UNCTAD-UNESCAP

Possible elements for a "summary outcome" of the side event: Comprehensive Mid-term Review of the Vienna Programme of Action

High- level Side Event on Impact Investing and Innovative Resource Mobilization to Foster Productive Capacities and Structural Economic Transformation in Landlocked Developing Countries

1. The socioeconomic indicators of landlocked developing countries (LLDCs) have not shown substantial improvements since the adoption of the Vienna Programme of Action in 2014. Available data shows that LLDCs as a group have experienced a sharp slowdown in average real GDP growth, with unemployment and poverty reduction remaining among the key persistent challenges facing them. Moreover, their share in global exports and foreign direct investment (FDI) has continued to plummet, although official development assistance inflows (ODA) inflows have slightly improved in 2018. With regard to international trade, LLDCs' dependence on primary commodities exports has increased instead of decreasing. This increase in the commodity-dependence and increasing commoditization of LLDCs' economies confirms the significant challenges that these economies face in fostering productive capacities and structural economic transformation as well as enhancing export diversification. Twenty-six 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, which are often volatile.

2. The pattern of growth observed in the LLDCs over the last decade, especially since the adoption of the VPoA, has further entrenched commodity dependence, caused stagnation in the manufacturing sector and driven high export concentration indices, all of which have led to persistent vulnerability of their economies 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. These challenges coupled with the declining share of LLDCs in world exports and growing imports have led to an increasing trade deficit. This

situation compels countries to pay for their imports though external financing or borrowing, which in turn, has exacerbated the external debt burden of LLDCs.

3. Overall, the share of LLDCs in global trade, investment and output is very small, which shows their continued marginalization in the global economy. The concern now is that, if the above-mentioned socioeconomic conditions continue 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).

4. Effectively, addressing complex trade and development challenges facing LLDCs requires holistic, multi-sectoral “programme-based” approaches instead of traditional “project-based” interventions. Programme-based approaches need to place a particular focus on developing economy-wide productive capacities and structural transformation. These are critically important for robust, sustained and inclusive growth and development of LLDCs. However, productive capacities-centered programme based approaches must go beyond “business as usual” and must be anchored on dynamic new generation domestic policies and strategies as well as robust international support mechanisms.

5. At the domestic level, macroeconomic, industrial, rural and infrastructure policies as well as sectoral policies and strategies should be geared towards fostering productive capacities and structural transformation, including export diversification and sophistication. This is particularly pertinent as many LLDCs face premature de-industrialization characterized by a shift towards services, most of which are low productivity. This is limiting the ability of LLDCs to benefit from the dynamism of manufacturing and is therefore hampering the poverty reduction efforts. There is also a need to rebalance the allocation of public resources between productive sectors and social sectors. Furthermore, LLDCs need to continuously strive to create a dynamic and internationally competitive enterprise sector as a vehicle to transform productive structures into higher value-added activities that involve more skill- and technology-intensive production and exports. Technologically sophisticated production methods and exports are key to generating higher incomes that can fuel domestic demand and stimulate new investments. With this in mind, LLDCs that have natural resources need to implement sound development polices and strategies that put productive capacities and structural economic transformation at the center. They need to capture their natural resources rents more effectively, particularly during commodities booms, to foster their transformational development. It is equally important for LLDCs that are rich in energy

resources to effectively use their resources to foster productive capacities and structural economic transformation. They also need to continuously seek ways and means for promoting efficiency in national energy use or consumption, including minimizing production, transmission and consumption losses.

6. Fostering entrepreneurship, industrialization and technological upgrading is critical for building productive capacities and accelerating structural transformation. The experiences of current developed countries, developing countries and emerging economies indicate that governments have an important role to play in inducing the building of productive capacities and structural economic transformation. Therefore, it is crucial for LLDC governments to take a more proactive and catalytic approach to stimulate productive activities, including through the creation of enabling environments for business and investment. Governments also need to encourage economic transformation through investments in R&D, particularly in innovative market-oriented products and processes.

7. While industrialization and technological catch up are critically important, LLDCs need to pay particular attention that industrialization should not be pursued at the expense of other sectors such as agriculture and services but in a mutually supportive manner, facilitating backward and forward linkages, especially between agriculture and the industrial sectors. In fact, for many LLDCs agriculture is the dominant sector in terms of employment generation, ensuring food security, export revenues and in its share in GDP. The dominant role of agriculture in LLDCs calls for urgent actions aimed at rural modernization through boosting investment in agriculture and ensuring that it is well targeted with a special focus on research and development on indigenous crops and better variety seeds. Efforts aimed at improving agriculture should also include improving production and marketing systems, diffusing technology and disseminating information as well as assisting in establishing acceptable practices in agriculture to meet international standards.

8. In view of the increasing importance of the commodities sector, LLDCs should strive to define long-term visions that link the commodity sector to national development strategies. By ensuring that the role of commodities is incorporated into national development strategies, LLDCs increase the likelihood of maximizing the potential of the sector in order to avoid a repeat of the jobless growth without structural transformation experienced during the previous decade. A more holistic approach that incorporates a development perspective and that takes into account the role and functions of commodities in economic growth and poverty reduction is required. In this regard, LLDCs should pursue deliberate and targeted policies that are aimed at enhancing their

participation and gainfully integrating into regional and global commodity value chains as there is considerable potential in terms of growing demand and supply for specific commodities/products of export interest to them at the regional level. Effective participation in regional commodity value chains provide a steppingstone for LLDCs to participate in and link to global value chains.

9. The paradigm shift in domestic policies should be accompanied by new international support measures for LLDCs. Support measures should go beyond the confines of ODA and technical assistance and include transfer of technology and know-how as well as building technological capabilities and innovation systems in these countries. In this context, the international community, particularly donor countries, international financial institutions, regional banks, specialized banks such as the Export-Import Banks from advanced developing countries need to target the economic sectors of LLDCs in enhancing their development partnership to address the low levels of productive capacities and structural transformation in LLDCs, including heavy commodity dependence, as well as alleviate acute needs of transport and transit infrastructure in LLDCs.

10. Given the scale of the challenges facing LLDCs in building productive capacities and fostering structural transformation as well as export diversification, LLDCs will require significant financial resources to support needed investments. This is particularly the case of landlocked least developed countries, in which poverty is widespread and persistent. Current estimates of the financing needs far exceed the levels of development finance available to most LLDCs from traditional sources, including ODA, FDI, taxation and remittances. Against this background, there is increasing interest in harnessing the potential of the private sector for development. In particular, there is a growing community of impact investors who are ready to invest in development projects, and who are ready to accept lower rates of financial return while achieving developmental benefits. According to some estimates, the volume of impact investments has achieved US$ 200 billion in 2018, and is increasing rapidly. LLDCs should aim to harness the potential of impact investments to support structural transformation and export diversification. In order to achieve this, they should build capacities to develop bankable projects, and make increasing use of innovative finance models or approaches to support their investment needs for transformational development. However, effectively harnessing the private sector for development will also require strong domestic regulations and institutions and continued efforts to ensure that projects are in line with national development strategies.