Consultative Meeting (retreat) on the Third United Nations Conference on LLDCs (LLDC3)

SESSION 2: *Deepening resilient connectivity and promoting unfettered transit system to improve LLDCs' competitiveness in regional and global trading system.*

Friday February 2, 2024

11:10 – 12:40

ISSUES PAPER

The 32 landlocked developing countries (LLDCs) confront significant challenges stemming from their geographical remoteness and lack of direct access to the sea. Coupled with inherent structural and geographical disadvantages, infrastructure deficiencies and dependence on transit partners for access to the sea, LLDCs grapple with high trade and transport costs, hindering their global market integration.

LLDCs continue to confront multifaceted challenges including significant infrastructure deficit, inadequate maintenance, losses from disasters, and infrastructure ill-suited for the impacts of climate change. Addressing these issues necessitates a focus on resilient connectivity and fostering an unfettered transit system for LLDCs' sustainable development.

Achieving the global average density of transport infrastructure in LLDCs requires substantial investments estimated at US$509 billion, which is equivalent to 2% of GDP over 20 years, as estimated by OHRLLS. Transport investment typically requires up to 3% of GDP for developing countries, with a rather higher share for LLDCs. LLDCs need to continue making substantial investments for infrastructure development and maintenance, encompassing roads, railways, energy, ICT, and air transport facilities.

While the potential benefits of resilient infrastructure in LLDCs are evident for their inclusive economic growth and competitiveness, the challenge lies in mobilizing necessary finance required for such projects. Economic growth in landlocked developing countries is waning, with GDP estimated at 3.6 percent in 2022, down from 4.6 percent in 2021, constraining their domestic resource mobilization capacity. Despite a 6% increase in FDI to LLDCs, totaling US$20 billion in 2022, this constituted only 1.5% of the global FDI flows. LLDCs also lack access to adequate climate finance, further limiting their fiscal capacity and financial liquidity mix necessary for crucial sectors like infrastructure development and resilience.

There is a compelling case for increased support in both hard and soft infrastructure investment in LLDCs. Despite this need, development finance providers' sectoral allocations to LLDCs are mainly focused on the social sectors with infrastructure being only the second most supported sector grouping. Total official development Finance (ODF) to the social sectors represented 41% of total ODF to LLDCs, while support to infrastructure amounted to USD 10.3 billion (33% of total ODF to LLDCs). LLDCs get a similar share of their ODF going to key infrastructure sectors in comparison to other developing countries (33% compared to 34% for ODCs).

While LLDCs non-concessional financing for infrastructure is slightly higher at 10 percent than for other developing countries at 7 percent, the share is not sufficient to make necessary impact to ensure resilient connectivity.

Furthermore, the ODA to LLDCs declined by15 percent in 2021, falling below 2015 levels. Many LLDCs grapple with mounting debt burdens, limited fiscal space, and rising borrowing costs, with an average external debt stock amounting to 52% of GDP. [1]Various infrastructure support facilities, available with the Multilateral Development Banks (MDBs), the G20 Global Infrastructure Hub, the OECD Infrastructure Platform, and the Asian Infrastructure Investment Bank, are instrumental in addressing financing challenges for infrastructure investment, particularly in LLDCs. The AIIB stands out as a significant provider of infrastructure finance, having approved over 202 projects between 2016 and 2022. Of the USD$38.8 billion in 2022, AIIB disbursed USD$3.58 billion to seven LLDCs, including Rwanda, with the largest disbursement going to Uzbekistan (US$2 billion). The use of blended finance by MDBs, coupled with countercyclical support during crises, plays a crucial role in meeting the growing demand for infrastructure development.

While the existing sources of infrastructure finance have been actively financing infrastructure projects globally, there remains a considerable mismatch between the financing needs and the available sources. Thus, there is an urgent call for a clearer delineation of the prioritization of LLDCs in the broader landscape of global infrastructure financing. This call is driven by the specific needs of LLDCs to overcome isolation and facilitate development, urging providers to carefully consider and address the unique challenges faced by LLDCs in their infrastructure investment strategies.

In view of the above, it is time to consider innovative approaches in exploring new infrastructure finance facilities for LLDCs. There are also ongoing discussions to harness existing infrastructure finance facilities to consider a dedicated infrastructure investment finance facility for LLDCs. In this regard, engaging with the private sector remains essential, especially in domains such as infrastructure development, energy transition, structural transformation, and risk management.

Since 2014, LLDCs have made limited progress in achieving structural transformation, with an export basket comprised of a narrow range of low-value-added products dependent on primary commodities, accounting for 83% of their exports. Despite contributing a higher share of their GDP through international trade compared to the world average, LLDCs remain marginally involved in global value chains, indicating significant untapped potential. In 2022, LLDCs contributed only 1.1% to global merchandise exports. Over the period 2020-2021, LLDCs experienced an average cumulative decline in exports of 4.7%, while exports increased globally by 2.4% and in emerging/developing countries by 7%.

Regional cooperation, including trade integration and transit cooperation, is crucial for LLDCs' integration into the global trading system. Despite the potential benefits, stubbornly high intra-regional trade costs hinder economic growth. Improving regional infrastructure and connectivity through improved intramodal links can help LLDCs reduce trade and transit costs, addressing challenges posed by their peripheral position. Enhanced transit transport networks, such as transit corridors, not only lower transport costs but also improve access to essential services, fostering economic and social development. Addressing these issues is essential for fostering resilient and accessible trade for LLDCs.

As LLDCs transition from the Vienna Programme of Action, it is essential to adopt a balanced approach in developing both the hard (physical infrastructure) and soft (policy, regulatory and logistics frameworks) aspects of transport connectivity. It is equally important to ensure greater coordination and cooperation among international logistic organizations, federations, and multilateral organizations to maintain resilient and accessible trade for LLDCs.

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[1] https://www.oecd-ilibrary.org/sites/9789264307711-4-en/index.html?itemId=/content/component/9789264307711-4-en#figure-d1e1554

Guiding questions

1. *What are the key challenges and barriers that LLDCs face in achieving seamless transport connectivity with their transit coastal countries, to promote deeper regional integration? What are some of the best practices?*
2. *How can strategic investments in both hard (physical infrastructure) and soft (policy, regulatory, and logistics frameworks) aspects of transport connectivity be leveraged to enhance resilience and competitiveness?*
3. *How can LLDCs leverage the existing infrastructure investment finance facilities to meet their financing needs for resilient infrastructure?*
4. *How can development partners, regional organizations and the private sector collaborate with LLDCs to support efforts in enhancing transport connectivity and facilitating the movement of goods and people across borders, thereby promoting intra-regional economic growth and development?*