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TRANSPORT AND DEVELOPMENT

Issues Note

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I. TRANSPORT AND DEVELOPMENT OF LDCs

No development without transport

1. Transport is central to development. Transport is a key sector for international trade, for regional integration and for ensuring a balanced national development. Transport provides physical access to marketplaces, without which trade could not take place. Indeed, rural development programmes face failure if goods can not be conveyed to markets because of lack of transport infrastructure and services. There is a cause and effect relationship between the availability of adequate transport services, the access thereto and the scope for trade based development processes. Excessive transport costs create the major effective barrier to foreign markets. Trade success or failure of least developed countries (LDCs) trading low-value goods, with little potential for differentiation but considerable risk of substitution, is largely determined by transport availability and cost. The share of freight cost in import values can serve as an indication of the impact of transport cost on the ability of countries to effectively participate in global trade. Landlocked LDCs face freight costs of up to 40 per cent of import value compared to the world average of 6 per cent. In 1999, total freight payments for LDC imports were estimated at US\$ 5.0 billion for a total c.i.f. import volume of US\$ 27.5 billion.

Globalization

2. Globalization requires the existence of a functioning international transport system. Marginalization of least developed countries is not only a reflection of their feeble industrial base, but is also aggravated by problems associated with access to adequate international transport and support services. For manufactured goods, reliability and speed of transport can become more important than transport cost. Consequently, problems relating to the access to and provision of international transport services must be addressed and form an integral part of the international support measures enabling LDCs' trade and industry to participate more effectively in the globalization processes. As the scope for compensating transport cost disadvantages by preferential tariff treatment is gradually eroding, excessive transport costs directly and adversely affect the competitive position of LDCs in foreign markets. This contributes to the marginalization of those LDCs detached from the mainstream of shipping and transport developments.

Foreign Direct Investment

3. The existence of a functioning transport system is not only a prerequisite for trade to take place, but equally for foreign direct investment to be channeled to a specific country. Some of the main economic factors for selecting a host country for FDI are physical infrastructure (ports, road, telecommunications, power) and the availability of reliable and efficient transport and communication services. For LDCs, inward flows of FDI stood at only US\$ 2.9 billion or 0.3 per cent of world flows in 1998. Many Governments are realizing that by making their transport sector more productive they can become more competitive in the global market, as well as increase their attractiveness as a recipient of FDI.

Electronic commerce

4. The emergence of the dot.com era also has important implications for transport. E-commerce signals the shift to a world market in which electronic communications transform virtually every aspect of business and market organization. E-commerce refers to using electronic means for marketing products and services, for placing orders, for billing and even for distribution electronically. The growth of e-commerce in the majority of LDCs will be held back due to the lack of basic infrastructures in telecommunications and electricity, affordable computers, poor education and high illiteracy rates. According to the International Telecommunications Union (ITU), the United States has 600 telephone lines per 1,000 people, China has 70, and Chad, Somalia and Afghanistan have only one line per 1,000 people. Additionally, businesses cannot take advantage of new methods of conducting commercial transactions if adequate transport infrastructures and services do not exist in order to convey goods to markets. LDCs increasingly find themselves in a situation, where the potential benefits of electronic commerce cannot be reaped due to a lack of access to

adequate transport services and consequently an inability to translate progress in the *new economy* into real benefits. In this respect, the transport sector as a crucial sector for development must receive national and international support in order to ensure the sustainability of trade- and technology-based development processes.

Private/public partnerships

5. An additional important characteristic of the transport industry is the convergence between private and public sector economics in the transport sector. There are many examples of private/public partnerships in the development and operation of transport infrastructure. Lessons learned by such convergence can certainly be transferred to other economic activities. Transport can thus provide valuable guidance in determining the roles and functions of the public and private sectors in the development process.

Transport policy

6. At the international level, it is important that policies and regulatory regimes are harmonized and that governments are assisted in devising necessary policy measures. These measures should ensure that transport supply capacities in developing countries are created or strengthened and that traders are placed in a position to effectively take advantage of transport opportunities offered in liberalized and globalized ocean transport markets. While general frameworks are being elaborated at the global level, it is also important that Governments pursue parallel efforts toward market and policy reforms in the context of regional integration arrangements. To ensure that development objectives are met, LDC Governments need to assign higher priority to transport issues, review and revise the regulatory framework to allow greater participation of the private sector, introduce reform measures to make providers of transport services more responsive to user demands, streamline administrative procedures, introduce a system of transport performance indicators, promote the use of information technology and strengthen training programmes in this sector. These priorities are an integral part to a policy reform programme which involves a shift away from market access restrictions to a development policy based on strengthening commercial capabilities of national service suppliers and increasing the competitiveness of the transport services sector.

Legal framework

7. Shipper/carrier relations are particularly important for LDCs, as their shippers are typically users of foreign international transport services. An international trade transaction is often composed of an interlocking series of contracts, each of which is subject to a series of rules and regulations, either of a voluntary or mandatory nature. The success of international trade largely depends on whether the relevant rules and regulations adequately respond to the challenges raised by the current technological and commercial developments and succeed in creating certainty and predictability. Legal frameworks in LDCs have to be adapted to the requirements of international trade and brought in line with international practice.

Infrastructure requirements

8. What will be the demand on transport infrastructure in the future? Governments will need to give high priority to develop and modernize existing facilities and to increase the commercial orientation of international transport infrastructure, in particular sea ports as they are the link between international and local transport systems. It is the efficiency of the ports that will determine whether a country or a region will be part of, or detached from, global transport and trade developments. Port productivity will provide a measure of success or failure in this endeavour. The idle time of vessels and cargo in ports must be reduced. If customs clearance can be speeded up or carried out at final destination, goods could quickly pass through the port rather than waiting for controls. The benefit for the shipper is reduced transit times and transport costs. For transport operators, this would mean more productive use of their equipment and thus increased profitability and the ability to lower tariffs.

9. There will likely be an integration of the global supply chain that will force structural changes on the industry. One obvious change is that transport services will become more integrated. C the new transport operator will become a multimodal transport or third party logistics operator with control over each of the modes and long-term relationships with the infrastructure owners or operators. This implies that the operation of transport services will be the responsibility of private operators with the infrastructure likely remaining the responsibility of the State C both for its development and its maintenance. Private operators will equip infrastructure facilities and manage the transport services on a long-term lease or concession basis from the State.

10. Infrastructure has traditionally been the preserve of the public sector, partly because of the perceived strategic importance to the economy and partly because of the large investment costs and long gestation periods usually associated with such projects. Government financing may still be available to a limited extent for infrastructure investment projects carried out in connection with objectives such as encouraging economic development. However, this financing has come under increasing pressure in various countries because of macro-economic requirements to reduce the totality of government expenditure. As a result, countries are now looking for financing sources other than Government to fund their investments.

11. Debt financing, notably from multilateral development agencies and guaranteed by Governments, has been a popular way to undertake transport development in LDCs. The multilateral aid agencies give a high priority to transportation project financing. The over-riding importance of transport is generally recognized and reflected in the Official Development Aid (ODA) flows from Development Assistance Committee (DAC) members to LDCs. Over the last 5 years "transport and communications" has consistently been the most important single ODA recipient sector, representing about 10 per cent of ODA commitments. There is a need for new infrastructure investment through both official ODA and private sector FDI. At the same time, there is a large share of accumulated debt due to transport and communication sector investment. Thus the optimization of transport systems becomes ever more important for LDCs in their endeavours to maximize return on public investment and to attract private FDI.

12. Recently, private operators have been able to mobilize the funds necessary to finance certain infrastructure projects and have been willing to accept both project and country risks, provided that the country's institutional framework has met certain minimum standards and the projects have been appropriately structured. This has happened either through joint-ventures or FDI. However, particularly for common user infrastructure, more funds must be mobilized domestically. Governments that recognize this are taking steps to develop their local capital markets. Together with this shift from public equity and debt financing to private equity funding it will be necessary to develop strategies aimed at minimizing infrastructure funding requirements (making the best use of existing infrastructure) and thus replace international capital resources with know-how based operational efficiency.

II. STRATEGIES TO IMPROVE TRANSPORT EFFICIENCY

13. While measures to improve transport infrastructure are necessarily of a long-term nature, a number of specific activities can be envisaged that will have a direct impact on the transport situation of LDCs and on the efficient use of existing infrastructure and equipment. These measures largely relate to improvements in the working of institutions, regional agreements, management assistance (particularly through the application of information technology) and the transfer of know-how. In particular, these measures need to be addressed at the LDC conference.

14. Despite the long-term nature of infrastructure investments, there is potential for action that could already have a positive impact on infrastructure projects in the planning or early implementation stage. The purpose of such an initiative would be to develop a more systematic approach to the enhancement of transport infrastructure. In this approach, multilateral funding institutions and other traditional donors should continue to focus on funding infrastructure and equipment projects. UNCTAD and other institutions could

complement these projects by contributing their expertise through institution-building in transport, transit, logistics, IT, trade facilitation and a legal framework that is required to improve trade and transport efficiency.

Reform measures

15. Faced with reduced funding and more demanding requirements from users, Governments from developing countries must look toward ways of making existing transport infrastructure more effective. In particular, efficient use of existing facilities must be made before funding can be justified for new developments. Thus, facilities must be well maintained and intensively used, requiring skilled management with responsibility and authority. Management must have the freedom to adjust staffing levels and set tariffs to provide competitive self-sustaining services. Rules and regulations need to be changed to provide this autonomy. To make these improvements reform measures such as strengthening management, deregulation, commercialization or privatization will be required. Greater participation of the private sector, particularly international transport operators, is a means of making both knowledge and capital inputs to the sector. For example, recent private sector involvement in the management of a container terminal in an east African LDC has resulted in the doubling of cargo handling productivity. LDCs require assistance in revising their regulatory framework, in human resource development and in implementing reform processes.

IT solutions to transit/transport management and administration

16. Information technologies offer the means to dramatically improve the efficiency of transport operations at a relatively modest cost, provided there is a political will to adopt reform processes and confront vested interests. UNCTAD has developed practical solutions to address efficiency issues, such as the Advance Cargo Information System (ACIS). ACIS is a system designed to produce management information to address multimodal cargo transit and transport resource problems. It is a real-time proactive system providing transport operators with reliable, useful and immediate data on transport operations giving the whereabouts of goods and transport equipment. The resulting performance indicators enable management to remedy operational deficiencies and at the national and subregional levels to provide data for macro-economic planning of the transport sector. Presently, nine LDCs have benefited from ACIS installation. Additional financial resources are required to extend ACIS to other LDCs. Additional tools using information technology and telecommunications need to be developed to improve the operational efficiency of LDC ports.

17. UNCTAD's Customs Reform, Modernization and Automated Programme (ASYCUDA) speeds up the customs clearance process through computerization and the simplification of procedures, thus minimizing administrative costs. Thirty-one of the LDCs have been involved in the ASYCUDA programme. Recently, a new module **C** the ASYCUDA++ version **C** has been developed to manage customs transit procedures. Additional financial resources are needed in order to install ASYCUDA++ in more LDCs and help those already using the first generation ASYCUDA software to migrate to ASYCUDA++ (approximately 24 countries).

18. Another example of the use of IT as a tool to facilitate transport operations and to implement subregional integration arrangements in the field of transport is the Road Transport Information System developed by Southern African Development Community (SADC). Several countries have already introduced this computerized system that contains information on vehicle registration and licensing, driver and professional driver registration, registration of vehicle and driver testing facilities, traffic offences and prosecutions and traffic incidents. Assistance for establishing such a system for vehicle registration is required for other countries in the subregion.

Regional integration

19. Surmounting non-physical barriers to enhance the efficient use of existing physical transport infrastructure is a major objective to be pursued particularly when investment resources are scarce. In this

context, the establishment of regional transport corridors and adoption of common rules and standards have played a major role in transit transport facilitation. Institutional changes are required particularly with regard to implementing arrangements and procedures for transit operations to and from landlocked LDCs. These institutional changes and accompanying training arrangements would reduce transport costs of landlocked countries. UNCTAD has taken a lead role both in designing transit systems and agreements and in providing IT solutions to the effective implementation of such agreements. For example, a number of facilitation instruments have been drawn-up in the context of a regional integration arrangement (Common Market for Eastern and Southern Africa C COMESA).¹

Establishment and strengthening of professional bodies and associations

20. Deregulation, liberalization, partial and full privatization have increased the role of the private sector in the supply of transport and related services. In order to increase its leverage to influence Government policies and actions, the private sector has been establishing or strengthening professional bodies and associations (freight forwarders associations, road transport associations) at the national and regional level. Apart from representing the interests of their constituent members, professional bodies and associations can play a significant role in implementing regional transport instruments such as a Third Party Motor Insurance Scheme. However, as many professional bodies and associations are still weak, there is a need to provide financial and technical support to strengthen existing associations and help to establish new ones. Furthermore, there is a need to promote public/private sector dialogue and cooperation that also requires financial and technical support.

HRD and training

21. Know-how transfer is also required to ensure wider participation by the private sector in transport operations. Governments must develop policies and create regulations that enable all transport operators (all modes) to compete in an enabling commercial environment. Modern legislation must be drafted and effectively and objectively enforced. Training needs to be extended to governmental authorities called upon to provide the necessary framework for private sector participation, as well as to operators to ensure their competitiveness in the international market place.

¹ COMESA Transit Transport Facilitation Instruments include the Harmonized Axle Load Limits; Carrier License and Transit Plates; Harmonized Road Transit Charges; COMESA/SADC Customs Document; Customs Regional Bond Guarantee; and Third Party Motor Insurance Scheme (Yellow Card).