# LLDCs Inputs

# for Elements Paper on Financing for Development

# **I. Global Financing Framework**

Landlocked developing countries (LLDCs) continue to face significant structural vulnerabilities due to their geographic isolation and lack of direct sea access, resulting in high trade and transport costs. Cascading global crises in the last four years have exacerbated these vulnerabilities. At the same time, financial resources needed to help LLDCs to overcome their peculiar disadvantages have receded or at best stagnated. This includes both public and private, as well as domestic and international resources.

The Fourth International Conference on Financing for Development (FfD4) comes at a critical time as the 2030 deadline for the Sustainable Development Goals fast approaches. It is imperative that outcomes emanating from the Conference are fully cognizant of the special needs of LLDCs in relation to the commitments of UN membership towards their development. For example, the forthcoming Programme of Action for Landlocked Developing Countries that will formally be adopted at the 3rd UN Conference on Landlocked Developing Countries (LLDC3) encompasses a number of specific commitments related to addressing financing and investment gaps in LLDCs. It must be ensured that financing frameworks emerging from the FfD4 Conference prioritize the actualization of these commitments through elevated international cooperation, increased climate finance, and investment in sustainable infrastructure for LLDCs, amongst others. Moreover, global financing frameworks emanating from FfD4 should embed targeted support mechanisms to augment resilience in LLDCs, particularly resilience to trade disruptions and climate change.

# **II. Action Areas**

## **a. Domestic Public Resources**

LLDCs continue to face challenges in mobilizing domestic resources, hindered by large informal sectors, weak tax bases, and dependency on volatile commodity prices. Tax revenues collected as a share of GDP in LLDCs remains well below the average of developed countries and many other developing countries, with some countries still struggling with ratios less than 10% of GDP (World Bank). FFD4 Conference outcomes must encompass strengthening Integrated National Financing Frameworks (INFFs) in LLDCs with a particular emphasis on broadening tax base, formalizing the informal sector, enhancing tax collection mechanisms, strengthening international tax cooperation and improving the management of natural resources, including minerals critical for the global energy transition, and combating illicit financial flows. Furthermore, financial sector development can promote domestic retention of resources.

## **b. Domestic and International Private Business and Finance**

Foreign investment is critical for landlocked developing countries not only to facilitate structural economic transformation, i.e., the transition of their economies from lower-value-added to higher-value-added activities but also to overcome infrastructure deficits. Yet despite increasing unfulfilled needs, investment trends in landlocked developing countries have been tepid in recent years.  According to UNCTAD, FDI inflows in LLDCs were just a little under $25 billion in 2023, significantly below the peak of approximately $36 billion in 2011.

FFD4 Conference outcomes should stress upon elevated support from partners to increase investment in LLDCs especially as the global investment landscape becomes more competitive. There should be a particular emphasis on harnessing the role of the private sector for the attraction of greenfield investment that is critical for landlocked developing countries’ better integration in global value chains as well as their structural transformation. Similarly, Multilateral Development Banks (MDBs) must be encouraged to support investment and financing in LLDCs, especially for climate-resilient and digital infrastructure. A valid channel for this support would be through the Infrastructure Investment Financing Facility envisaged in the new Programme of Action for the LLDCs.

In addition to directly providing concessional finance, MDBs should be asked to extend risk mitigating instruments and guarantees such as non-commercial risk insurance, exchange rate and commodity rate swaps as well as political risk insurance for private investors. In addition, participation of MDBs in private project finance can significantly reduce the cost of capital and this must also be explicitly encouraged.

## **c. International Development Cooperation**

Gross disbursements of ODA to the 32 LLDCs amounted to $35.2 billion in 2022, down from a record $37.6 billion in 2020, the year the COVID-19 pandemic started. The share of LLDCs in total ODA flows to developing countries was 12 per cent in 2022, down 4 percentage points in 2020. Despite the crucial role of external finance, ODA flows to LLDCs have been consistently lower than the commitments made by developed countries. This gap between flows and commitments is a key contributor to underfunding of the SDGs and development financing in LLDCs, particularly with regard to their structural transformation and infrastructure development, and in their transition to climate-resilient economies. These lackluster trends which have been ongoing for years highlight the urgent need to scale up direct financial support from development partners.

The FFD4 Conference must therefore focus on enhancing ODA commitments for LLDCs, particularly for sectors that can directly assuage LLDCs’ vulnerabilities, such as infrastructure, health, and education. Given the ongoing climate crisis, LLDCs also require increased access to climate finance for adaptation and mitigation efforts, and to cover costs of loss and damage resulting from extreme weather events. More concrete measures are needed to achieve a greater balance between mitigation and adaptation.

## **d. International Trade as an Engine for Development**

LLDCs currently contribute only 1.1% of global merchandise trade despite accounting for 7% of the world’s population. LLDCs’ disproportionately high trade and transport costs are well documented, with estimates suggesting export times for LLDCs being double those of coastal countries. Digital technology and its effective use can contribute to higher efficiency and productivity and help LLDCs reduce their trade costs and barriers and better connect to the global economy Strengthening the readiness of LLDCs to benefit from digital transformation is a development challenge that has gained added urgency after the COVID-19 pandemic. The FFD4 Conference should underscore the need for identifying sources of finance and investment that can underpin regional integration and transport corridor development within and across LLDCs and their transit partners. The role of MDBs and Export Credit Agencies in supporting LLDCs’ international trade is critical by helping them manage risks, facilitate exports and imports, and integrate into global supply chains. The FFD4 outcome must especially highlight this issue due to its relevance for LLDCs and enumerate specific areas of trade finance where LLDCs should be supported. These can include, for example, trade credit guarantees, transit guarantees export credit insurance, working capital loans and trade finance facilities, supply chain finance and risk participation agreements etc.

The support provided by various MDBs towards these instruments in some recent crises hit countries has been instrumental in keeping the economies of those countries functioning. Considering LLDCs chronic trade related vulnerabilities and digital divides, a special programme for LLDCs that covers relevant trade finance instruments-in alignment with the current realities of 21st century, including the principle of common but differentiated responsibility on climate change crisis, and the accelerated digitalization of the world economy- must be considered at the FfD4 Conference.

## **e. Debt and Debt Sustainability**

LLDCs' external debt rose significantly in the last four years due to the onset of the COVID-19 pandemic as well as subsequent global crises. Almost one third of LLDCs are now at high risk of debt distress or already in debt distress, threatening their ability to achieve long-term development goals. Public debt in the form of private sector loans and bonds has also introduced new vulnerabilities. Development partners should give particular attention to innovative mechanisms for debt management. The Conference should propose debt restructuring and relief mechanisms, including debt swaps for climate and development, including debt for equity in SDG projects and debt indexation instruments, and ensure that concessional financing is prioritized for highly indebted LLDCs. The role of the private sector as well as that of non-traditional donors in supporting debt sustainability must be adequately highlighted. Solutions must be identified that go significantly beyond the current arrangements, especially the G20’s Common Framework.

## **f. Addressing Systemic Issues**

LLDCs’ limited access to global markets, high trade costs, and weak and inadequate infrastructure underscore the need for comprehensive systemic reforms. The Gaborone Programme of Action for LLDCs for the Decade 2024-2034 prioritizes addressing these vulnerabilities through enhanced international support, focusing on transport connectivity, digital infrastructure, and resilience to external shocks. The FfD4 Conference should build on the commitments that will be agreed at the LLDC3 Conference by encouraging development partners to invest in multi-modal transport systems and ensure that LLDCs are better integrated into the global digital economy.

Moreover, to strengthen resilience against the global financial volatility and provide the necessary financing and stability for LLDCs, contingency financing, including through the strengthened use of Special Drawing Rights, a temporary suspension of IMF surcharges, and increased quota-access windows to IMF emergency financing needs to be further discussed and expanded as a financing for development modality that is counter-cyclical.

## **g. Science, Technology, Innovation, and Capacity Building**

LLDCs lag in technological innovation, with significant gaps in digital infrastructure and ICT skills. The rapid growth of the digital economy presents opportunities for LLDCs to overcome their geographical disadvantages. However, the benefits of technological progress are not equally distributed, as LLDCs continue to lag behind due to insufficient resources, technical expertise, and infrastructure to reap the benefits of technological development and tap into the full potential of innovation.

In general, to engage in and benefit from digital trade, consumers and businesses must have access to fast, affordable and reliable digital infrastructure as well as the skills and capabilities to use digital technologies for productive activities. However, today, although 67 per cent of the world’s population is connected, LLDCs only count 39 per cent of their populations as Internet users. In this context, a strategic approach to STI policies is key to achieve sustainable growth. International cooperation at scale is essential to foster technology transfer between countries and empower LLDCs with the STI capacities and capabilities. Unfortunately, only [a very small proportion of all funding](about:blank) provided by Aid for Trade is currently being allocated to ICT solutions. The FfD Conference should stress on the importance of supporting these countries in building digital infrastructure and technological capabilities, promoting e-commerce and MSME support financing, and enhancing access to technology through capacity-building programs.

# **III. Emerging Issues**

Climate change remains a critical issue for LLDCs, with these countries facing disproportionate impacts despite contributing only 1% of global CO2 emissions. The FfD4 Conference must prioritize financing mechanisms to support LLDCs’ climate adaptation strategies, including scaling up investments in climate-resilient infrastructure and promoting sustainable agricultural practices, in line with their development needs and national circumstances. Additionally, the international community should work with LLDCs to develop green technologies and exploit critical minerals for clean energy transitions.

# **IV. Data, Monitoring, and Follow-up**

Robust data collection and monitoring mechanisms are crucial for tracking progress on commitments made to LLDCs. The Conference should establish a transparent follow-up mechanism to monitor financing flows, development financing allocations, debt sustainability, and trade facilitation efforts. This will ensure accountability and also provide LLDCs with the necessary tools to measure progress toward the Sustainable Development Goals (SDGs).

# **V. Overarching Reflections**

LLDCs face unique challenges that require tailored solutions, especially in the fields of financing for development and technology LLDCs stand to lose the most from declining trust in multilateralism, especially in respect of the external financing on which they are most dependent. What is clear is that many LLDCs have limited fiscal space to mount the necessary countercyclical measures to mitigate cascading crises. Scaling up financing for development in LLDCs should not increase debt burdens further. Development partners should take adequate considerations of LLDCs’ interest on global corporate taxes, and ensure that LLDCs accrue a fair share of related revenue

The Fourth International Conference on Financing for Development provides an opportunity to address these issues through concrete policy reforms and increased financial commitments. LLDCs require enhanced international support to overcome their geographic constraints, build resilient infrastructure, and integrate into the global economy. By promoting targeted financing strategies, increasing ODA, and fostering stronger multilateral cooperation, the Conference can help leave a lasting impact in LLDCs pursuit of sustainable development.

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