Gaps, Limitations and the Way Forward

UNCTAD Assessment of Progress in the Implementation of the Vienna Programme of Action for the Landlocked Developing Countries for the Decade 2014-2024
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I. BACKGROUND

1. Landlocked developing countries (LLDCs) face a number of unique challenges in their quest for development, partly due to their geographical position, and the structure of their economies. Their lack of direct access to the sea makes them dependent on transit countries to effectively link to global markets. Furthermore, their geographical distance from the nearest seaport puts them at a disadvantaged position in terms of time and cost for the transportation of goods. This is because land-based transportation is significantly more expensive than maritime transportation. Often, the problem of distance is compounded by the challenges of multiple border crossings, diverging customs procedures and requirements, and incompatible transport systems and regulations. As a result, on average, LLDCs have less trade and incur up to 50% more trade costs, according to a study by the World Bank.1 Furthermore, 26 of the 32 LLDCs are dependent on primary commodities for more than 60% of their exports, rendering them highly vulnerable to external price shocks, and limiting the impact of trade and growth on employment and poverty reduction.

2. The dual challenges facing LLDCs (remoteness from the sea and commodity dependence) have an adverse impact on their overall development prospects. 17 of the world’s 32 Landlocked Developing Countries also belong to the category of Least Developed Countries (LDCs).

3. In order to address these challenges, the second United Nations Conference on the Landlocked Developed Countries, held in Vienna from 3 to 5 November 2014, adopted the Vienna Programme of Action for the Landlocked Developing Countries for the Decade 2014–2024 (VPoA).2 The overarching objectives of the VPoA are to enhance the inclusive and sustainable economic growth of these countries, and achieve substantial poverty reduction by addressing their special development needs arising from the geographical challenges facing them. To that end, the VPoA identifies six priorities for action, with specific goals and targets. The VPoA further recognizes that transit countries also face significant challenges, as the transit trade from neighboring LLDCs can impose additional burdens on their transport infrastructure and customs facilities. Therefore, the VPoA highlights the need for increased collaboration and coordination between LLDCs, transit countries and development partners.

4. In Resolution 72/232, the General Assembly decided to convene a comprehensive Midterm Review (MTR) of the implementation of the VPoA in 2019. The MTR will assess progress made in the implementation of the VPoA, identify and articulate persistent and emerging challenges, obstacles and constraints encountered, as well as propose actions and initiatives needed to overcome them in order to further accelerate the implementation of the VPoA. UNCTAD, together with other United Nations bodies and other international organizations, was requested to make substantive and technical contributions to the MTR of the VPoA. The MTR is expected to provide renewed momentum and added impetus to the efforts being undertaken to enhance global partnerships and solidarity in support of LLDCs, and to effectively address their continued underdevelopment and marginalization in international trade and the global economy.

5. The present report provides UNCTAD’s assessment of the progress achieved by LLDCs at the mid-point of the implementation period of the VPoA in areas within its mandates. It identifies the key challenges ahead, together with policy recommendations for the way forward. A particular focus is placed on Priorities 3 (International Trade and Trade Facilitation) and 5 (Structural Transformation). The report argues that the commodity driven path to inclusive growth and sustainable development for the LLDCs has not delivered the intended results or benefits. Thus, a “business as usual” approach is no longer a viable option. It calls for a new generation of development policies in LLDCs, and the building of partnerships that focus on fostering productive capacities and structural transformation in these countries.

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1 World Bank (2014) Improving Trade and Transport for Landlocked Developing Countries – A ten-year review.
2 UN General Assembly Resolution 69/137, annexes I and II.
II. ASSESSMENT OF PROGRESS ACHIEVED, OR LACK THEREOF

Growth Performance of the LLDCs

6. Five years into the implementation of the VPoA, the progress achieved has fallen far short of what is needed to meet the goals. In some areas, the LLDCs have regressed. Immediately following the adoption of the VPoA, LLDCs experienced a sharp slowdown, with average real GDP growth falling from 5.2% in 2014 to 3.2% in 2015, and to 3.1% in 2016. While growth recovered to 4.1% and 4.4% in 2017 and 2018, respectively, it remains far below the average of 6% achieved in the decade prior to the adoption of the VPoA (2004 – 2014).

7. In per capita terms, growth in the LLDCs slowed from 3.4% in 2014 to 1.7% in 2015, before increasing to 2.5% in 2017. It should be recalled that prior to the 2008-2009 economic and financial crises, LLDCs registered a real GDP growth rate of 7% or more. However, such impressive real GDP growth did not translate into higher employment, export diversification and lower poverty outcomes. This shows the limit of commodity driven growth, its vulnerability, and the challenge of making growth inclusive and sustainable. This calls for a new generation of domestic policies and international support mechanisms centered on fostering productive capacities and structural economic transformation in the LLDCs.
8. A country-by-country examination of the growth trajectories of the LLDCs between 2014 and 2017 paints a rather gloomy picture. During the four-year period only six LLDCs met or slightly exceeded an average growth rate of 7% per annum, while five other countries grew between 5% and 7%. The average growth of 15 LLDCs was less than or equal to 4%, and in seven LLDCs it was lower than 2%. The concern now is that LLDCs are less likely to meet the objectives of the VPoA, and may lag significantly behind other developing countries in achieving key targets of the Sustainable Development Goals (SDGs).

9. Another area of growing concern is that, despite the Programme’s goal to substantially increase the participation of LLDCs in global trade, their share of global exports has decreased by 30%, from 1.1% in 2014 to 0.8% in 2016.

Table 1: Average Annual GDP Growth in the LLDCs

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Source: UNCTADStat
Similarly, Foreign Direct Investment (FDI) flows to the LLDCs have fallen sharply, from US$ 36 billion in 2011 to US$ 22.4 billion in 2016. Net receipts of Official Development Assistance (ODA) in LLDCs also saw a decline from US$ 26.1 billion in 2014 to US$ 24.8 billion in 2015.

10. While exports, FDI and ODA flows have since started to recover from their lows, they remain far below the levels needed to achieve the goals of the VPoA. The share of LLDCs in global merchandise exports recovered to 0.97% in 2018. FDI flows to the LLDCs rose by 3% in 2017, to US$ 23 billion before declining again to US$ 22.6 billion, and net ODA receipts by LLDCs increased to a high of US$ 28 billion in 2017. However, this still leaves FDI flows to the group around 40% below their peak in 2011, and both FDI inflows and ODA receipts remain heavily concentrated in a small number of LLDCs.

11. The low growth performance will make it more difficult for the LLDCs to make progress towards the targets of the VPoA and achieve the SDGs. In many LLDCs the rate of poverty reduction has already slowed since 2014, and in some cases, poverty increased in 2015 and 2016. While there is no comprehensive data on recent poverty trends in all LLDCs, some case studies illustrate this point. In Bolivia, for example, the percentage of the population living in extreme poverty (less than US$ 1.90 per day in 2011 PPP US$) increased from 5.8% in 2014 to 6.4% in 2015 and 7.1 in 2016, before falling back to 5.8% in 2017. Similarly, in the Kyrgyz Republic, the rate of extreme poverty increased from 1.3% in 2014 to 2.5% in 2015, before falling back to 1.5% in 2017.

Priority 1: Fundamental Transit Policy Issues

12. LLDCs have achieved modest progress towards Priority 1 of the VPoA. As indicated in the Report of the Secretary-General on the Implementation of the Vienna Programme of Action, 24 of the 26 LLDCs that are members of the World Trade Organization (WTO), as well as 27 transit countries, have accepted the WTO Agreement on Trade Facilitation. This is likely to lead to improvements in transit-transport. In addition, a number of new bilateral, regional or multilateral agreements on transit transport have been concluded.

However, there is no comprehensive comparable data on transit corridors that would allow a complete assessment of the progress achieved in terms of addressing the efficiency and effectiveness of the transit systems. Nevertheless, there is evidence that some major transport corridors used by LLDCs in Africa, Asia and Latin America have achieved the VPoA goal of allowing transit cargo to move at an average rate of 300-400 km per 24 hours. At the same time, other corridors continue to fall short of the goal.

Priority 2: Infrastructure Development and Maintenance (Including ICTs)

13. With regard to Priority 2, some countries have made progress in expanding their road and rail networks. However, the lack of availability of internationally comparable data renders a comprehensive assessment difficult. According to the Productive Capacities Index (PCI) developed by UNCTAD (forthcoming), the performance of LLDCs on the transport component of the PCI is very weak, compared to other developing countries. The component is measured using indicators such as the kilometers of roads per100, square kilometers of land area, the total kilometers of rail lines per capita, the number of air transport registered carrier departures worldwide per 100 people, and the air transport of freight in million-tons per kilometer. With regard to air traffic, the average number of registered air carrier departures in LLDCs increased before the adoption of the VPoA and there has not been a discernible acceleration after the adoption of the VPoA. The performance of LLDCs with regard to air transport connectivity remains marginally better than that of LDCs, but far behind that of coastal developing countries.

3 World Development Indicators.
With regard to ICT infrastructure, the LLDCs saw an increase in the number of mobile phone subscriptions per 100 people. This increased from 66 in 2014 to 72 in 2017, though overall, they still remain behind the world average of 104. In today’s world, a more meaningful measure of ICT infrastructure is the number of fixed broadband subscriptions per 100 population. Here, the LLDCs have performed far better than the LDCs, on average, even if growth has slowed after 2014. Between 2014 and 2017, fixed broadband subscriptions in LLDCs increased from 3 to 3.7. A closer examination of available data shows significant regional variation. Most of the increase between 2014 and 2017 is due to improved connectivity in the Eur-Asian LLDCs, where the proportion of subscribers increased from 6.7% to 7.5%, and in Latin America, where the fixed broadband subscription rate grew from 2.3% to 3.8% over the same period. In African LLDCs the share remained flat at 0.3% for the period under review. It is important to note, however, that the use of ICT in business and the productive sectors is still very low, with significant scope for improvement. Growth in the LLDCs also remained below the trend experienced by coastal developing countries, with regard to fixed broadband subscriptions. In this respect, the gap continues to widen.

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Priority 3: International Trade and Trade Facilitation

Figure 3: Fixed Broadband Subscriptions (Number of Subscriptions per 100 People)

Source: World Bank

Figure 4: Share of Global Merchandise Exports (Percentage)

Source: World Bank
(a) International Trade

15. With regard to international trade, LLDCs have fallen short of the goal of the VPoA to significantly increase their participation in global trade, with a focus on substantially increasing exports. Since the adoption of the VPoA, the share of LLDCs in global merchandise exports has fallen from 1.1% in 2014 to 0.8% in 2016 – a 30% decline. While the share recovered to 0.97% in 2018, it remains below the 2014 baseline, and far below the goal of increasing the participation of LLDCs in international trade. Indeed, the share of LLDCs in global merchandise exports is now below that of the world’s 47 Least Developed Countries.

16. With regard to services trade, the share of LLDCs in global services exports has remained steady at around 0.76% between 2014 and 2017, before increasing to 0.81% in 2018. While this is the highest share reached since 2012, the LLDCs have so far not resumed the rate of growth of their services-share seen between 2005 and 2012. Furthermore, their share remains far below that of other developing countries, which stands at around 28%.
17. The decrease in the LLDC’s share of global merchandise exports demonstrates the need for enhanced efforts to promote export diversification, value addition, and overall structural transformation, as well as initiatives to address the challenges associated with being landlocked. Beyond the decline in the export-share, there are two additional challenges for the integration of LLDCs into the global trading system. The first relates to the fact that the export performance of LLDCs is dependent on world commodity-prices, and the second to the growing trade deficits of LLDCs. (For further discussion on export concentration and trade deficits see paragraphs 36 and 19, respectively).

18. Given the heavy dependence on commodities of the majority of LLDCs, it is not surprising that their exports are largely determined by global commodity prices. As can be seen in figures 7 and 8 below, the evolution of LLDCs’ total merchandise exports closely follows the evolution of UNCTAD’s Commodity Price Index.
A closer examination of the contribution of value and volume-increases to the total LLDC export performance demonstrates that the large majority of the export performance of LLDCs is determined by price-changes, rather than volume-changes. For example, the highlighted reduction in total exports experienced by LLDCs in 2015 and 2016 saw the volume-index of LLDC exports decrease by 10.5% between 2014 and 2016, while the value index fell by 37.4%. The fact that the export performance of LLDCs continues to reflect world commodities prices, which are largely exogenous to LLDC’s policy-choices, highlights the need to focus more on export volumes in assessing the performance of LLDCs. In terms of the growth of the Export Volume Index, LLDCs have performed less well than the LDCs since 2014. In addition, it demonstrates the need for structural transformation and export diversification in these countries.
20. A second concern related to trade-performance is the growing trade deficit of LLDCs as a group. While in total, LLDCs ran trade surpluses for most of the decade prior to adoption of the VPoA, the slowdown in exports in 2015 and 2016 was not accompanied by a similar slowdown in imports, resulting in a cumulative merchandise trade deficit of US$ 33.7 billion in 2016. If services trade is considered, the deficit widened to US$ 48.7 billion in 2016. The deficit has since narrowed to US$ 24.4 billion in 2018 (US$ 35.9 billion including services), but remains a pressing challenge.
21. The trade deficit shows that exports are unable to finance imports. This compels countries to pay for their imports through external financing. This situation exacerbates the debt situation of LLDCs: While the overall external debt stock of LLDCs has been rising since 2000, the growth performance of LLDCs has meant that the average share of the debt stock in GNI followed a declining trend. This is the result of expanding GNI, rather than falling debt stocks in the LLDCs. Even with expanding GNI, since 2011, the average share of the external debt stock in GNI of LLDCs has been increasing, reaching 56% in 2017, before reducing to 52% in 2018. These average values hide a variety of experiences across the LLDCs, with six LLDCs6 experiencing debt to GDP ratios of above 80% in 2018, while two LLDCs7 have ratios below 10%.

(b) Trade Facilitation

22. In the area of trade facilitation, the objectives of the VPoA include to significantly simplify and streamline border crossing procedures, with the aim of reducing port and border delays, and to improve transit facilities and their efficiency with the aim of reducing transaction costs.

23. Since the adoption of the VPoA, governments of LLDCs and transit countries have taken a number of measures to facilitate trade and improve trade logistics. Many are also working to implement the provisions of the WTO Trade Facilitation Agreement, which is estimated to reduce trade costs by up to 17.4% for lower-middle income countries.

24. However, a brief assessment of the available indicators on the costs of border and documentary compliance at the border (as collected by the World Bank) indicates that administrative “on the border costs” for exporting may already be lower in many LLDCs than in coastal countries, but that they have remained broadly stable over the past four years.

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Figure 13: External Debt Stocks of LLDCs (DOD, Current US$ Billions)

Source: World Bank

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6 They are Mongolia, Bhutan, Kazakhstan, Kyrgyz Republic, Lao PDR and Armenia.
7 They are Botswana and Turkmenistan.
This analysis of the data on documentary compliance shows that several LLDCs may already have comparatively good trade facilitation measures in place, when compared to coastal developing countries. Based on this finding, it appears that the high trade costs traditionally experienced by LLDCs are due to factors other than domestic trade facilitation measures. These can include poor and costly domestic transport infrastructure and logistics services, as well as trade facilitation and transport infrastructure in transit neighboring countries. It would be of interest for LLDCs and their development partners to confirm these findings, and to identify the source of the comparatively high overall trade costs of LLDCs. That would allow for a more exact targeting of remedial measures.

Furthermore, the data show that since the adoption of the VPoA, progress in reducing the cost and time needed to trade across borders has been very limited. Only some of the East-Asian LLDCs have registered significant reductions in the costs and time required. Against this background, further efforts are required by LLDCs to achieve meaningful improvements in the facilitation of cross-border trade.

There has been growing interest in regional integration and cooperation among LLDCs and their neighbors, especially in the field of trade. The number of regional agreements including LLDCs has continued to rise. The entry into force of the African Continental Free Trade Area on 30 May 2019 added a further agreement to the list. Regional trade and cooperation agreements hold significant potential for LLDCs to gain access to markets, achieve economies of scale, strengthen trade and transit facilitation, harmonize standards, and promote joint infrastructure projects.

However, not all existing regional trade agreements have fully achieved their intended result of increased intra-regional trade. In some cases, the provisions of the agreements were not fully implemented. In others, the agreements lacked a strong institutional driver for implementation. LLDCs should therefore consider ensuring that efforts at regional integration are within the capacities of the LLDCs to implement and bolstered by strong institutions to drive the regional integration agenda.

Priority 4: Regional Integration and Cooperation
Priority 5: Structural Economic Transformation

29. The performance of LLDCs with regard to priority 5 is a key predictor of the overall performance of LLDCs towards the goals of the VPoA, and the achievement of sustainable and inclusive growth, as well as the SDGs. However, LLDCs continue to face significant challenges in fostering structural economic transformation and export diversification. 26 of the world’s 32 LLDCs still depend on primary commodities for more than 60% of their exports, rendering them vulnerable to external shocks. Their significant dependence on commodities also means that their overall economic performance is largely determined by world commodities prices (see paragraphs 17 & 18).

30. The average share of the agriculture sector has increased moderately while that of the manufacturing sector increased only slightly between 2014 and 2017, reversing earlier declining trends. The average share of agricultural value-added in total value-added of LLDCs increased from 15.3% in 2014 to 16.8% in 2017. Similarly, the share of manufacturing value added grew from 12.6% in 2014 to 12.9% in 2017. The contribution of services to GDP in LLDCs also increased from 50.1% to 51% over the same period. However, LLDCs services trade, especially in critical areas such as ICTs, manufacturing-related services and intellectual property-related services has not improved at all, showing that LLDCs may have been trapped in low value services trade. At the same time, the share of the mining and utilities sectors fell from 14.1% in 2014 to 11.3% in 2017.
31. However, a part of these changes is only a statistical consequence of the fall in commodities prices, and the net progress made with regard to structural transformation in terms of the real relative size of the sectors is much smaller. The effect of commodities prices on the shares of all sectors in GDP can be seen from the evolution of the manufacturing, agriculture and services sector-shares between 2014 and 2017, which follows the inverse of commodity-prices. Furthermore, an assessment of the growth of total value added in each sector at constant prices shows that the fastest growth has been in the services sector. Most of this growth in the services sector is in low value-added services. Thus, LLDCs are not experiencing the shift in productive resources between primary and secondary sectors that would be expected at their levels of income. Greater efforts are required to support increases in productivity and value-added growth in agriculture and manufacturing.
32. The average Export Concentration Index of LLDCs has fallen from 0.476 in 2014 to 0.443 in 2017, but remains higher than the average for LDCs and other developing countries (ODCs). Furthermore, the average Diversification Index for LLDCs, measuring the degree to which the export composition of LLDCs differs from the world average, has increased. Indeed, the exports of LLDCs are diverging more from the world average than those of ODCs.

33. Overall, most of the apparent progress observed by LLDCs in the area of structural transformation has been a consequence of the fall in commodities prices. Progress on real changes in the sectoral composition and productivity increases have been marginal. With commodities prices on an upward trend as of 2016, greater efforts will be needed to sustain the tentative progress towards structural transformation.
In UNCTAD’s view, a key pre-requisite for achieving structural transformation and export diversification is the building of productive capacities. Productive capacities are the productive resources, entrepreneurial capabilities and production linkages which together determine a country’s capacity to produce and export goods and services and enable it to grow and develop. UNCTAD’s work on developing a Productive Capacities Index - PCI (forthcoming) reveals that the overall score of LLDCs on the PCI is among the lowest of the main comparable groups (developing countries, transition and transit economies). It is only slightly higher than that of the LDCs, despite significant variations in income levels between LDCs and LLDCs. Even more discouraging is that LLDCs and LDCs have an average score above the rest of the country groups in only one of the eight categories: natural capital⁸.

As shown in the figure below, comparing the performance of LLDCs, transit partners and other developing countries across the various categories reveals the extent to which LLDCs lag behind. Notwithstanding, the low level of productive capacities in LLDCs, an encouraging trend is that over the last 17 years, there is an improvement across the main indicators used. However, the progress made is not enough to have an impact on the economies of LLDCs, especially in fostering structural economic transformation. The weak and low level of productive capacities in LLDCs and the consequence of this can be discerned from the above-mentioned analysis, where dependency of LLDCs on exports of primary commodities has increased, the share of manufacturing value added precipitously declined, and where the balance of trade worsened over time.

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⁹ The eight PCI categories are: Natural Capital, Energy, Private Sector, Transport, Institutions, Human Capital, Structural Change, and Information and Communications Technology (ICT).
Priority 6: Means of Implementation

35. With regards to this priority, it is clear that building productive capacities and fostering structural transformation in LLDCs requires the availability of development finance.

36. Mobilization of domestic resources is critically important for financing development in the LLDCs. In this regard, several LLDCs have created institutional and regulatory frameworks, as well as introduced a series of tax reforms such as the introduction of value added tax (VAT), and the enactment of new income tax acts, with a view to enhancing revenue collection performances. Armenia, for example, has trained tax inspectors, automated tax documents and services, and reduced the time required for making tax payments (by 187 hours, or 37.5%). Since 2012, tax collection in Armenia has improved from 16.3% to 21% of GDP. Similarly, in Tajikistan, a World Bank-financed project has helped double the number of active firms and individual taxpayers filing taxes, increased the average tax revenue collected per tax official by 85%, and reduced the number of hours spent on complying with tax-related regulations by 36%. Despite data limitations, the available data shows that the average share of tax revenue in total GDP of LLDCs is on a positive trend.

Figure 22: Average Tax Revenue in the LLDCs (Percentage of GDP)

Source: World Development Indicators
37. However, the efforts of LLDCs to mobilize resources domestically continue to face daunting challenges. Consequently, fiscal management in most LLDCs is characterized or dominated by large revenue shortfalls, which could only be accommodated by cuts in government expenditure. In Lao PDR, for example, the share of tax revenue in total GDP declined from 15.8% in 2012/13 to 11.2% in 2018. This low domestic tax revenue has mainly been attributed to a small tax base and inefficient revenue collection systems.

38. Official Development Assistance (ODA) remains one of the key sources of external development finance for many LLDCs, accounting for more than 10% of GNI in six LLDCs, and for more than 20% in four. Net ODA receipts by LLDCs as a group have dropped from US$ 26.1 billion in 2014 to US$ 24.8 billion in 2015, before recovering and increasing to US$ 28 billion in 2017.

39. However, ODA continues to be highly concentrated, with only six LLDCs accounting for more than half of ODA receipts by the whole group in 2016. Aid-for-trade disbursements to LLDCs amounted to US$ 6 billion (at constant prices) in 2016, representing a decrease from US$ 6.3 billion in 2015, and accounting for 15.5% of the total disbursements.

40. A second key source of international finance is FDI. However, FDI flows to LLDCs have fallen by more than 40% between 2011 and 2016. After a temporary recovery in 2017, FDI flows to the LLDCs declined in 2018, by 2% to US$ 22.6 billion. The share of LLDCs in global FDI inflows declined from 2.1% in 2014 to a low of 1.2% in 2015 and 2016, before recovering slowly to 1.7% in 2018. FDI inflows to LLDCs are more concentrated than ODA, with the top five LLDC recipients (Kazakhstan, Ethiopia, Mongolia, Turkmenistan and Azerbaijan) accounting for 56% of inflows. Furthermore, the majority of FDI flows to the extractive sectors.

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11 UNCTAD Vulnerability Profile for Lao PDR, citing Ministry of Finance figures.
41. Finally, flows of remittances to LLDCs have fallen from their highs in 2013 and 2014, when they amounted to close to US$ 33 billion, to a low of US$ 25 billion in 2016, before recovering to US$ 28 billion in 2017. Remittance flows to LLDCs are similarly concentrated, with four LLDCs accounting for more than half of all inflows. At the same time, remittances account for more than 20% of GDP in four LLDCs. It is important to note that remittances are mainly used to address household consumptions rather than development finance needs. To channel remittances to productive sectors a number of domestic and international constraints need to be addressed.
III. RECOMMENDATIONS

42. The assessment of the progress achieved at the half-way point of the implementation of the VPoA shows that based on current trends, most of the goals and targets of the VPoA will be missed. In fact, the pattern of growth observed in the LLDCs over the last decade has further entrenched commodity dependence, driven high export concentration and led to greater vulnerability to volatile financial and commodity markets. In other words, there is a lack of economy-wide improvement in terms of productivity, value-added by domestic producers and long-term structural transformation in LLDCs. Against this background, the MTR of the VPoA provides an opportunity to provide new momentum to its implementation by the LLDCs, transit countries and development partners. A new generation of policies and additional actions are needed to achieve the goals of the programme by 2024. Policies and measures to be considered in this context include those presented below:

43. Focusing efforts on building productive capacities: LLDCs and development partners should consider strengthening efforts to build productive capacities in sectors with higher value-added and potential for productivity growth. This will require coordinated actions across a range of policy-areas, at micro and macroeconomic levels, including education, infrastructure and private sector facilitation, as well as specific policies to foster and enable strategic sectors. In order to support governments in pursuing this objective, UNCTAD has developed a measurable Productive Capacities Index (PCI), which can help to inform the setting of priorities in development policy at country-level.

44. Enabling the private sector: Building productive capacities also requires a dynamic and vibrant domestic private sector. In this regard, LLDCs should use enterprise development to transform productive structures into higher value-added activities that involve more skilled and technology-intensive production, which in turn result in higher incomes that can fuel demand and stimulate new investment. Such capital accumulation in turn enables the development of new activities, employment and further diversification of the economy away from traditional sectors, thereby intensifying the process of structural change. LLDCs with the support of their trade and development partners have put in place several policies and institutional measures aimed at creating an enabling environment for the private sector, which is a key driving force in bringing about structural transformation. However, despite continuing efforts to create an enabling environment for the private sector, the share of the private sector in total GDP remains small in many LLDCs. Additional efforts are needed to enable the private sector to grow and bring about structural transformation.

45. Export diversification: The diversification of production and exports away from primary commodities is crucial for achieving structural transformation and sustainable growth and development. In this regard, LLDCs should pursue policies that promote the diversification of production towards sectors with higher-productivity growth potential. Several LLDCs have significant potential to diversify their export by expanding agriculture and agro-processing, light manufacturing, textiles and clothing, and tourism. In many LLDCs there is also great scope for vertical diversification within existing export baskets, including in the extractive sectors. Tapping into this potential requires enabling macro and microeconomic policies, as well as coherent trade, investment and industrial policies with diversification strategies in export-oriented labor-intensive manufactures. LLDCs also need to make continued efforts to take advantage of the potential existing in the regional markets, which are less demanding in terms of quality and technical standards.

46. Sectoral support policies: To fully tap the potential existing in LLDCs for diversification, it is important to pursue sector-specific strategies:

a) For the agriculture sector, it is essential to shift the focus of agricultural policies from raising output to increasing the value-added of products; promote modern production techniques and technologies (e.g. use of herbicides and fertilizers), including through intensification of production to improve both quality and profitability; expanding extension and advisory services; incentivize farmers to improve product quality and inform producers about safety and quality standards abroad.

b) For light manufacturing, it is important to put in place supportive, complementary and coherent trade, investment and industrial policies and strategies in sectors with comparative advantages. FDI is
important to bring in not only capital and technology but intangible assists such as knowledge and modern managerial skills. Policies are also needed to support the participation of businesses in regional and global value chains.

c) For the tourism sector, LLDCs need to emulate successful tourism development strategies in other developing countries, including undertaking additional marketing efforts in home countries, reducing costs and improving the quality of services, improving the quality of transport infrastructure (road, rail, and air), and facilitate local supply sourcing. In addition, promoting linkages between the tourism sector and local suppliers, as well as identifying and addressing bureaucratic requirements for tourists are key to help LLDCs tap into the potential of tourism for their socioeconomic development. LLDCs need to consider ways and means to accelerate skills development for qualified tourism professionals, for example by offering training programs for interpreters and tour guides.

47. Human capital/education: There is a need for LLDCs to strengthen their training and higher education systems, and to improve the alignment of skills taught with the needs of the private sector. Improving the average skills levels of the labor force will facilitate the absorption of greater number of agricultural workers in higher-productivity jobs in manufacturing and services. Measures to be considered include: Strengthening private sector participation in the creation of training curriculum (especially for technical and vocational education and training (TVET) institutions; Increasing public funding of education; Strengthening regular teacher training sessions; and Encouraging private sector job training programmes by foreign investors.

48. Promoting integration into regional and global value chains: Integration into regional and global value chains offers significant benefits to local firms, including access to export markets, new technologies and skills. It also provides opportunities to capture higher value-added steps along the value-chain. In this context, LLDCs should develop strategies to support the private sector in integrating into regional and global value-chains, including through linkage programmes with foreign investors, as well as strategic support to sectors with foreign investment potential.

49. Lowering trade costs: A further priority must be to strengthen the integration of LLDCs into global trade. This assessment has shown that the performance of many LLDCs in terms of trade facilitation at the border is already quite good in comparison to their coastal neighbors. This means that future efforts to lower the high trade costs of LLDCs should focus more on areas such as domestic transport infrastructure and logistics systems, as well as improved coordination with transit neighbors. This also requires improving transit systems at regional and sub-regional levels to change from a multiple and costly cargo clearance system to a single and simplified clearance system, which is tailored to local conditions and specificities instead of redesigning new transit systems. For instances, transit controls and border checks are made increasingly complex by involving triple clearance systems in many cases. An efficient transit regime will not only reduce transit time and related costs but also will eliminate sources of inefficiency and uncertainty of delivery of consignments. Concerted efforts to a coordinated corridor facilitation can bring several benefits by improving border-crossing, better information sharing and by collectively identifying key bottlenecks for regional and coordinated actions for their resolution.

50. Information and communications technology: Much-needed investments in ICT infrastructure and lowering the cost of Internet access should be complemented by measures to support specialist training and business facilitation, so as to ensure that ICT connectivity becomes not just a consumer-tool, but also a basis for new enterprises and export opportunities. Particularly investment in modern ICTs can bring quick results and effective solutions to facilitate trade and improve LLDCs integration to the global market.

51. Regional integration: In their regional cooperation, LLDCs should continue to look beyond trade issues, and explore the potential of regional cooperation on joint projects in road, energy and ICT infrastructure, trade and transport facilitation and other developmental projects, such as research & development. Regional cooperation in these areas can help to reduce the costs to be borne by all participants and generate benefits in terms of harmonization of policies and improved connectivity.
52. **Domestic resource mobilization:** In order to increase tax revenue LLDCs, need to continue tax reform measures that would rationalize and simplify the tax regime and yet remain administratively feasible. They should also make efforts to improve taxation of the extractive sector.

53. **Development partnerships:** The level of development finance available to LLDCs has remained far behind what is needed to achieve the goals of the VPoA. The MTR should renew the commitment of development partners and other countries in a position to do so, to step up their support to the LLDCs. Development partners should also consider measures beyond ODA, including trade preferences and or strategic promotion of FDI in non-extractive sectors to complement LLDCs’ efforts to achieve inclusive and sustainable growth. In addition, member States could consider setting a target for a proportion of annual Aid-for-Trade flows to be dedicated to LLDCs.

54. Trade facilitation and building transport infrastructure, including maintenance and modernization of existing trade routes, require increased public investment, which in turn requires increased allocation of financial resources from external sources, especially given the paucity of investible resources in most LLDCs. In view of an increasing level of external indebtedness of LLDCs, creditor nations and international and regional financial institutions are encouraged to take debt relief measures and realigning international support measures to the needs and priorities of LLDCs. It is equally important that international policies and rules governing trade, investment, finance and environment should work in harmony and in coherence with national policies and strategies of LLDCs.

55. **From project- to programme-based capacity building:** In UNCTAD’s assessment, traditional technical assistance and capacity building efforts have not been as effective as they could have been, due to their fragmented nature. The challenge of export diversification and structural transformation is difficult to achieve through isolated interventions in specific areas. Instead of pointed interventions, promoting structural transformation requires a holistic approach that identifies problems at different stages of the value chain, and addresses them simultaneously. Development-partners should support the delivery of more integrated capacity-building programmes for LLDCs, rather than isolated and fragmented projects, so as to strengthen synergies and ensure coordination.