Retreat of Ambassadors of Landlocked Developing Countries

18 January 2019

Geneva

Concept Note

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The General Assembly, in its resolution 72/232, decided to hold a comprehensive, high-level midterm review on the implementation of the Vienna Programme of Action for Landlocked Developing Countries (LLDCs) (VPoA) in 2019. In preparation for the mid-term review, the Group of LLDCs suggested that UNCTAD host an Ambassadorial Retreat to address key substantive issues to be raised during the forthcoming mid-term review (MTR).

Objectives:

The objectives of the Ambassadorial Retreat are:

a) To take stock of progress in the implementation of the VPoA in key areas within UNCTAD's mandates;
b) To share the results, findings and conclusions of UNCTAD's work on LLDCs, including the Productive Capacities Index (PCI);
c) To inform Ambassadors on the outcomes of regional and sub-regional meetings organized by UNCTAD; and
d) To identify issues and concerns for further action by LLDCs and their development partners, in the context of the MTR and beyond.

Specific questions that the retreat is expected to address are as follows:

- Where do LLDCs stand now in relation with the key goals and objectives of the VPoA, especially on key priority areas within UNCTAD's mandates?
- What are the most pressing (persistent and emerging) trade and development challenges facing LLDCs?
- How can LLDCs achieve export diversification for inclusive growth and sustainable development?
- What policies and strategies are needed for LLDCs to foster productive capacities and structural economic transformation?
- Where should policies and strategies, as well as international partnerships focus in addressing domestic gaps and limitation in LLDCs?

Background:

The Vienna Programme of Action, agreed in 2014, aims to address the development challenges faced by LLDCs, and identifies six priorities for action for LLDCs, transit countries and development partners. These six areas of focus are: Fundamental transit policy issues; Infrastructure development and maintenance; International trade and trade facilitation; Regional integration and cooperation; Structural economic transformation; and Means of implementation. Half-way into the implementation period of the Programme, the assessment of progress achieved is not encouraging. While several countries have made progress on individual action areas, such as the building of infrastructure and regional cooperation, the group of LLDCs has, as a whole, faced significant challenges:

- After growing at an average annual rate of 7% between 2000 and 2013, the LLDCs have experienced a sharp slowdown in growth to 2.8% in 2016, or 0.4% in per capita terms.
- Despite the Programme's goal to substantially increase the participation of LLDCs in global trade, their share of global exports has since decreased by 30%, from 1.1% in 2014 to 0.8% in 2016.
- Similarly, foreign direct investment (FDI) flows to LLDCs have fallen sharply (from US$ 36bn in 2011 to US$ 24bn in 2016).
- While growth, exports and FDI have started to recover from their 2016 lows, in 2017 they remain far below the target levels of the VPoA.

Against this background, the mid-term review of the Vienna Programme of Action provides an opportunity to assess the implementation and progress achieved to date, and to make concrete recommendations for additional actions needed to achieve the goals of the programme by 2024.

Issues for consideration:

1.) <u>Fostering productive capacities, export diversification and structural transformation</u>

In UNCTAD's view, one of the main reasons for the poor performance of LLDCs is their continuing dependence on the export of primary commodities. 26 of the 32 LLDC are commodities-dependent, meaning that commodities account for more than 60% of their exports. As a result, their growth performance is highly dependent on global commodities prices. The recent slowdown is a case in point. In order to overcome this dependence and achieve inclusive and sustainable growth, LLDCs need to diversify their exports and achieve structural transformation.

However, to date, the LLDCs have made only very limited progress towards achieving structural transformation and diversification: The share of the manufacturing sector in GDP (a common measure of structural transformation) has remained constant in LLDCs at around 13-14% of GDP since the year 2000. Similarly, there has been no improvement in the diversification index. And in the case of many countries, the degree of commodities dependence has increased during this period.

In order to achieve structural transformation towards sectors with higher-value added and faster productivity growth, LLDCs need to build productive capacities. In this context, LLDCs should consider strengthening efforts in the following areas:

- UNCTAD has developed a measurable Productive Capacities Index (PCI), which allows LLDCs to assess their levels of productive capacities over time, and to compare it across countries. The overall assessment shows that LLDCs are below the world average in all indicators other than natural capital. This index can help to inform the setting of priorities in development policy at country level.
- Development partners and international organizations should work with LLDCs to identify specific sectors and sub-sectors with export potential and implement targeted policies to promote their development.
- A key driving force in bringing about structural transformation is the private sector. 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.

2.) <u>Transport and trade facilitation</u>

The core problematique of the LLDCs is the trade and development challenges arising from their geographical remoteness and their lack of access to international seaports. However, actual trade and transport costs are determined not only by distance, but also by the quality of the transport infrastructure, and the effectiveness of trade logistics and trade facilitation services. While geographical distance is beyond the control of countries, LLDCs have an opportunity to influence these policy-dependent variables. Given the disadvantages faced by many landlocked countries in terms of distance and geographical position, LLDCs should make all efforts to minimize the costs related to transport and trade facilitation. Yet, in many cases, the quality of transport and trade facilitation in LLDCs lags behind that of other countries. To date, LLDCs still demand an average of more than 10 documents for the exportation of goods, and 8 or 9 documents for their importation. These obstacles also result in additional trade costs for storage, insurance, and the payment of penalties for delayed delivery.

- LLDCs should aim to have the most efficient transport and trade logistics systems, in order to reduce the disadvantage resulting from their geographical situation.

3.) <u>Infrastructure financing</u>

While many LLDCs have made progress in expanding their transport and energy infrastructure in recent years, the infrastructure deficit in LLDCs remains significant. It has been estimated that developing countries as a whole are facing an annual investment gap of US$ 1 to 1.5 trillion for infrastructure, and the needs of the LLDC are often disproportionately large. According to a recent OHRLLS study, the investment needed for LLDCs to meet the global averages in road and rail transport infrastructure alone are US$ 0.5 trillion. In this context, the Chinese Belt and Road Initiative, launched in 2013, presents an important opportunity for LLDCs to gain access to much-needed financing. By making available resources exceeding those of the Marshall Plan, the initiative can help address some of the urgent infrastructure needs. However, in order to maximize the benefits of this initiative, it is important to address some of the challenges, including the potential risk of indebtedness, the need to build host-country capacities to manage large-scale infrastructure projects and align them with national priorities, as well as the need to ensure national ownership.

One of the infrastructure sectors that has received comparatively little attention in many LLDCs is the ICT sector. LLDCs continue to face high costs for broadband access, partly due to their remoteness from broadband cables on the seabed. Further efforts are required to lower prices. While ICT infrastructure promises broad benefits for LLDCs, including in terms of increasing productivity in all sectors, providing access to new markets, and facilitating access to services and information, LLDCs should also explore to what extent ICT-based industries may hold potential for export-diversification. Some LLDCs have made progress in establishing themselves as ICT-hubs. Achieving such a specialization requires not only strategic investments in infrastructure, but also complementary efforts in specialist training and business facilitation. For some LLDCs, ICT-based sectors may provide a way of overcoming the challenges arising from their geographical remoteness and may contribute to achieving faster structural transformation.

- LLDCs could consider identifying the ways and means of maximizing the benefits and opportunities provided by the emergence of new donors in infrastructure investment.
- LLDCs should aim to lower the high-costs of broadband internet access and explore the potential of ICT-based sectors.

4.) <u>Regional integration and cooperation:</u>

There has been growing interest among LLDCs in regional integration, and cooperation among LLDCs and regional neighbours, especially in the field of trade. The 32 members of the group of LLDCs are currently members of no less than 31 regional agreements. The recent conclusion of the African Continental Free Trade Area will add a further agreement to the list, once it has been ratified by 22 African Union member States. 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 are bolstered by strong institutions to drive the regional integration agenda.

Furthermore, 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 development projects, including research and development. Regional cooperation in these areas can help reduce the costs to be borne by all participants and generate benefits in terms of harmonization of policies and improved connectivity.

- LLDCs should consider greater focus on the quality, rather than the quantity, of regional integration agreements, and strengthen cooperation beyond trade, including on development projects in infrastructure, transport, and industrial development.

5.) Raising development finance for implementation

Building productive capacities and fostering structural transformation requires the availability of development finance. 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. ODA flows to LLDCs as a group have seen moderate increases, from US$ 23.6 bn in 2014 to US$ 25.9 bn in 2016. However, ODA continues to be highly concentrated, with only six countries accounting for more than half of ODA receipts. In constant prices, Aid-for-trade disbursements to LLDCs amounted to $6 billion in 2016, representing a decrease from $6.3 billion in 2015, and only 15.5% of the total Aid-for-trade disbursements.

A second key source of international finance is FDI. However, FDI flows to LLDCs have fallen by more than 40% between 2011 and 2016, despite a recent recovery. FDI flows are more concentrated than ODA, with the top five recipients accounting for more than 66% of FDI inflows. Furthermore, the majority of FDI flows to the extractive sectors. Finally, flows of remittances have been on a falling trend since 2014, accounting for US$ 23.9 billion in 2016. Remittances are similarly concentrated, with three LLDCs accounting for 46% of all inflows. Against this background, LLDCs could consider measures to identify new sources of development finance, including:

- Identifying possible targets for the proportion of Aid-for-trade that should be disbursed to landlocked countries.
- Strengthening domestic resources mobilization and improving domestic institutions.

6.) Addressing the lack of domestic implementation

Some of the LLDCs have defined sophisticated economic policies and strategies for diversification and structural transformation. However, in many cases, the outcome of these strategies remains below expectations, exposing a gap between policy formulation and implementation. This gap may be due to a number of different reasons. In some cases, the targets set by the policies are not realistic or quantified. In other cases, financial resources are not aligned with the stated policies. And often, the institutions charged with implementing the policies lack the technical or human capacities to effectively carry out their work.

- LLDCs - with the support of their development partners - should step up efforts to improve the implementation capacities of development policies and strategies.

7.) Moving from project-based to programme-based capacity-building

The continuing challenges faced by LLDCs with regard to export diversification and structural transformation are also an indication that current technical assistance and capacity building efforts have not been as effective as they should have been. One of the reasons for this, is their fragmented nature. The challenge of export diversification and structural transformation is difficult to achieve through isolated interventions in specific areas. For example, simplifying customs procedures alone will not contribute to export diversification and structural transformation, if there are no domestic productive capacities. Conversely, efforts to support the development of new higher-productivity industries will not succeed if trade and transport logistics remain inadequate. 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. Recognizing this, UNCTAD has recently piloted a comprehensive multi-year capacity-building programme in Angola, which includes multiple components, ranging from building capacities for trade negotiations to supporting entrepreneurship and improving transport logistics. Beyond its direct impact on the targeted areas, this programmatic approach has also strengthened cooperation among relevant stakeholders in Angola. In turn, this has led to the better coordination of policies.

- LLDCs could consider calling on development-partners to 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.

8.) Strengthened monitoring for the implementation of the Vienna Programme of Action

The Vienna Programme of Action foresees a multi-tiered process for the monitoring and review of implementation efforts. At the national level, it invites Governments to mainstream the Programme into national development strategies. Moreover, LLDCs and transit countries are encouraged to establish national coordination mechanisms. At the sub-regional and regional levels, the Programme of Action asks that monitoring and review be undertaken through existing intergovernmental processes. The Regional Economic Commissions are encouraged to submit analytical reports on the implementation of the Programme. Finally, at the global level, the General Assembly should undertake reviews of the implementation through the reports of the Secretary-General.

While this multi-tiered structure of the monitoring has enabled broad participation and ownership by all stakeholders, the lack of agreed measurable indicators to trace progress has undermined the analytical assessment of implementation. Against this background:

- Member States could consider calling for the strengthened monitoring and evaluation of the implementation of the Vienna Programme of Action, including through the agreement on measurable indicators, as well as the assignment of a dedicated agency to carry out the monitoring.