Total financing gap	
Region	US$ billion	% of GDP	US$ billion	% of GDP	US$ billion	% of GDP
LDCs	54.9	5.0	67.9	6.1	122.7	11.1
Asian LDCs	17.9	3.4	20.1	3.9	38.0	7.3
African LDCs	36.9	6.3	47.8	8.2	84.7	14.5
All low-income and middle-income countries	707.4	2.2	484.2	1.5	1191.6	3.8

Source: ILO estimates based on methodology published in Durán Valverde, et al. (2020); see also ILO (2020q).

However, the additional investments needed to move towards achieving SDG targets 1.3 and 3.8 are daunting in comparison with the LDCs' current economic and fiscal capacity. Yet, as argued above, increased investment in social protection is not an aspiration to be deferred to the future; it is required here and now and needs support from the international community.

The UN Secretary-General has called for concerted efforts to put in place a Global Accelerator for Jobs and Social Protection, led by the ILO, bringing stakeholders together to create a new era of universal social protection, green and job-rich growth, and to put the world back on track towards SDGs 1, 3 and 8, and related goals (UN, 2021d). Such efforts would support LDCs in closing the financing gap of US$122.7 billion annually needed to extend social protection to those not yet covered, building up their social protection systems and ensuring their sustainable financing (ILO, 2021f), while also supporting the structural transformation of economies that will help to reinforce their economic and fiscal capacities.

Closing the financing gap for social protection is in the first place about increasing domestic fiscal space (Ortiz et al., 2019). Yet many LDCs may need to ask the international community to complement their own efforts in ensuring sustainable financing for their social protection systems. Governments, social partners and other actors need to deliberate on the optimal balance of different financing modalities in their particular national contexts, with due regard to the core social protection principles of solidarity in financing; financial, fiscal and economic sustainability; and social justice and equity. The successful undertaking of such deliberations requires strong alignment between national social protection strategies and medium-term national and international financing frameworks.

There are various options for expanding fiscal space, including increasing revenue from taxes and social security contributions, with careful consideration of the links between policies on taxation, labour markets, employment and enterprise formalization. Social security is an integral component of – and not a tax on

– the cost of labour. Extending social insurance coverage to those in the informal economy, including by subsidizing contributions from government revenue in some cases, can yield an optimal financing mix for national social protection systems based on the specificities of each national context (ILO, 2021h). In view of low levels of productivity in many sectors characterized by high informality, an integrated strategy is necessary that combines the extension of social security through adapted mechanisms with specific policies aimed at formalizing micro and small enterprises and the activities of self-entrepreneurs in order to enhance productivity and support the structural transformation of the economy (ILO, 2021h; ILO and FAO, 2021; Gaarder et al., 2021).

To be effective, national efforts need not only to improve the efficiency of the domestic taxation system – and also its progressivity, which would help to address rising income inequality – but also to be grounded in greater international cooperation on tax matters. Such cooperation includes the important initiative to fight tax base erosion and profit shifting, the recent agreement on a minimum corporate tax rate and proposals for a unitary tax system. Efforts at the domestic level can be further boosted by creating greater policy space for more accommodating macroeconomic frameworks. The commitments made by the IFIs to secure fiscal space for social spending (IMF, 2019) are critical in enabling, rather than circumscribing, national social protection policies in LDCs, but are for the moment not sufficient (van der Hoeven and Vos, 2021).

Closing social protection financing gaps in low-income countries and especially LDCs also calls for strengthening ODA. Most member countries of the Organisation for Economic Co-operation and Development (OECD) fall short of the agreed target of 0.7 per cent of GNI for ODA; preliminary figures for 2019 show an average value of just 0.3 per cent of combined GNI for all OECD Development Assistance Committee (DAC) countries (OECD, 2021). Beyond technical support, this could include the temporary and partial financing of social protection benefits in low- and middle-income countries, prioritizing LDCs, and investing in social protection floors, which could act as a catalyst for domestic resource mobilization.

Partnering for universal social protection

The current pandemic should lead to broader support for investing in social protection systems as a catalyst for an inclusive recovery, contributing to greater resilience in the face of global risks and mounting insecurity. A global recovery in which a substantial part of the world does not participate is not durable. Social protection systems are recognized as one of the key policy instruments that policymakers have at their disposal to address inequalities, advance social inclusion and build – or rebuild – a social contract.

The call for action issued by the Global Partnership for Universal Social Protection to Achieve the SDGs, co-chaired by the World Bank and the ILO, identified five priority actions that are highly relevant for countries at all levels of development, and especially for LDCs (USP2030, 2019):

1. Protection throughout the life cycle: Establish universal social protection systems, including floors, that provide adequate protection throughout the life cycle, combining social insurance, social assistance and other means, anchored in national strategies and legislation.

2. Universal coverage: Provide universal access to social protection and ensure that social protection systems are rights-based, gender-sensitive and inclusive, leaving no one behind.

3. National ownership: Develop social protection strategies and policies based on national priorities and circumstances, in close cooperation with all relevant actors.

4. Sustainable and equitable financing: Ensure the sustainability and fairness of social protection systems by prioritizing reliable and equitable forms of domestic financing, complemented by international cooperation and support where necessary.

5. Participation and social dialogue: Strengthen governance of social protection systems through institutional leadership, multisector coordination, and the participation of social partners and other relevant and representative organizations, to generate broad-based support and promote the effectiveness of services.

International coordination

In a highly globalized world, the issue of financing social protection is also dependent on solidarity, coordination and cooperation at the global level in the search for workable solutions that serve LDCs and other developing countries. The framework for action for universal social protection, adopted by the International Labour Conference in June 2021, provides for a reinforced ILO role in ensuring policy coherence on social protection in the multilateral system. It also offers important guidance for countries on realizing universal access to comprehensive, adequate and sustainable social protection systems that are adapted to developments in the world of work and aligned with ILO standards.

The systematic advancement of coordination and collaboration between UN agencies, development partners and IFIs on the design and financing of social protection has gained importance following the pandemic. All financing and policy decisions should be informed by human rights obligations and international social security standards. These instruments provide critical guidance for LDCs on the objectives that should guide efforts to build social protection, on ensuring the adequacy of social protection and on securing sustainable, efficient and equitable financing for it (ILO, 2019e; ILO, 2021j; ILO, 2021k).[3]

3 For the time being, however, international social security standards have not yet been widely ratified by the LDCs. The Social Security (Minimum Standards) Convention, 1952 (No.102), for example, has been ratified by only seven LDCs, namely, Benin, Chad, Democratic Republic of the Congo, Mauritania, Niger, Senegal and Togo.

6.5. The way forward: social protection systems, crises and international collaboration

The COVID-19 pandemic has acted as a stress test for gauging national crisis preparedness. As noted earlier, countries that already had comprehensive systems in place covering large parts of their populations were able to more rapidly use and adapt existing schemes and delivery mechanisms to facilitate access to healthcare, ensure income security and protect jobs, and extend existing schemes or new programmes to previously uncovered populations. Pre-existing statutory schemes automatically fulfilled their protective function, while further financing was injected where needed, focusing on emergency programmes to help groups requiring additional support.

Across countries at all income levels, including some of those that were comparatively ill prepared, the crisis led to innovative and sometimes bold policy actions and contributed to a clearer understanding of the synergies and complementarities both within social protection systems – their contributory and non-contributory elements – and between the social protection system and labour market policies.

Solid social protection systems, working coherently and in coordination with labour market and employment policies as well as with broader policies to promote the formalization of enterprises and employment, enhance countries' capacity to deal with large-scale, multifaceted and complex crises, to effectively protect individuals and businesses and to accelerate recovery. The promotion of the ratification and application of international social security standards in LDCs should therefore be stepped up.

This also includes facilitating access to active labour market policies and public employment programmes. Policies and measures aimed at extending social protection to workers in all forms of employment offer a multiple dividend: providing workers with economic security and peace of mind; enhancing health and education outcomes and supporting investments in human capabilities; encouraging higher productivity; and facilitating transitions to the formal economy. This contributes in the longer term to more sustainable and equitable financing of social protection (ILO, 2021g; ILO, 2020m; ILO and FAO, 2021) and to the structural change needed to reach the SDGs by 2030 for all countries. It does, however, require reinforced international collaboration and a change in the international financial and fiscal system that takes into consideration the specific needs of LDCs.

The Global Accelerator for Jobs and Social Protection can help achieve this objective by supporting LDCs to design integrated policies and strategies and to close the financing gap of US$122.7 billion annually needed to establish their national social protection floors. As stated earlier, that amount would at a minimum guarantee access to essential health care and a basic level of income security for their population, as a key element of the social, economic and environmental dimensions of sustainable development.

Chapter 7

The Role of the Institutions of Work

7.1 Institutions of work for a human-centred approach to recovery and development

The 2030 Agenda for Sustainable Development provides a conceptual and operative framework to strengthen the mutuality of economic development, social justice and environmental sustainability as joint objectives leading to more sustainable and resilient economies and societies. An important element in this is SDG 8 and its call for promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Decent work encompasses full and productive employment, social protection, adherence to international labour standards and labour rights and the importance of social dialogue, including freedom of association and collective bargaining.[1]

The different aspects of productive and sustainable employment, as well as the crucial role of social protection, have been discussed in Chapters 3 to 6. This chapter discusses the importance of ***institutions of work*** **in empowering women and men to be actors in, rather than targets of, sustainable development policies and underpin the drive for more productive and**

1 Many SDGs relate to the multidimensional concept of decent work and the institutional needs for achieving sustainable development. SDG 8 is recalled here, as it clearly states the connection between growth, sustainability, full and productive employment and decent work, highlighting how institutions that support decent work are necessary for sustainable development.

sustainable use of resources, inclusive growth and development. This perspective was clearly laid out in the ILO's *Declaration on Social Justice for a Fair Globalization* and reinforced more recently by the *ILO Centenary Declaration* and the *Global call to action for a human-centred recovery from the COVID-19 crisis that is inclusive, sustainable and resilient* (ILO, 2008; ILO, 2019a; ILO, 2021l).[2]

Institutions of work broadly comprise social dialogue, international labour standards, labour market institutions and labour administration institutions that contribute to defining and implementing policies, regulations and programmes not only for the good governance of labour markets but also for broader sustainable economic and social development. These institutions are complemented by other institutions devoted to investing in people, such as health, education, training and social protection systems. Such systems are in turn supported and implemented by comprehensive policies on the various dimensions of decent work.

The institutions of work enable a human-centred approach to socio-economic changes and to a better future of work for people and should be strengthened as part of economic and social transformation. This applies also where there are low levels of economic and institutional development and a high incidence of informality, as is seen in the LDCs. The need to ensure adequate protection for all workers, effective action to achieve the transition to formality, and a progressive shift to high value added activities that can help reduce poverty and inequality is even more compelling in these countries than in other developing regions. Strengthening the institutions of work means investing in social cohesion, reinvigorating the social contract between all actors of society in the LDCs and enabling the economic and social transformation they need for fully sustainable development.[3] A *human-centred approach* to the future of work can be the catalytic force behind a *just structural transformation* that encompasses economic, social and environmental sustainability, productive employment and decent work in the LDCs.

This chapter discusses the progress made in building some specific institutions of work, with a particular focus on those related to the fundamental principles and rights at work. It presents the ratification status of key conventions, the challenges faced by the LDCs, including during the COVID-19 crisis, and the ILO support to achieve an effective implementation of the labour standards. It highlights the progress in international cooperation on adherence to international labour standards in the apparel sector – an important sector in many LDCs. It also presents some proposals for a way forward to strengthen the institutions of work.

2 The 2030 Agenda implicitly calls for the universal realization of social justice and the economic and social potential of people, as stated by the ILO Declaration on Social Justice for a Fair Globalization adopted by the International Labour Conference at its 97th Session on 10 June 2008, and for an end to all forms of discrimination and the achievement of fundamental principles and rights at work.

3 The need for renewing "the social contract between Governments and their people and within societies", the role of "a new social contract anchored in a comprehensive approach to human rights" for "investing in social cohesion", and "the global dimension" of the social contract and role of "justice" in underpinning it are stressed in the UN Secretary-General's latest report, "Our Common Agenda" (UN, 2021c).

7.2 Fundamental principles and rights at work and other key conventions

Fundamental principles and rights at work and ILO technical assistance

A key part of international labour standards is the fundamental principles and rights at work, which comprise four elements: the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; the elimination of discrimination in respect of employment and occupation; and freedom of association and the effective recognition of the right to collective bargaining (ILO, 2010). The ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up, adopted in 1998, commits Member States to respect and promote the four principles and rights (ILO, 2010). These commitments are covered by eight fundamental Conventions:

1. Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87);
2. Right to Organise and Collective Bargaining Convention, 1949 (No. 98);
3. Forced Labour Convention, 1930 (No. 29);
4. Abolition of Forced Labour Convention, 1957 (No. 105);
5. Minimum Age Convention, 1973 (No. 138);
6. Worst Forms of Child Labour Convention, 1999 (No. 182);
7. Equal Remuneration Convention, 1951 (No. 100);
8. Discrimination (Employment and Occupation) Convention, 1958 (No. 111).

The four categories of labour standards became an entry point for all other areas of ILO technical assistance. Freedom of association and the right to collective bargaining called for social dialogue, which is premised on respecting that freedom and that right. Assistance was focused on organizing workers and employers, strengthening their knowledge base, improving negotiation techniques, and dispute settlement. In the promotion of sustainable enterprises, assistance included dialogue and safe working conditions (ILO, 2007).

Box 7.1 The development of the concept of fundamental rights at work

Workers' rights are enshrined in the ILO's international labour standards. To eliminate child labour the ILO had already in 1919 adopted the first of its Conventions on minimum age of employment. Then, after the shattering experiences of the Second World War, the emerging focus of the international community on human rights produced the ILO Conventions on freedom of association and the right to collective bargaining, the abolition of forced labour and the commitment to non-discrimination in employment and occupation. The World Summit for Social Development, held in Copenhagen in 1995, highlighted those four "basic workers' rights", along with the right to equal remuneration for work of equal value. It adopted a programme of action and specific commitments in which the countries that had ratified the relevant Conventions agreed to be legally bound by them, while all other countries had "the obligation" to realize and promote the relevant principles (UN, 1995). A few years later, discussions on the mandate of the new World Trade Organization (WTO) concluded that the ILO was the competent body to set and deal with international labour standards, and WTO Member States reaffirmed their support for the ILO's work in promoting them. The outcome was the Declaration on Fundamental Principles and Rights at Work and Their Follow-up, adopted by the International Labour Conference in 1998 (ILO, 2010).

After the Copenhagen Summit, there was a successful campaign for the ratification of all fundamental Conventions, including in the LDCs. However, in many cases Conventions were ratified even if their implementation still needed work, and technical cooperation was stepped up to ascertain compliance, as there had been a gap between the focus of the regular standards supervisory mechanism and action to remedy the root causes of identified deficiencies. It became crucial to determine whether problems arose from a lack of political will or from a lack of institutional capacity.

In addition to research and awareness-raising, remedies to forced labour have been sought through the modernization of agriculture, fair recruitment systems and tackling the global phenomenon of trafficking. Forced labour programmes increasingly address child labour as well. The experience of reducing forced labour in the cotton industry of Uzbekistan relied on surveys and dialogue, which helped improve workers' wages and conditions and also helped modernize agriculture (ILO, 2021m).

The experience acquired since the beginning of the International Programme for the Elimination of Child Labour (IPEC) in 1992 demonstrates that what works are education policies, together with support for families to keep children in school. The IPEC programme estimated that at the turn of the present century, 246 million children were at work, flouting minimum age standards. Over the next two decades child labour fell to 151.6 million individuals (2016), of whom 72.5 million were engaged in hazardous work (ILO, 2021m). However, the latest figures discussed in Section 7.4 of this chapter, on the effects of COVID-19, underline how vulnerable this process can become when its main remedies – family income, keeping children in school, and efficient inspection – are threatened.

Discrimination programmes target gender equality, health and safety, equal access to social services, disability (which has been an ILO priority since the Organization addressed the needs of wounded soldiers after the First World War), and the protection of migrants and refugees.

Box 7.2 ILO programmes on fundamental principles and rights at work in LDCs

Programmes operate in the following LDCs: Afghanistan, Bangladesh, Burkina Faso, Democratic Republic of Congo, Ethiopia, Lao People's Democratic Republic, Madagascar, Malawi, Mali, Mauritania, Myanmar, Nepal, Niger, Sudan, Timor Leste and United Republic of Tanzania. The various types of programmes currently include:

- community mobilization to combat slavery and slavery-based discrimination (Mali, Mauritania);
- knowledge and awareness-raising for action against forced labour and child labour (Afghanistan, Bangladesh, Madagascar, Malawi, Myanmar, Timor Leste);
- addressing decent work deficits in specific economic sectors, such as cocoa, cotton and tobacco (Burkina Faso, Malawi, Mali);
- eliminating child labour in supply chains (Burkina Faso, Mali);
- eliminating child labour in the cobalt industry (Democratic Republic of Congo);
- social dialogue and freedom of association (Sudan);
- ensuring that refugees and asylum seekers in African countries are not discriminated against or fall into child and forced labour (Mali, Niger);
- decent work and fair recruitment policies for women migrants (Afghanistan, Bangladesh, Myanmar, Nepal);
- ending violence against women and children by implementing international labour standards through social dialogue (United Republic of Tanzania).

Virtually all LDCs have made use of the ILO's technical cooperation programmes (see box 7.2), and in particular the IPEC programme. The number of cases concerning the Worst Forms of Child Labour Convention, No. 182, discussed by the Committee on the Application of Standards of the International Labour Conference is not high. Political and social conflict, including armed conflict, as well as natural catastrophes in some LDCs have led to some backsliding on commitments to the fundamental principles and rights at work, and the ILO has operated technical cooperation programmes in each of those LDCs.[4]

Having recognized that decent work deficits in the LDCs arise more from a lack of capacity than

4 Examples of this are Haiti, Myanmar and Yemen.

from a lack of political will, the programmes on fundamental principles and rights at work aim at strengthening the basic functioning of societies and the ways to foster tripartite cooperation and social dialogue. Much of the emphasis is on awareness-raising and capacity-building for each of the social partners. In addition, the Better Work programme has recognized the business case for improved working conditions: buyers tend to retain suppliers who observe both fundamental rights at work and occupational safety and health standards.

Ratification and application of standards in the LDCs

As of 26 October 2021, of the 45 ILO Member LDCs, 34 had ratified all 8 of the fundamental Conventions. Table 7.1 shows the fundamental Conventions whose ratification by the 11 remaining countries is still pending. Nevertheless, the ILO encourages all Member States to respect these Conventions regardless of whether they have ratified them.

Table 7.1 Ratification of fundamental Conventions as of October 2021

Country	No. of fundamental Conventions ratified	Pending fundamental Conventions
Tuvalu	1	Forced Labour Convention, 1930 (No. 29), Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), Right to Organise and Collective Bargaining Convention, 1949 (No. 98), Equal Remuneration Convention, 1951 (No. 100), Abolition of Forced Labour Convention, 1957 (No. 105), Discrimination (Employment and Occupation) Convention, 1958 (No. 111), Minimum Age Convention, 1973 (No. 138)
Myanmar	4	Right to Organise and Collective Bargaining Convention, 1949 (No. 98), Equal Remuneration Convention, 1951 (No. 100), Abolition of Forced Labour Convention, 1957 (No. 105), Discrimination (Employment and Occupation) Convention, 1958 (No. 111)
Afghanistan	5	Forced Labour Convention, 1930 (No. 29), Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), Right to Organise and Collective Bargaining Convention, 1949 (No. 98)
Lao People's Democratic Republic	5	Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), Right to Organise and Collective Bargaining Convention, 1949 (No. 98), Abolition of Forced Labour Convention, 1957 (No. 105)
Liberia	6	Equal Remuneration Convention, 1951 (No. 100), Minimum Age Convention, 1973 (No. 138)
Somalia	6	Equal Remuneration Convention, 1951 (No. 100), Minimum Age Convention, 1973 (No. 138)
Timor-Leste	6	Abolition of Forced Labour Convention, 1957 (No. 105), Minimum Age Convention, 1973 (No. 138)
Bangladesh	7	Minimum Age Convention, 1973 (No. 138)
Guinea-Bissau	7	Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)
Nepal	7	Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)
South Sudan	7	Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)

Source: ILO NORMLEX information system on information labour standards, accessed on 6 October 2021.

Note: Bhutan is not included because it is not an ILO Member State.

As mentioned above, most LDCs have ratified all eight fundamental Conventions, and the regular standards supervisory system does not show a high correlation between LDC status and violations of fundamental principles and rights at work (ILO, 2017f).

However, some ratifications remain pending. Lao People's Democratic Republic has ratified 5 of the 8 Conventions, while Timor-Leste has ratified 6 (ILO, 2021n). Nepal and South Sudan have not yet ratified the Freedom of Association Convention, No. 87. Many recent ratifications have concerned the 2014 Protocol to the Forced Labour Convention, 1930 (No. 29). The increase in ratifications followed the ratification campaign of the fundamental Conventions, which started after the 1995 World Summit for Social Development (see box 7.1). With the adoption of the Worst Forms of Child Labour Convention, 1999 (No. 182), momentum again built up to ratify that text, and countries that had not ratified any ILO Conventions in quite some time got back to do so. Another factor was the increased availability of technical cooperation, as discussed above, which promptly transitioned from assistance with ratification to assistance with the means of implementation. This has also prompted LDCs to increasingly ratify the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144), along with other governance Conventions. Other Conventions that have recently been ratified are the Maritime Labour Convention, 2006 (MLC, 2006), the Maternity Protection Convention, 2000 (No. 183), the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187) and the Domestic Workers Convention, 2011 (No. 189).

Table 7.2 Ratification of selected Conventions as of December 2021

	C144	C081	C122	C129	C187	C102	C118	C183	MLC, 2006	C189
Afghanistan	x									
Angola	x	x								
Bangladesh	x	x					x		x	
Benin	x	x				x		x	x	
Burkina Faso	x	x	x	x	x			x		
Burundi	x	x								
Cambodia			x							
Central African Republic	x	x	x				x			
Chad	x	x	x			x				
Comoros	x	x	x							
Democratic Rep. of Congo	x	x				x	x			
Djibouti	x	x	x					x	x	
Ethiopia	x								x	
Gambia									x	
Guinea	x	x	x		x		x			x
Guinea-Bissau		x								
Haiti		x								
Kiribati	x								x	
Lao People's Dem. Republic	x									
Lesotho	x	x								
Liberia	x	x							x	

Table 7.2 Ratification of selected Conventions as of December 2021

Madagascar	x	x	x	x			x			x
Malawi	x	x		x	x					
Mali	x	x	x					x		
Mauritania	x	x	x			x	x			
Mozambique	x	x	x						*	
Myanmar									x	
Nepal	x									
Niger	x	x	x		x	x		x		
Rwanda	x	x	x		x		x			
Sao Tome Principe	x	x						x		
Senegal	x	x	x		*	x		x	x	
Sierra Leone	x	x			*					*
Somalia	*				*					
Sudan	x	x	x						x	
Togo	x	x	x	x	x	x			x	
Uganda	x	x	x							
United Rep. of Tanzania	*	x							x	
Yemen	x	x	x							
Zambia	x	x	x	x	x					

Source: ILO NORMLEX information system on information labour standards accessed on 18 December 2021.

Notes: "x" indicates that a convention has been ratified, while "*" denotes that a country has committed to ratifying a convention in 2022. The official Convention names are as follows: C144 "Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144)"; C081 "Labour Inspection Convention, 1947 (No. 81)"; C122 "Employment Policy Convention, 1964 (No. 122)"; C129 "Labour Inspection (Agriculture) Convention, 1969 (No. 129)"; C187 "Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187)"; C102 "Social Security (Minimum Standards) Convention, 1952 (No. 102)"; C118 "Equality of Treatment (Social Security) Convention, 1962 (No. 118)"; C183 "Maternity Protection Convention, 2000 (No. 183)"; MLC 2006 "Maritime Labour Convention, 2006 (MLC, 2006)"; and C189 "Domestic Workers Convention, 2011 (No. 189)".

Complaints have been lodged against most LDCs in the Governing Body Committee on Freedom of Association of the ILO. Currently there are 11 active cases in nine LDCs (Afghanistan, Bangladesh, Cambodia, Democratic Republic of Congo, Guinea, Haiti, Madagascar, Myanmar and Sudan). In six LDCs there have been no freedom of association complaints. According to the 2021 Global Rights Index of the International Trade Union Confederation (ITUC), which records violations of trade union rights, Burundi, Central African Republic, Myanmar, Somalia, South Sudan and Yemen are classified among those with "[n]o guarantee of rights due to the breakdown of the rule of law". Afghanistan, Bangladesh, Cambodia, Eritrea, Haiti, Lao People's Democratic Republic and Sudan are among those with "[n]o guarantee of rights". Angola, Benin, Chad, Democratic Republic of Congo, Djibouti, Ethiopia, Mali, Mauritania, Niger, Senegal, Sierra Leone, Uganda, United Republic of Tanzania and Zambia are among the countries with "[s]ystematic violations of rights". Burkina Faso, Guinea, Lesotho, Liberia, Madagascar, Mozambique, Nepal and Rwanda are among those with "[r]egular violations of rights". Malawi and Togo are classified among those with "Repeated violations of rights" (ITUC, 2021a).

7.3 Social dialogue

Social dialogue refers to "all types of negotiation, consultation and exchange of information between or among representatives of governments, employers and workers on issues of common interest relating to economic and social policy. Social dialogue is both a means to achieve social and economic progress and an end in itself, as it gives people a voice and a stake in their societies and workplaces" (ILO, 2018i). It is also a crucial component of democracy and good governance that nurtures economic and social resilience, inclusive growth, stability and development. Importantly, social dialogue, based on respect for freedom of association and the effective recognition of the right to collective bargaining, also plays a crucial role in designing policies to promote social justice (ILO, 2018i).[5] For an effective social dialogue to take place, independent, strong and representative employers' and workers' organizations are thus needed, together with trust, commitment and respect by governments for the autonomy of the social partners and social dialogue outcomes (ILO, 2018i). The role of the social partners in designing and implementing policies is significant, as it enables win-win(-win) outcomes from the enterprise to the macroeconomic level and also creates a climate of trust and shared commitment over the long term (ILO, 2020r; Global Deal, 2020a).

Social dialogue and development

Research and past experience have highlighted the role social dialogue plays in promoting economic and social development and in attaining the SDGs (Global Deal, 2020b; Papadakis, 2006). Even though the notion of "social dialogue" is not explicitly mentioned in the 2030 Agenda, the UN places great importance in "stakeholder engagement" and public participation when it comes to designing and implementing the SDGs (Carter, 2007; UNDESA, 2020). From this standpoint, social dialogue is key to promoting sound working conditions, workers' rights and equality at work, access to public services and fair redistribution, growth and innovation, informed environmental and climate policies and good governance (Hermans et al., 2017).

Social dialogue and collective bargaining enable negotiated trade-offs between (sometimes antithetical) policy objectives, stimulate competitiveness, make it possible to respond to unexpected shocks and also contribute to social and industrial peace (Global Deal, 2018). Effective collective bargaining makes it possible to share fairly the fruit of progress and consequently reduces inequalities. While research in developed countries shows that a high level of collective bargaining coverage tends to be positively correlated with a low level of inequality, collective bargaining coverage is too narrow in many low-income countries, which often experience a high level of informality at the low end of the wage scale, failing to reduce inequality significantly (OECD, 2019; ILO, 2021o).

High levels of informality hinder development in many LDCs and are a major challenge for social dialogue. The Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) emphasizes the role of freedom of association, social dialogue and employers' and workers' organizations in the transition to the formal economy.[6] It further stresses the right of workers in the informal economy to freely establish and join organizations, federations and confederations, and the need to strengthen the capacity of workers' and employers' organizations and of those in the informal economy to increase their representability.

Additionally, two thirds of the population in LDCs live in rural areas, and agriculture is a major employment sector. This makes agricultural transformation a high-potential element of poverty eradication and inclusive development (UNCTAD, 2020b). Agriculture is, however, characterized by the predominance of smallholders and informality, with fragmented and low-membership organizations and a workforce largely composed of vulnerable workers (women, children and youth, self-employed and casual workers, indigenous population and migrants) (UNCTAD, 2020b; ILO, 2018i). The Right of Association (Agriculture) Convention, 1921 (No. 11) and the Rural Workers' Organisations Convention, 1975 (No. 141) both establish the rights of association and combination for rural workers and freedom of association; nonetheless, social dialogue remains

5 See also Chapters 3–6 for a discussion of policies and a reference to the role of social dialogue in the policies' definition and implementation.

6 See Chapter 4.

rare (ILO, 2019f). The ILO has hence stressed the need for strong and independent workers' and employers' organizations in the agricultural sector to engage in social dialogue and address decent work deficits (ILO, 2018i).

Finally, as a constitutive element of the ILO's Decent Work agenda, social dialogue lies at the heart of all ILO activities. For instance, the design and implementation of the Decent Work Country Programmes, which promote decent work as an essential component of national development strategies, are based on social dialogue. Eighteen LDCs[7] have an established Decent Work Country Programme as of 2021, most of which feature among their priorities the strengthening of social dialogue and tripartism, the governance of labour, and the strengthening of international labour standards and principles and rights at work. To this end, the vast majority of activities focus on the capacity-building of the social partners and their social dialogue institutions, as well as on the promotion of collective bargaining.

Institutionalization of social dialogue in LDCs

By September 2021, over 80 per cent of the LDCs had ratified the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) and close to 90 per cent had ratified the Right to Organise and Collective Bargaining Convention, 1949 (No. 98).[8] In relation to the level of national compliance with labour rights (freedom of association and collective bargaining), as per indicator 8.8.2[9] of SDG 8, the LDCs received a score of 3.79 for 2018 (UN, 2021e) – a score that is below the global average of 5.35. The indicator suggests a gradual deterioration of compliance with freedom association and collective bargaining rights among the LDCs, whose score nonetheless rose from 3.17 in 2015 to 3.28 in 2016 and 3.55 in 2017 (UN, 2021e).

By September 2021, the majority of LDCs (35 out of 46) had ratified the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144). Most LDCs (39 out of 46, including those that have not yet done so) have established a national social dialogue institution with a general mandate for dealing with socio-economic policy areas.[10] Although formally established, not all of the social dialogue institutions are operational in practice. Social dialogue institutions have been recently established in Burkina Faso (including the High Council for Social Dialogue, 2017),[11] Somalia (Somali National Tripartite Consultative Committee, 21 July 2019) and South Sudan (Labour Advisory Council, 6 May 2021). Finally, six LDCs have ratified the Labour Relations (Public Service) Convention, 1978 (No. 151) and eight have ratified the Collective Bargaining Convention, 1981 (No. 154).

The role of social dialogue in policy-making: achievements and challenges in shaping working conditions and employment in LDCs[12]

LDCs have used social dialogue for improving working conditions, improving employment and supporting enterprises. For example, in Central African Republic, a social pact for social stability and economic recovery (drafted with ILO support) was adopted in December 2019, following the Khartoum Agreement for Peace and Reconciliation of February 2019. In Chad, social dialogue between government and trade unions in the public sector has been instrumental in wage increases, crystallized in two Social Pacts signed in January 2020 and October 2021. In Zambia, the

7 Source: Decent Work Country Programmes of Afghanistan, Angola, Burkina Faso, Burundi, Cambodia, Central African Republic, Democratic Republic of the Congo, Ethiopia, Lesotho, Malawi, Myanmar, Nepal, Rwanda, Sao Tome and Principe, Senegal, Timor-Leste, Togo and Zambia.

8 Sudan was the latest country to ratify Convention No. 87, in March 2021.

9 This indicator has a range from 0 to 10, with 0 being the best possible score (indicating higher levels of compliance with freedom of association and collective bargaining rights) and 10 the worst (indicating lower levels of compliance with these rights). "SDG indicator 8.8.2 seeks to measure the level of national compliance with fundamental labour rights (freedom of association and collective bargaining). It is based on six International Labour Organization (ILO) supervisory body textual sources and also on national legislation. National law is not enacted for the purpose of generating a statistical indicator of compliance with fundamental rights, nor were any of the ILO textual sources created for this purpose. Indicator 8.8.2 is compiled from these sources and its use does not constitute a waiver of the respective ILO Constituents' divergent points of view on the sources' conclusions." (ILO, 2018j, p. 17).
"SDG indicator 8.8.2 is not intended as a tool to compare compliance among ILO member States. It should specifically be noted that reporting obligations of an ILO member State to the ILO's supervisory system and thus ILO textual sources are different for ratifying and non-ratifying ILO member States." (ILO, 2018j, p. 18).

10 Somalia and Sudan were the latest countries to ratify Convention No. 144, both in March 2021.

11 See Burkina Faso (2019).

12 Over 70 per cent of LDCs are located in Africa, which explains the predominance of examples from this region.

government highlighted its engagement with the social partners in the framework of its Tripartite Consultative Labour Council, which reportedly enhanced employers' recognition of workers' rights (in particular on freedom of association and collective bargaining). Additionally, in 2018, the signature of 106 collective agreements, the extension of 21 such agreements and the approval of 18 recognition agreements were reported (Ministry of National Development Planning, 2020).

Social dialogue is also regarded as an end in itself, and the tripartite partners in the LDCs have worked to strengthen it. In Guinea, a strategic document on social concertation was drafted (with the ILO) and consequently adopted by the tripartite partners in December 2019, with the support of the mediator of the country's Social and Economic Council. The document reaffirmed the willingness of the government to engage with the social partners through a more dynamic and modernized social concertation system for economic and social development. In Niger, a national tripartite action plan for the strengthening of social dialogue was adopted in January 2019, and in Togo, a national action plan to stimulate social dialogue in Togolese export processing zones (EPZs) was adopted in July 2018, based on a memorandum of understanding adopted two months earlier.

Challenges facing social dialogue

The ILO Committee of Experts on the Application of Conventions and Recommendations (CEACR) has highlighted the remaining challenges for many LDCs in the implementation of the ratified ILO Conventions. These challenges are also in relation to fundamental Conventions Nos. 87 and 98. Legal and practical obstacles remain in numerous countries. The following examples illustrate the comments addressed by the CEACR to governments to help them overcome these obstacles. The Committee recalled that "a truly free and independent trade union movement can only develop in a climate free from violence, pressure and threats of any kind against the leaders and members of such organizations" in its observation to Bangladesh in 2020 (ILO, 2021p). It stressed "the need to adopt legal provisions guaranteeing: (i) adequate protection against anti-union discrimination at the time of recruitment and during the employment relationship, accompanied by sufficiently effective and dissuasive sanctions; (ii) adequate protection for workers' organizations against acts of interference by employers and their organizations, including sufficiently effective and dissuasive sanctions; and (iii) the right to collective bargaining for employees in state-owned enterprises and public servants who are not engaged in the administration of the State" in its observation to Liberia in 2019 (ILO, 2019g). Finally, it requested the Government of Nepal to "take the necessary measures to introduce in the legislation: (i) an explicit prohibition of all prejudicial acts committed against workers by reason of their trade union membership or participation in trade union activities (...); and (ii) effective and sufficiently dissuasive sanctions in cases of violation of this prohibition" in its observation from 2018 (ILO, 2019h).

The ILO supervisory bodies have also pointed to weaknesses in the functioning of tripartite consultation mechanisms, which largely rely on the availability (or lack) of resources, capacity-building opportunities, administrative support and political will. In Burundi, for instance, the CEARC noted the lack of administrative support for consultation processes and recalled the Government's responsibility to finance consultation procedures, including training for the participants (ILO, 2021p). In Chad, the Government has not provided information on the progress made since 2014 in relation to tripartite consultations, their frequency, content and outcomes (ILO, 2021p). A similar observation has been made regarding the Democratic Republic of the Congo. In Malawi, the Tripartite Labour Advisory Council held no meetings between 2009 and August 2016, due to a lack of financial resources. Finally, in 2016 and 2015, respectively, the social partners in Botswana and Zambia expressed their opposition to their respective governments' legislative amendments, which they said had been implemented without consultations (ILO, 2018i). Finally, not surprisingly, social dialogue has been facing difficulties in fragile States such as Eritrea, Haiti and Kiribati.

7.4 COVID-19 and institutions of work

COVID-19 and labour standards

The pandemic hit the LDCs later than advanced countries, but ensuing economic and employment consequences were more devastating than the health crisis compared to other countries.[13] The emergency, adjustment and recovery outcomes relied on employment and income protection, social safeguards, temporary flexible work arrangements, occupational safety and health, and enterprise support. Other measures included investing in tripartite cooperation as a source of bipartite negotiations at the regional, sectoral and enterprise levels and the strengthening of dispute resolution mechanisms, specific collective bargaining agreements on short- and medium-term adjustment measures, and social pacts.

The importance of fundamental principles and rights at work and their application to both the formal and the informal economy is recognized by the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204). In Senegal, the High Council for Social Dialogue engaged in defining plans and priorities for the informal economy. Togo set up a permanent tripartite committee to encourage dialogue with the actors of the informal economy. In Burkina Faso, the High Council for Social Dialogue prepared a draft agreement on strengthening tripartism.

The pandemic risks reversing the decline in child labour that has been observed in the last 20 years. Joint estimates by the ILO and UNICEF, published in 2020, showed that this process had to an alarming extent stalled (ILO and UNICEF, 2021). Overall figures were stagnating at 160 million children, 79 million of whom were engaged in hazardous work. The number of children in the 5–11 age bracket had actually grown, and the forecast was that by 2022 child labour would have increased by an additional 8.9 million due to COVID-19. An example of how the dynamics play out is given by Uganda, where closures of economic activity, schools and the non-essential public sector led to food shortages. This resulted in children working on construction sites, while labour inspections were interrupted (ILO, 2021q). A project surveying child and forced labour in order to design interventions commenced in 2021 in the Lao People's Democratic Republic specifically in order to respond to COVID-19. New global figures that should capture the impact of the pandemic on forced labour are due in 2022.

Discrimination, xenophobia and violence have surged. All in all, 60 per cent of the global labour force, or 2.2 billion people, have experienced disruption because of the closures associated with COVID-19. School and workplace closures have led to both an increase in unpaid work of women and violence against them. Women have been under pressure as frontline workers in high-risk sectors, in healthcare and in catering, food production and processing, as well as commercial services. Domestic workers have been particularly vulnerable. Workers without the required documentation have been afraid of exposure if they are vaccinated against the virus or tested for it.

However, the crisis has not slowed the pace of ratifications of ILO Conventions in the LDCs. In 2020–2021, Angola ratified Convention No. 144; Comoros ratified Convention No. 98 and the Protocol to Convention No. 29; Djibouti ratified the Maternity Protection Convention, 2000 (No. 183); Mozambique ratified the Maritime Labour Convention, 2006 (MLC, 2006); Senegal ratified Convention No. 187, the Occupational Health Services Convention, 1985 (No. 161) and the Protocol to Convention No. 29; Sudan ratified Convention No. 87, Convention No. 144 and the Protocol to Convention No. 29; and Myanmar ratified the Minimum Age Convention, 1973 (No. 138) shortly before the military takeover. Somalia ratified the Violence and Harassment Convention, 2019 (No. 190) and the Private Employment Agencies Convention, 1997 (No. 181). Convention No. 182 also achieved universal ratification during the first year of the pandemic.

13 See Chapter 2.

COVID-19 and social dialogue

During the COVID-19 crisis, social dialogue, including collective bargaining, helped to provide equitable solutions for workers and enterprises and sometimes supplemented legislation to protect the most vulnerable (ILO, 2020s; ILO, 2021o). Social dialogue and collective bargaining have likewise supported the policy response to the pandemic in some LDCs. Such policy outcomes have often been the fruit of informal or ad hoc consultations and negotiations held during the first months of the pandemic.

In some countries, bipartite proposals and joint calls have been published by the social partners, with a view to displaying unity and sending a joint message to the government. This was the case, for instance, in Mali, where the social partners (Conseil National du Patronat du Mali and Union Nationale des Travailleurs du Mali) submitted in April 2020 joint recommendations to the government, with a view to protecting workers and the economy during the pandemic (CNPM, 2021). Likewise, in Benin, a memorandum of understanding was agreed upon between the social partners in April 2020 and subsequently submitted to the government. The memorandum included inter alia the proposal for establishing a recovery fund to stimulate the economy (Dossoumou, 2020). In Cambodia, the social partners from the garment sector (Unions and Garment Manufacturers Association in Cambodia (GMAC)) met to jointly lobby the Ministry of Labour and Vocational Training (MLVT) for the protection of garment workers.

In Nepal, employers' and workers' organizations in July 2020 signed an agreement for mutual understanding, which called for wage adjustments and emergency dialogue in industries and enterprises. In Timor-Leste, a programme on dispute resolution was launched in April 2021 following a national tripartite dialogue. This was based on the recognition that promoting a culture of industrial relations, including collective bargaining, is more cost-efficient than mediation, arbitration or judicial proceedings; promoting decent work also improves company performance.

Bipartite social dialogue also led to specific commitments and agreements, as in the United Republic of Tanzania, where several measures were agreed upon between the social partners to ensure workers' protection at the workplace and safeguard the jobs of employees who contracted COVID-19 (ILO, 2020s). In Myanmar, the Garment Manufacturers Association (MGMA) and the Confederation of Trade Unions Myanmar (CTUM) agreed in April 2020 to make unpaid leave available to workers upon request, while also stipulating that they would not be dismissed (ILO, 2020u). A sectoral collective bargaining agreement was concluded in Senegal (September 2021) in the hydrocarbon transport sectors, which included an updated wage scale and professional classifications.

In some cases, the crisis triggered the organization of ad hoc tripartite meetings, as in Bangladesh to discuss wage payments in May 2020 (ILO, 2020v). In Uganda, a tripartite meeting (Government, the National Organisation of Trade Unions, the Central Organisation of Free Trade Unions and the Federation of Uganda Employers) led to an agreement on a number of issues surrounding the impact of COVID-19 on employment, job security and possible mitigation measures, along with win-win solutions (Tumwebaze, 2020). A tripartite meeting (facilitated by the ILO) in Timor-Leste triggered a discussion on world of work policy guidance to respond to the pandemic in March 2020 (ILO, 2021r). Health and safety protocols and guidelines have also been adopted through tripartite social

▶ Box 7.3 Bipartite social dialogue leading to tripartite consultations in Malawi

In **Malawi**, the social partners jointly called for a tripartite meeting with the Government. This led to the establishment of a national tripartite Technical Working Group on COVID-19 (March 2020), which brought together government ministries, the Employers Consultative Association of Malawi (ECAM), the Malawi Confederation of Chambers of Commerce and Industry (MCCCI) and the Malawi Congress of Trade Unions (MCTU).

The Working Group was created at a time when the effective functioning of the Tripartite Labour Advisory Council had been undermined for several years (see below), which demonstrated the pressing need for social dialogue in times of crisis. The National COVID-19 Preparedness and Response Plan was adopted based on the Working Group's recommendations.

Source: https://www.ilo.org/global/topics/coronavirus/regional-country/country-responses/lang--en/index.htm#MW.

dialogue, as in Ethiopia, Malawi and Togo (MOLSI et al., 2020; FDRE Ministry of Labour and Social Affairs, 2020).

Several committees were also specifically created in the context of the pandemic. In Comoros, for example, the National COVID-19 Pandemic Coordination Committee, created by presidential decree (3 April 2020), triggered the creation of a tripartite-plus commission within the Ministry of Labour mandated to identify the most affected sectors, devise solutions for mitigating the impacts of the virus and support the government in the implementation of measures. Finally, during a tripartite preparatory workshop for the Association of Southeast Asian Nations (ASEAN) Forum on Migrant Labour, the social partners and Government of Lao People's Democratic Republic in 2021 discussed recommendations to be formulated on the theme "Recovery and labour migration in the post pandemic future" with a view to better protecting migrant workers in the region (ILO, 2021v).

In other instances, established social dialogue institutions sometimes provided policy guidance as a response to the crisis. In Madagascar, four meetings were held at the National Labour Council between April and September 2020, aimed at discussing responses to the pandemic (ILO, 2020w). In Cambodia, tripartite consultations resumed in September 2020 and the National Minimum Wage Council decided to increase the minimum wage to US$192 for 2021 ($2 more than the previous year)(ILO, 2021t).[14]

7.5 Investing in labour standards and promoting competitiveness in LDCs: the case of the apparel industry

Trade preferences are instrumental to the establishment of labour-intensive manufacturing (such as apparel production) in LDCs. Preferential or free access to end markets, whether under the Multifibre Arrangement (MFA) regime until 2005, or through bilateral trade agreements, is often a powerful engine for the establishment and flourishing of the garment industry in any specific country. Labour provisions in trade agreements do not divert trade flows, but on the contrary reduce trade costs and facilitate trade, and establish a level playing field that creates significant employment opportunities, especially for women (ILO, 2016d).

Where the garment industry has flourished, successfully linking to global supply chains and supporting steady export and employment growth, evidence shows that garment workers – predominantly young women, often migrating to urban centres – benefit from new formal jobs, thereby gaining access to income and potentially enjoying increased empowerment and agency. For this developmental impact to occur, it is critical that the jobs created be decent jobs where workers' rights are respected and compliance with labour laws and fundamental principles and rights at work is ensured.

The ILO has been directly or indirectly involved in monitoring compliance with labour provisions in various trade agreements, focusing on the garment industry. The Better Work programme has been instrumental in creating a policy environment and building the capacity of workplace actors to ensure that garment jobs generated through the support of trade preferences are decent and fulfil their potential to benefit workers, especially women.

Better Factories Cambodia (BFC) was the first project in which the ILO was directly involved in monitoring compliance with labour standards at the workplace in fulfilment of the obligations foreseen by the US-Cambodia Textile Trade Agreement of 1999. BFC was launched in 2001, and garment factories had to participate in the programme to obtain an export licence and enjoy preferential access to the United States under the MFA quota regime. With the phase-out of the MFA in 2005 and the liberalization of trade in garments, there was concern that in the absence of a trade policy incentive, the programme would become less effective. It was anticipated that Cambodian producers would lose out to competitors from other low-cost and more logistically efficient suppliers in Asia and would engage in a "race to

14 For further analysis of the impact of COVID-19 on trade unions and social dialogue, and also of their respective responses to the pandemic, see Mwamadzingo et al. (2021), Ford and Ward (2021), and Otieno et al. (2021).

the bottom" to cut costs and be cost-competitive. However, the industry not only survived the MFA phase-out but thrived, mainly because global brands continued sourcing from Cambodia thanks to its ethical sourcing reputation. Cambodia went on to be covered by the European Union's Everything but Arms (EBA) trading regime up to 2020 and signed its first bilateral free trade agreement, with China, in 2020, suggesting that the link between trade and compliance in export-oriented manufacturing continues to be a key development strategy for the country.

In Bangladesh, the EU-Bangladesh Cooperation Agreement has been in place for two decades. One of its benefits is the Generalized Scheme of Preferences (GSP), which removes import duties from products from developing countries exported to the EU. As part of the GSP, the EBA agreement grants zero-duty export benefits for everything except arms and ammunition and is set to expire in 2026, when Bangladesh will graduate to middle-income country status. Showing the strength of the linkage between trade access and labour standards, the Bangladeshi government is lobbying for GSP-Plus status and zero tariffs for vulnerable low- and lower-middle-income countries if they implement the 27 core UN conventions on human and labour rights, environmental protection and good governance.

Apparel production has been driven by trade agreements in Haiti, following the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) and the Haiti Economic Lift Program (HELP) legislations. Established in 2009, the programme is directly embedded in the US HOPE II Act of 2008, which included special trade rules granting preferential access to US imports of Haitian apparel. The HOPE II legislation allowed for duty-free entry into the United States for a limited number of garments imported from Haiti, provided that 55 per cent (increased to 60 per cent in the fifth year of implementation) of the value of the goods and/or the costs of processing the garments originates in Haiti, the United States or another country that has a free trade agreement with the United States. The implementation of the agreement was linked to the establishment of an ILO programme designed to assess and promote compliance with core labour standards and national labour law in factories that are eligible for tariff advantages under HOPE II. This was referred to in the legislation as the Technical Assistance Improvement and Compliance Needs Assessment and Remediation (TAICNAR) programme. In collaboration with the Labour Ombudsman and the HOPE Commission, a presidential tripartite commission, Better Work Haiti, has been implementing the TAICNAR programme since 2009. In October 2020, the United States Congress renewed the Caribbean Basin Trade Partnership Act (CBTPA), initially set to expire at the end of September 2020 for Haiti and other Caribbean nations. The renewed trade deal guarantees protections for Haitian/U.S. trade partners for the next 10 years. The trade incentives linked to labour compliance as monitored by Better Work Haiti are significant. In fact, the legislation indicates that preferential treatment may be withdrawn, suspended or limited by the United States President from producers who fail to come into compliance with the core labour standards and national labour law that is related and consistent with those standards. Compliance is assessed by Better Work Haiti and is publicly available in the biannual synthesis reports published on the programme's website, which detail compliance findings and improvement efforts for each participating factory.

7.6 The way forward: strengthening institutions of work

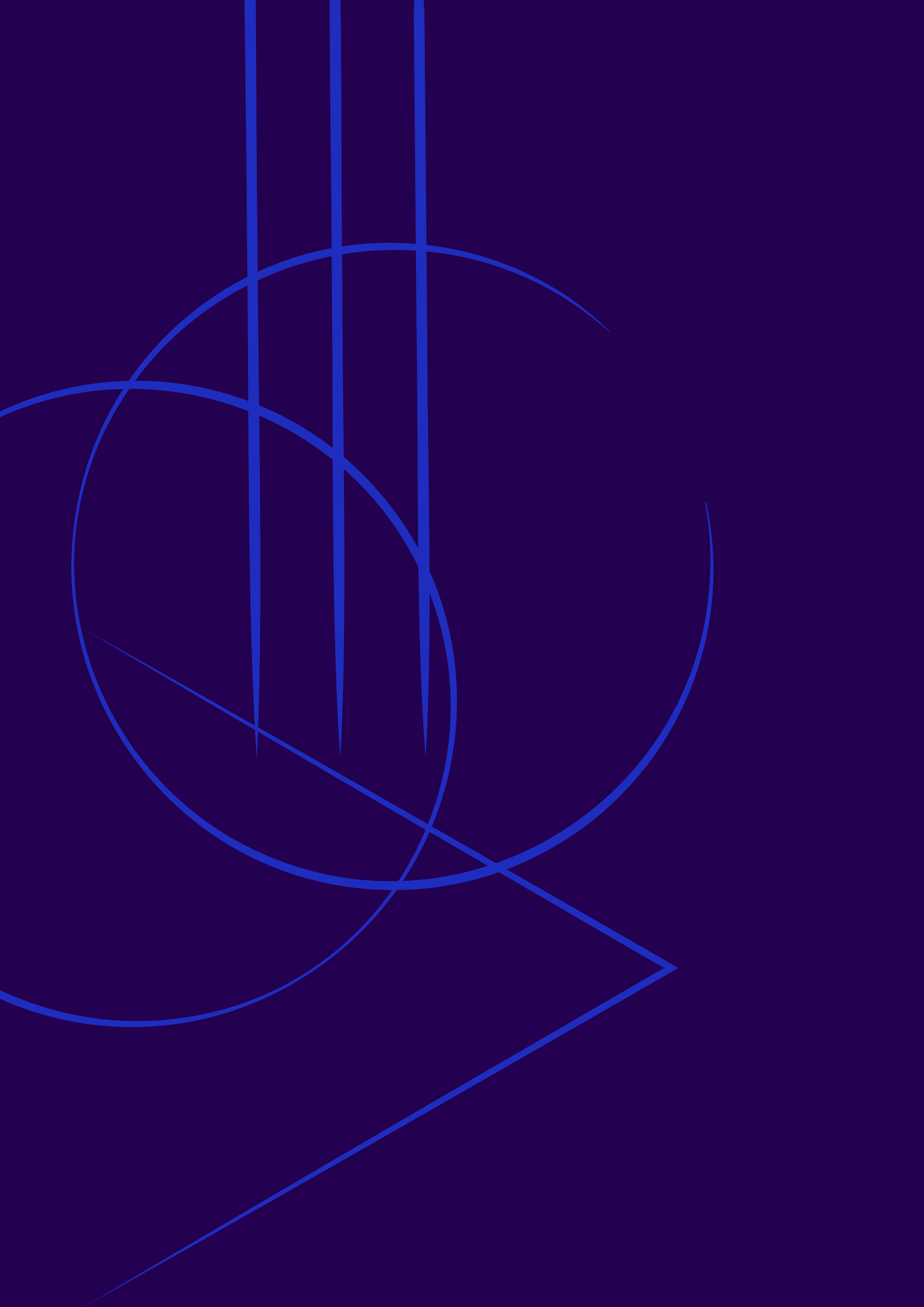
The experiences in LDCs both before and during the COVID-19 economic and social crisis reaffirm the role of the institutions of work, such as fundamental principles and rights at work, other labour standards and social dialogue. These experiences confirm that the LDCs have made, also in partnership with the ILO, substantial progress in the areas of rural work, transition to formality, enhanced recognition of rights, improved working conditions in supply chains in collaboration with the private sector, and addressing the rights deficits in countries undergoing political or armed crisis or natural catastrophes. Indeed, the fundamental principles and rights at work have proven invaluable in addressing decent work deficits.

Social dialogue and collective bargaining help meet a number of SDG targets and are also useful tools for reducing inequalities in general and reinforcing enterprise sustainability. The recognition of freedom of association and the existence of independent and robust workers' and employers' organizations are essential preconditions for effective social dialogue and need to be strengthened to contribute to sustainable social and economic development. Countries with effective social dialogue and wide collective bargaining coverage tend to have lower poverty rates and lower levels of inequalities. Information-sharing, consultation and negotiation thus help build concerted policies and design dynamic partnerships in LDCs and ODCs.

The responses to the COVID-19 crisis have also required integrated actions in various economic and social areas. These have included support to employment, enterprises and household incomes, interventions in the labour markets and large investments in health and occupational health and safety measures. Social dialogue, which is a vehicle for the realization of the fundamental principles and rights, has been widely used for this purpose. In fact, as discussed earlier, a significant number of LDCs have made use of both tripartite and bipartite social dialogue for emergency and adjustment measures and have frequently reached out to the informal sector. Improving the practices and institutions for dispute settlement is also a crucial element of mechanisms for recovery and building forward better.

Challenges remain in the LDCs, however, as trust in public institutions is often low and economic insecurity widespread. Revitalizing social dialogue to cover the informal economy and rural areas, and also to bring about the active engagement of governments, employers and workers is a key step in creating a virtuous circle that enhances trust in governance, greater fiscal space, public investments, decent work and economic security (UNDESA, 2021c). The role of the international community in helping LDCs to achieve decent working conditions is also crucial, particularly through just remuneration, basic rights at work, adequate social protection, and the capacity to negotiate and use social dialogue on work-related policies (UN, 2020a).

In this context, and as one response to the damaging effects of the pandemic, the UN Secretary-General called for a new social contract to "integrate employment, sustainable development and social protection, based on equal rights and opportunities for all" (UNDESA, 2021c). On the workers' side, ITUC released a call for a new social contract and for a successful sustainable recovery based on the following points: investments in decent and green jobs; universal social protection and a global fund for the LDCs; enhancing equality and combating vulnerability; finance recovery and resilience; and inclusive governance and social dialogue (ITUC, 2021b). Similarly, in their joint guidelines for a sustainable job recovery, the International Organization of Employers (IOE) and the World Employment Confederation (WEC) stress the need to intensify efforts to ensure an effective implementation of the SDGs, in particular SDG 8 for "sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all" (WEC and IOE, 2021).



Conclusions and recommendations

A new decade, a changed world

Addressing LDCs' structural challenges with the new sustainable development perspective

With the adoption of the Istanbul Programme of Action (IPoA) in 2011, Member States and UN entities committed themselves to "solidarity and partnership with the poorest and most vulnerable countries and their people" (UN, 2011, p.1). The structural weaknesses that still characterize the LDCs have rendered them more vulnerable to the current COVID-19 and climate crises and will be further exacerbated if the LDCs do not fully participate in the global recovery. The Doha Programme of Action (DPoA) is now tasked with guiding the international response to the structural challenges of the LDCs as they have been compounded by the current crisis, making *build forward better* a more compelling objective.

The comprehensive agenda adopted by the 76th session of the UN General Assembly on 17 March 2022 as the next Programme of Action for the LDCs highlights the interlinkages between the economic, social and environmental dimensions of developing productive capacities and improving governance at all levels as a source of enhanced well-being, economic resilience and poverty reduction. In the IPoA, Member States, development partners and the UN system acknowledged the importance of an integrated approach to policies and agreed on a set of actions and support measures based on the principle of shared responsibility, partnership and solidarity to overcome "the structural challenges faced by the least developed countries in order to eradicate poverty, achieve internationally agreed development goals and enable graduation from the least developed country category" (UN, 2011, para 27).

The holistic view on sustainable development and human rights set forth in the 2030 Agenda remains a solid basis for future policies. It envisages "… a world of universal respect for human rights and human dignity, the rule of law, justice, equality and non-discrimination; of respect for race, ethnicity and cultural diversity; and of equal opportunity permitting the full realization of human potential and contributing to shared prosperity" (UN, 2015a). The 2030 Agenda for sustainable development implicitly calls for the universal realization of social justice and of people's economic and social potential,[1] for an end to all forms of discrimination and for the achievement of all other fundamental principles and rights at work.[2] It provides a conceptual framework to understand how economic development, social justice and environmental sustainability are interrelated objectives leading to more sustainable and resilient societies. Social justice, when realized through inclusive and sustainable development, can guarantee that societies are resilient and can generate a shared and lasting improvement in living conditions. The universally agreed concept of sustainability enshrined in the 2030 Agenda is thus also a call for social justice within and between national borders and generations.

SDG 8 underscores the fundamental link between sustained and sustainable growth that is inclusive and therefore able to address poverty and inequality challenges on the one hand, and the creation of full and productive employment and decent work for all on the other. Productive capacities need to increase both productivity and employment. Investment creation, the adoption of new technologies, and the promotion of exports and productive sectors are intended not to create enclaves of productivity and income generation but broad-based sources of employment opportunities and decent work.

Key objectives of the IPoA of 2011 are reflected in the SDG 8 targets of "at least 7 per cent gross domestic product growth per annum in the least developed countries" and "higher levels of economic productivity through diversification, technological upgrading and innovation" (targets 8.1 and 8.2). In the 2030 Agenda, however, the development targets are expanded and include supporting "productive activities, decent job creation, entrepreneurship, creativity and innovation" encouraging "the formalization and growth of micro-, small- and medium-sized enterprises", achieving "full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value", eradicating "forced labour, end[ing] modern slavery and human trafficking and worst forms of child labour" as well as protecting "labour rights and promot[ing] safe and secure working environments for all workers, including migrant workers" (targets 8.3, 8.5, 8.7 and 8.8). Thus, as the sustainable development paradigm has expanded its scope, the implementation of the new Programme of Action will require integrating the elements of productive capacity and sustained growth perspective into the decent work and sustainable development perspective of the 2030 Agenda. It is therefore crucial to ensure that all elements of SDG 8 and related SDGs are integrated into current and future actions for the LDCs and that "decent work lenses", as suggested in that goal, are adopted to assess the effectiveness of support measures and success in addressing the structural challenges facing LDCs.

1 In so doing, the 2030 Agenda reaffirms the values and objectives of the ILO Declaration on Social Justice for a Fair Globalization, adopted by the International Labour Conference at its 97th Session on 10 June 2008 (ILO, 2008).

2 These rights and principles, based on the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up (ILO, 2010), include: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

A human-centred approach and the future of work for the LDCs

The Doha Programme of Action for the LDCs sets the overarching framework and priorities for a new decade. “Investing in people” to “eradicate poverty” and “build capacity to leave no one behind” are key priorities for the DPoA and key features of the new global sustainable development agenda.

Investing in people is about adopting a human-centred approach to development and to the future of work. This approach is based on investing in the capabilities of people and putting “workers’ rights and the needs, aspirations and rights of all people at the heart of economic, social and environmental policies” (ILO, 2019a, section I, para D, p.3). It is also a framework for ensuring that their economic and social recovery from the COVID-19 crisis is “fully inclusive, sustainable and resilient”.[3]

Building productive capacities is imperative for the LDCs to address their structural vulnerabilities. Productive capacities include fostering not only economic linkages and entrepreneurial capacities, but also human capabilities, skills, effective institutions of work and social protection systems that facilitate a structural transformation to more sustainable and resilient forms of production, income generation and distribution.

The rights-based nature of the 2030 Agenda entails strengthening the institutions of work and respect for rights at work. These rights underpin the vital implementing mechanism of social dialogue and call, among other things, for respecting freedom of association and promoting collective bargaining, both of which empower men and women to be actors in, rather than targets of, sustainable development policies. This involves reinforcing the application of international labour standards to underpin the drive for more productive and competitive production, inclusive growth and development.

Investment in people as part of a human-centred approach to development and to the future of work is a precondition for obtaining “structural transformation as a driver of prosperity” and “supporting our climate, recovery from COVID-19 pandemic, and building a resilient society against future shocks”, which are two other fundamental action areas in the current programme of action.

This chapter draws conclusions from the analysis developed in the report and indicates additional and related areas of policy intervention that are crucial to the realization of the objectives of the DPoA.

The second section of this chapter summarizes the conclusions that broadly correspond to three of the DPoA’s *focus areas for action:* (III) Supporting structural transformation as a driver of prosperity; (II) leveraging the power of science, technology and innovation; and (IV) enhancing international trade of least developed countries and regional integration. Section three draws conclusions corresponding to focus area (I), investing in people in LDCs: Eradicating poverty and building capacity to leave no one behind. Section four covers issues from focus area (VI) mobilizing international solidarity, reinvigorated global partnerships for sustainable development, while cross-cutting area (V) – addressing climate change, recovering from the COVID-19 pandemic, and building resilience against future shocks – is addressed throughout.

The chapter concludes with recommendations for actions essential to the effective implementation of the DPoA.

3 For the human-centred approach to the future of work and recovery, see the ILO Centenary Declaration for the Future of Work (ILO, 2019a) and the “ILO Global Call to Action for a Human-centred Recovery from the COVID-19 crisis that is inclusive, sustainable and resilient” (ILO, 2021l).

Structural transformation, productive capacities and transition to more sustainable growth

Sustainable growth and the generation of full and productive employment rely on environmentally sustainable economic transformation that is socially inclusive and expands the productive capacities of economies. Economy-wide and industry-level productivity growth needs to be guided by integrated employment and industrial policies that address the need for physical and human investments. This should include creating an enabling environment for enterprises and strengthening the social protection systems and institutions of work that foster growth- and employment-enhancing structural transformation.

National development policies and international trade and finance frameworks should promote institutional, policy and regulatory reforms directed at strengthening sectoral productivity growth, technology transfer and adaptation, entrepreneurship, access to finance and formalization of the informal economy, with a focus on the promotion of decent work.

Ultimately, growth- and employment-enhancing structural transformation is the result of investing in people and building institutions aimed at improving the future of work and generating full and productive employment in a sustainable way.

Comprehensive employment policies and investing in youth to realize economic and demographic potentials

National employment policies and more targeted policies such as youth employment strategies prepared by countries with the support of the ILO have been effective instruments in addressing the challenges faced by the LDCs. They have also highlighted the importance of active dialogue and collaboration between governments, workers and employers in the identification of priority challenges and the design of policy measures.[4]

National employment policies can also help harness the potential of digital technologies. These technologies can deliver considerable benefits to LDCs provided that significant investment is made in capital and people to create the complementary skills and in general the human capability and productive knowledge necessary to use the technologies in a productive and inclusive way and support decent work.

A well-defined industrial and employment policy framed within an integrated development strategy is essential to optimize private sector participation and guarantee the productive and inclusive use of digital connectivity and related technologies in the LDCs. This is particularly important in LDCs where labour underutilization in its different forms is critical among younger cohorts, undermining their prospects for on-the-job skills acquisition, employability and future earnings. Addressing youth employment requires a set of holistic policy measures centred around employment and economic policies, education and skills development, labour market policies, youth entrepreneurship and self-employment and rights for young people.[5]

Skills development is part of any development and employment strategy aiming at structural transformation. In this regard, digital skills are particularly relevant for the LDCs and can help realize productivity growth and the decent employment potentials of digitalization. A variety of skills are needed, however, ranging from job-neutral digital skills and job-specific digital skills to job-neutral soft skills, such as communication, management, analytical and critical thinking, and creativity. LDCs need a strategy that engenders a virtuous circle in which improving the quality and availability of education and training for women and men fuels the innovation, investment, technological change, enterprise development, economic diversification and competitiveness that economies need to accelerate the creation of more but also better jobs and thereby improve social cohesion. This should be realized as part of a process of analysis and dialogue to help governments, employers and unions identify and meet the skills needs of sectors with the potential to increase productivity, wages and employment through competitive exports. Institutions that support skills development in the form of lifelong learning, transition from school to work

4 Employment Policy Convention, 1964 (No. 122).

5 See also the resolution and conclusions relating to “The youth employment crisis: A call for action”, adopted by the 101st Session, 2012, of the International Labour Conference.

and between jobs, and infrastructure investment framed within broad employment and industrial policies should be bolstered in an integrated manner as part of reinvigorated social dialogue.

Enabling environment and enterprise development

Despite some progress, many LDCs are struggling to embark on a growth- and employment-enhancing structural transformation that is accompanied by enterprise development. A human-centred recovery that is inclusive, sustainable and resilient against future economic shocks, including climate crises and pandemic-related crises, requires strengthening the current activities of enterprises, reinforcing the strategic sectors of the economy and accelerating structural transformation towards more productive and sustainable activities. More coordinated action and stronger policy coherence, embedding enterprise development in a broader national development strategy, are needed to harness (i) the capacity of large enterprises to lead structural transformation; (ii) the capacity of small enterprises to support jobs and become integrated into more productive activities and market systems; and (iii) the capacity of the social and solidarity economy to expand the ability of enterprises to meet social and environmental goals. Formalization of enterprises and inclusive access to technology can help close the gap between small, informal and low-productivity firms and large, formal and competitive ones and can also deliver the benefits associated with participating to domestic and international value chains.

LDC enterprise development policies should clearly address the distinctive needs of micro, small and medium-sized enterprises (MSMEs) and large business units as part of a coherent strategy to promote their expansion and integration. The two-pronged approach to enterprise development calls for pairing policies that foster MSME development with policies that encourage large-firm creation from foreign direct investment (FDI) through investment promotion. Such policies should ensure that conditions at work result in equity, including gender equality; poverty eradication; and social welfare; and they should aim at increasing productivity and employment leading to the process of structural change.

The Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy provides guidance to both governments and multinational enterprises (MNEs) on how to maximize the contribution of MNEs to economic and social progress and the realization of decent work for all. The revised MNE Declaration of 2017 re-emphasized its recommendation on government and private sector action on employment promotion, wages, social security, occupational safety and health, transition from the informal to the formal economy and the elimination of child labour and forced labour (ILO, 2017b). LDCs need to be supported in establishing or strengthening their investment promotion as well as tripartite and dialogue structures to foster policy coherence across ministries and to engage in dialogue with MNEs on issues of shared concern.[6] Social dialogue; respect for labour standards and universal human rights; the promotion of social justice and social inclusion; and the empowerment of groups with unfulfilled potential, such as youth, women and migrants are other key factors for enterprise development in a context of sustainable socio-economic transformation.

Transition to climate-resilient and environmentally sustainable economies

"Addressing climate change, environmental degradation, recovery from the COVID-19 pandemic and building resilience against future shocks for risk-informed sustainable development" is another focus area of the DPoA. Resilience is a multidimensional concept, and "building resilience" requires the full involvement of social and economic institutions and the inclusion of all actors and stakeholders (government at all levels, social partners – workers' and employers' organizations – and development partners).

Climate change and environmental degradation are profoundly affecting economies, enterprises, workers and societies throughout the world, reflecting the global interconnectedness of environmental sustainability, poverty reduction and inclusiveness of development. There is compelling evidence to suggest that it is not climate action but rather inaction that will cause the destruction of jobs and livelihoods of millions of people, while the achievement of the objectives

6 An interagency technical committee (including ILO, UNCTAD, UNDP, UNEP, UNIDO, UN-OHRLLS, UNWTO, the WBG the EIF) has been created as part of the implementation of the IPoA to advise further on how best to follow-up on its recommendations and enhance the effectiveness of UN support.

of the Paris Agreement on Climate Change, including ensuring a just transition for all, can preserve incomes and livelihoods and result in significant new job creation (ILO, 2018f).

Sustainable economic transformation should be based on a *just transition* paradigm of production and consumption founded on social dialogue. This approach is indispensable for a truly transformative change to a low-carbon and resource-efficient mode of production and consumption that is inclusive and provides full and productive employment and decent work for all.

The creation of more and better jobs that are environmentally friendly should be at the centre of the transition to low-carbon economies, which requires well coordinated policies developed by governments in cooperation with social partners.[7] The ILO Guidelines for a just transition towards environmentally sustainable economies and societies for all, adopted by tripartite consensus, reflect this approach to just transition, focusing on the creation of decent work and quality jobs in accordance with nationally defined development priorities and the importance of a participatory process of social dialogue involving all social partners. Nearly 50 countries, including LDCs, have made commitments to formulate national just transition plans to make climate change a people-centred agenda and create more decent jobs.

More investment in people and reinvigorating the social contract

Eradicating poverty: a key objective of a human-centred approach

Poverty remains pervasive in the LDCs and represents a serious threat to the achievement of the 2030 vision of a "just, equitable, tolerant, open and socially inclusive world in which the needs of the most vulnerable are met" and "a world in which every country enjoys sustained, inclusive and sustainable economic growth and decent work for all" (UN, 2015a). Poverty eradication and sustainable development require the creation of more productive employment and decent work that allows for shared prosperity, widespread well-being and fulfilment of people's potential and dignity. Creation of decent work for all is thus a fundamental component of SDG 8, aimed also at ensuring that no one is left behind. Poverty is a multidimensional phenomenon, and all the action areas discussed in this chapter involve the capacity to address and contribute to poverty reduction.

Universal social protection for all people and to support an inclusive recovery, structural transformation and a just transition

Social protection systems, including floors, are essential elements for building lasting productive capacity, eradicating poverty and supporting just transitions and therefore structural transformations. Well-designed social protection systems boost incomes, domestic consumption, access to healthcare and the development of human capabilities, and also enhance productivity. The COVID-19 pandemic has reaffirmed the major role of social protection, employment policies and labour market institutions in mitigating shocks, reducing extreme and persistent poverty and enabling workers and enterprises to navigate the changing world of work, including just transitions to greener economies. Social protection systems, along with labour-intensive employment creation programmes, have played a central role in reducing systemic vulnerability to shocks and extreme poverty and helping with transitions from conflict to peace. Together with internationally supported public health,

7 See ILO (2015b).

domestic and international financial policies, social protection and employment policies are an essential component of a much-needed human-centred recovery from the crisis.

Solid social protection systems, working coherently and in coordination with labour market and employment policies, and broader policies to promote the formalization of enterprises and employment increase countries' capacity to deal with large-scale, multifaceted and complex crises, to effectively protect individuals and businesses, and to accelerate recovery. Promotion of the ratification and application of international social security standards in LDCs should therefore be stepped up, including in particular with respect to the Social Security (Minimum Standards) Convention, 1952 (No. 102) and the Social Protection Floors Recommendation, 2012 (No. 202).

Social protection systems support higher productivity and facilitate transitions to the formal economy, which contributes in the longer term to a more sustainable and equitable financing of social protection. This, however, requires reinforced international collaboration and a change in the international financial and fiscal system that recognizes the specific needs of LDCs.

In this regard, the global accelerator for jobs and social protection (UN, 2021d) launched by the UN Secretary-General in September 2021 and led by the ILO, helps achieve this objective by assisting LDCs in designing integrated policies and strategies and in closing the financing gap they are experiencing in establishing their national social protection floors. Those floors would guarantee, at the very least, access to essential healthcare and a basic level of income security for the population as a key element of supporting a just transition.

Fundamental principles and rights at work, and social dialogue

The strengthening of *institutions of work* – such as social dialogue, international labour standards, labour market institutions and labour administration institutions – is vital to holding together and reinvigorating the *social contract* between all actors of society in the LDCs and enabling the economic and social transformation they need for fully sustainable development. Such institutions, complemented by other institutions devoted to investing in people, such as health, education, training and social protection systems, are central to a *human-centred approach* to the future of work and *human-centred recovery from the COVID-19 crisis that is inclusive, sustainable and resilient*. Institutions of work are therefore a catalytic force for a *just structural transformation* that encompasses economic, social and environmental sustainability, productive employment and decent work in the LDCs.

The LDCs have made substantial progress in strengthening the institutions of work, often in partnership with the ILO. Yet while many LDCs have ratified some of the ILO's fundamental Conventions there are still gaps in ratification and effective application, and there has been a gradual deterioration of compliance with freedom of association and collective bargaining in the region, as shown by indicator 8.8.2 of SDG 8. Moreover, social dialogue, collective bargaining and other fundamental principles and rights at work need to be strengthened to better protect and support decent work in rural areas and among informal workers. This, and the active engagement of governments, employers and workers, is vital to creating a virtuous circle that bolsters trust in governance and creates greater fiscal space, public investments and decent work and economic security.

During the COVID-19 crisis a large number of LDCs made use of both tripartite and bipartite social dialogue for emergency and adjustment measures and frequently reached out to the informal sector. The recognition of freedom of association and the existence of independent, robust workers' and employers' organizations are prerequisites for effective social dialogue; they must be strengthened to contribute to sustainable social and economic development. Practices and institutions for dispute settlement need to be improved.

In this regard, the UN Secretary-General has called for a *new social contract* to "integrate employment, sustainable development and social protection, based on equal rights and opportunities for all" (UNDESA, 2021c). The International Trade Union Confederation (ITUC) has launched a call for a new social contract for a successful sustainable recovery based on the following points: investments in decent and green jobs; universal social protection and a global fund for the LDCs; enhancing equality and fighting vulnerability; finance recovery and resilience; and inclusive governance and social dialogue (ITUC, 2021b). The International Organisation of Employers (IOE) and the World Employment Confederation (WEC) have stressed, with their joint guidelines for a sustainable job recovery, the need to intensify efforts to ensure an effective implementation of the SDGs, in particular SDG 8 (WEC and IOE, 2021).

Transition to formality for decent work and supporting productivity

Informality is an obstacle to inclusiveness, decent work and the mobilization of domestic resources necessary to support investments to empower people and reinforce policies and expenditures that foster productivity. High levels of informality and low social protection coverage are associated not only with precarious working conditions but also with small, unproductive enterprises that have limited access to finance and weak prospects for growth – which in turn holds back productive employment and socio-economic development. The great importance of the informal economy in the LDCs is also one of the primary causes of poor performance in the collection of revenues, thereby limiting countries' fiscal base and diminishing opportunities for productive investments.

The COVID-19 pandemic has accentuated existing vulnerabilities associated with informality, which has led to many countries introducing unprecedented temporary measures to protect the incomes and livelihoods of informal sector workers and enterprises in an attempt to keep them afloat.

Prior to the pandemic, many countries had extended coverage to workers in the informal economy and facilitated the transition to the formal economy. Transition to formality is a key component of development and structural transformation and is a source of multiple dividends. These include protecting individuals' incomes and health, enhancing systemic spillover effects of productivity and employment growth across sectors of the economy and strengthening the financial and fiscal sustainability of social protection systems by extending both the contribution and tax base.

The Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), and its plan of action are recognized as major policy frameworks for joint action with other UN agencies and multi-stakeholder partnerships. The Recommendation contains guidance on integrated polices for the progressive transition to formality of the large informal economies of many Member States in which a high proportion of the world's poorest women and men work. Action on the policies proposed in the Recommendation by governments and workers' and employers' organizations and supported by the ILO and partners would consolidate progress towards all of the SDGs.[8]

Mobilizing international solidarity and reinvigorating global partnerships for sustainable development

The socio-economic impacts of the COVID-19 pandemic and the response measures undertaken by the LDCs have increased already high debt levels in these countries, which even before the crisis were often either in debt distress or at high risk of debt distress.[9] Helpful international financial measures that need to be scaled up include: the Debt Services Suspension Initiative (DSSI) provided by the G20 until the end of 2021 to the LDCs and other eligible countries under monetary and financial distress; the G20 Common Framework for Debt Treatments beyond the DSSI; and changes in the international tax system that prevent base erosion, profit shifting, illicit financial flows and immediate access to more liquidity, including by reallocating the newly issued Special Drawing Rights (SDRs). Yet these may not be sufficient to weather their financial crisis and meet their immediate and concurrent needs to respond to the pandemic, which is essential if they are to build forward better. International support in the form of additional resources and debt relief are now needed, and it will be crucial to scale up official development assistance (ODA) to meet existing commitments, avoiding the reductions that may follow budget pressures in development partner countries. In the LDCs, the socio-economic impacts of the pandemic affected their capacity to embark on a process of sustained structural transformation and the generation more and better jobs. These countries urgently require development assistance to launch a reinvigorated process of human-centred development.

8 ILO Recommendation No. 204 concerning the transition from the informal to the formal economy, adopted by the 104th International Labour Conference on 12 June 2015 (ILO, 2015a).

9 See UNCTAD's 2021 LDC report (UNCTAD, 2021).

Recommendations for international and national action

The conclusions of this report point to a number of policy recommendations that are pivotal for implementing the DPoA and improving the future of work for the LDCs.

1. **Expand international assistance and cooperation to provide emergency financial assistance and make more permanent changes in the international financial and fiscal system in order to foster sustainable finance for the LDCs.** These changes will increase fiscal space in LDCs and, when accompanied by less policy conditionality, will allow these countries to better face the challenges of the COVID-19 crisis and obtain much-needed financing for structural transformation and long-term sustainable development.

2. **Extend social protection systems and promote the ratification and application of international social security standards in LDCs.** Closing gaps in social protection coverage and adequacy by prioritizing the extension of health protection to achieve universal health coverage and guaranteeing at least a basic level of income security through benefits in cash and in kind is vital to providing a minimum set of basic guarantees, with participatory mechanisms to ensure effective design and accountability.

3. **Strengthen national institutional and local capacity and create an enabling environment for sustainable enterprises, including supporting investment through investment promotion agencies and expanding participation in regional trade networks and supply chains.** The LDCs need more coordinated action and stronger policy coherence to harness the capacity of large enterprises to lead structural transformation; the capacity of small enterprises to become integrated into more productive activities and market systems; and the capacity of the social and solidarity economy to enable poor people to join forces and have a collective voice in their productive future and further market opportunities. The application of ILO conventions and recommendations can provide a framework for the public and private sector to enhance the effectiveness of national efforts in the areas of employment, training, improvement of conditions of work and life, industrial relations, inclusive growth and decent work.

4. **Promote transition to formality to improve work quality, effectiveness of social protection and domestic resource mobilization.** Policy actions for the new programme of action for the LDCs should include addressing the causes of informality and providing incentives for the formalization of informal businesses and the transition from informal to formal employment.

5. **Create financial and non-financial partnerships.** The ILO itself is by design a three-way partnership between governments, employers' organizations and workers' organizations – the social partners. The LDCs can expand their partnerships at the national, regional and international levels, including through South-South and triangular cooperation, which are a means to unlock additional resources, intensify collaboration and improve the effectiveness of efforts to achieve the SDGs. Giving voice to actors representing locally based, community-oriented and member-based organizations with a strong presence in rural areas – such as cooperatives and other social and solidarity economy organizations – is also critical to optimizing available resources in order to realize the SDGs.

6. **Create decent work opportunities and promote equal rights and opportunities for all in the world of work.** This applies especially to women, who are disproportionately represented in own-account, unpaid family and informal and precarious jobs, and are also victims of abuse of non-standard contracts in the LDCs. Investing in health and care services to create jobs and address gender inequalities, and promoting women's entrepreneurship are particularly important to support livelihoods. Migrants, including refugees and displaced persons, need to be protected and integrated into the labour market regardless of migration status.

7. **Strengthen institutions and policies for employment and decent work creation.** (i) Develop strong and well-run *national employment policies*, in close coordination with the relevant government agencies; collect reliable labour market information to facilitate monitoring of progress; coordinate social protection policies with labour market and employment policies and broader policies to promote the formalization of enterprises and employment; and promote social dialogue to ensure effectiveness and accountability. (ii) Invest in labour market institutions, including minimum wages, employment protection and strengthened employment services. Enable productive transformation through strategic interactions between public agencies and the private sector, with labour market programmes, employment services and training and financial institutions as key facilitators. This includes (iii) reshaping skills development systems and addressing key skills gaps that arise from changes in demand and the digital revolution. (iv) Promote public and private investments in infrastructure, skills development, innovation, and new and growing sectors (e.g. by promoting the use of green technologies and closing the digital gap). (v) Promote employment-intensive public employment programmes and hiring subsidies to support those hard hit by the crisis (e. g. youth and women).

8. **Strengthen institutions of work and build capacities for enabling rights, such as freedom of association, collective bargaining and other fundamental principles and rights at work.** Enabling women and men to exercise their fundamental human rights, including fundamental principles and rights at work, is essential for the mobilization of broad-based action for sustainable development. Strengthening the role of institutions of work and the active engagement of social partners are fundamental steps to create a virtuous circle that improves trust in government, facilitates a progressive shift to high value added and environmentally sustainable activities, helps reduce poverty and inequality and ensures that this transformation contributes to social justice and fortifies the social contract of people in the LDCs.

9. **Enhance policy coherence between climate and environmental change and decent work objectives.** Integrated policies are essential to reduce the vulnerability of LDCs to climate and environmental change, increase economic resilience and preserve jobs and incomes. The transition to environmental sustainability must be guided by economic and social policies enabling a *just transition for all*, taking into account the specific situation of LDCs.

10. **Support capacity-building and partnerships to strengthen statistical data collection and analysis.** High-quality, timely, reliable and disaggregated data are needed by governments to evaluate their current situations, establish baselines, develop effective policies, review progress and make policy adjustments to achieve the SDGs.

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Advancing social justice, promoting decent work

The International Labour Organization is the United Nations agency for the world of work. We bring together governments, employers and workers to drive a human-centred approach to the future of work through employment creation, rights at work, social protection and social dialogue.

This ILO report provides an overview of the state of progress and the structural challenges faced by least developed countries (LDCs) along the dimensions of structural transformation, productive employment and just transition. It describes current trends in production, productivity, employment and decent work, as well as the role of social protection and institutions of work. It highlights the structural and labour market vulnerabilities most relevant for the LDCs and how they have affected the COVID-19 impacts and recovery prospects for the LDC economies and their populations.

To support a strong recovery in the LDCs that lays the foundation for long-term sustainable development, a renewed partnership with the LDCs and a set of national and global actions are required. These include employment and industrial policies, institutional reforms, measures to promote an enabling business environment for enterprises, investments in expanding human capabilities and productive capacities and strengthening the institutions of work.

The report proposes a human-centred framework for a resilient and inclusive recovery that can set the LDCs on a sustainable development path towards a brighter future for their world of work.

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