

Draft concept – Proposed narrative and targets for inclusive and sustainable economies

Introduction:

The consultations for a post-2015 development framework pose a unique opportunity to shift the current paradigm towards a more inclusive model built on a consensus aimed at creating sustained prosperity for all. To be effective, it should comprise building blocks of issues that require international cooperation to facilitate the long-term transformations that underpin progress in human development and eradicate poverty in all its forms. Such a global partnership for sustained prosperity will furthermore benefit from a more participatory approach that mobilizes all who have a stake in inclusive and sustainable development - including the public and private sectors and civil society.

The proposed goals and targets provide input for the formulation of such building blocks.

Goal: "Promotion of vibrant and inclusive economies"

Unambiguously, economic development, and in particular development of the productive sectors, is a critical driver of enduring poverty reduction. Through its emphasis on productive capacities and value-addition to primary resources, manufacturing has a transformative impact on economic structures and plays a pivotal role in encouraging technological development, productivity, innovation and trade. Sustained prosperity requires a long-term strategy, and building a solid manufacturing base implies putting in place an environment of stable economic, legal and political conditions, as well as creating a policy incentive to invest in education, training and knowledge acquisition over time. Beyond this, it also achieves socio-economic impact that is reflected in the generation of employment and income and the promotion of skills and entrepreneurship. All combined, these have proven to be instrumental factors for enhancing human development overall.¹ The promotion of vibrant and inclusive economies therefore will be key determinant for adequately responding to the persistent development challenges that endured the past decades in order to trigger the necessary social and economic transformation² needed to realize sustained prosperity for all.

The private sector and its constituting characteristics build the foundation for a vibrant and inclusive economy. In developing countries, SMEs are responsible for a large proportion of economic activity and hence are important actors for driving economic growth, equitable development and job creation. In the case of agriculture-based economies in LDCs for example, agro-based enterprises spur the much needed structural changes through the value-addition to primary resources and enhance productivity and competitiveness. However, SMEs often experience difficulties in achieving internal economies of scale in the acquisition and use of production inputs, in producing the output quantity that meets market demand, in achieving the quality standards necessary to reap market opportunities, and in fostering innovation. As experience has proven, these challenges are mainly due to the lack of connectedness of SMEs in developing countries rather than their size. In fact, the economies of many high-income countries equally depend on dynamic SMEs for sustaining GDP growth and employment which - through their networks, surrounding environment and strong institutions - have transformed their size into a critical business advantage. In fostering vertical and horizontal business linkages and

¹ e.g. "Human Development Report 2013 – The Rise of the South", UNDP (2013)

² As highlighted in the Communiqué from the Meeting of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda in Monrovia, this transformation agenda should: create jobs, develop infrastructure, raise productivity, improve competitiveness and promote sustainable production and consumption.

collaborative relations with local support institutions, SMEs can boost their competitiveness through reaching external economies of scale, specializing in their core business and encouraging knowledge exchange and learning. Vibrant actors will however not suffice to achieve the aspired development impact. A strong enabling environment is needed for the private sector to prosper and to bring about more inclusive market outcomes in the form of more sustainable jobs and income as well as affordable goods and services. The public sector must promote institutional reforms and a pro-active policy environment that incorporates a long-term development vision and builds trust and cohesion. Hence, tailored strategies for investment in infrastructure, education, technological progress and innovation, as well as social services will be needed.

In this context, the importance of trade participation and export promotion has been repeatedly highlighted as a catalyst for development progress.³ Engaging in global markets has been a large factor in the success of developing countries in Asia and elsewhere in the past years. For countries to trade internationally, they are increasingly dependent on the attractiveness of their private sector enterprises as partners for transnational corporations and their ability to enter into global value chains. This requires substantial supply-side investments to increase the productivity of producers and help firms diversify into new products with high export potential. Market conformity, enabling these same enterprises to ensure that their products conform to relevant international standards, is of equal importance. In addition, complementary policy reforms are necessary so as to lower the cost of trading for developing countries. Furthermore, trade participation can also drive the stronger integration of corporate social responsibility considerations into the business conduct of enterprises in developing countries.

Fostering "vibrant and inclusive economies" promises to be an effective response to the high priority poor people place on jobs and financial security as it is an essential lever for lifting themselves out of poverty. Such economies would also be more resilient to external shocks as they are well prepared to develop the productive resources, entrepreneurial capabilities and production linkages which allow a country to produce the goods and services that enables it to enjoy more stable, inclusive and sustainable growth. However, it will be crucial to ensure that the pursuit of this goal is well coordinated with the measures to ensure more environmentally sustainable patterns of production and consumption (see below). In regards to implementation, this goal could suggest a meeting point between the aid agenda of traditional donors, priorities of emerging development partners and current development concerns of recipient countries thus laying the foundation to realize a global partnership for sustained prosperity for all.

Related targets:

The "promotion of vibrant and inclusive economies" is dependent on set of interconnected indicators which should include concrete targets on the following issues:

- *productive capacity*: value addition (e.g. Manufacturing Value Added, MVA)
- *an enabling environment for business*: ease of doing business; modern regulatory and legal framework; trade facilitation; access to finance; etc. (e.g. IFC's Doing Business Index);
- *infrastructure*: access, quality and sustainability of transport, energy, water, telecommunications systems
- *employment*: highlighting the labour/productivity dimension of industry
- *entrepreneurship*: access and quality of skills training and education for productive activity
- *integration of local, regional and global value chains*
- *resource mobilization for productive investment*

³ "Manufacturing the Future: the next Era of Global Growth and Innovation", McKinsey Global Institute (2012)

- *economic resilience and connectedness (e.g. UNIDO's Competitive Industrial Performance Index; UNIDO's Connectedness Index)*

Goal: "Sustainable Production and Consumption"

As countries pursue prosperity and develop economically, the potential for negative environmental consequences is very high. With rising population and income levels, damaging patterns of production and consumption are amplified and are threatening to test planetary boundaries. The key challenge for the future development trajectory of developing countries is therefore to decouple economic growth from unsustainable resource use and negative environmental impacts.

Decoupling typically refers to the ability of an economy to grow without corresponding increases of pressures on the environment. This implies a shift away from labour- and resource-intensive production towards resource-efficient productivity. Thus, less energy and raw materials is used to deliver more goods and services, new industries, and new jobs. Resource productivity entails the continuous application of preventive strategies and total productivity methods to processes, products and services. This would hence reduce risks to human health and the environment and help make economies more resilient to coming change. The positive effects on global resource consumption, pollution levels and the climate would be bolstered by the generation of employment through new business opportunities. However, decoupling will require significant changes in government policies, corporate behaviour, and consumption patterns by the public.

The importance of the manufacturing and related sectors to the process of decoupling cannot be emphasized strongly enough. Since industrial growth is needed to alleviate poverty, deliver goods and services, create jobs, and raise living standards,⁴ the manufacturing industries are the primary site at which environmentally-friendly interventions must take place. The promotion of a green manufacturing approach as well as the creation of green industries (such as 3R industries) will facilitate sustainable patterns of production and consumption that are resource- and energy efficient, low-carbon, low-waste, nonpolluting, safe, and which produce products that are responsibly managed throughout their lifecycle.

For economic growth to be sustainable, it must not only be environmentally sound, but also economically and socially viable. The environmental dimension of sustainable development cannot be treated in isolation from the others. It therefore also needs to be inclusive, in addition to competitive,⁵ underpinned by suitable policies, such as: polluter-pays-principle, environmental impact assessments, environmental taxes, participatory and inclusive processes, access to information and right to know provisions, as well as compensation schemes.⁶ The larger structural rearrangements of the world's political economy in this context lie beyond any one government's ability to manage and need to be formulated and adopted through collaborative processes.

Related targets:

- efficient use of materials, energy and water
- reduction of wastes and emissions
- safe and responsible management of chemicals, the phasing out of toxic substances
- substitution of fossil fuels with renewable energy sources
- redesign of processes and products.

⁴ Reinert, E., *How Rich Countries Got Rich . . . and Why Poor Countries Stay Poor*, Public Affairs, London, 2008

⁵ Hinterberger, F., Giljum, S. et al., *Green Growth: From Labour to Resource Productivity - Best Practice Examples, Initiatives and Policy Options*, Sustainable Europe Research Institute (SERI), Vienna, forthcoming

⁶ Schomaker, M., Keating, M. (eds.), *Global Environment Outlook - GEO4*, UNEP, Nairobi, 2007