Issues Paper
Financing the SDGs in Africa’s landlocked developing countries (LLDCs) and least developed countries (LDCs) through strengthened trade ties within the framework of the AfCFTA

1. Background
Achieving the Sustainable Development Goals (SDGs) in Africa requires substantive human, financial and material investments. Africa’s over two-decades’ long continued economic growth has not translated into meaningful and irreversible improvements in social and economic development outcomes for the entire population, particularly with regard to job creation and poverty reduction.

The 2030 Agenda for Sustainable Development underscores the importance of international trade as an engine for inclusive economic growth and poverty reduction, and as an important means to achieve the SDGs. SDG 9 on resilient infrastructure and industrialization stresses the important role of infrastructure, SDG 11 includes a target to provide access to safe, affordable, accessible and sustainable transport systems for all and SDG 7 focuses on energy in sustainable development. The 2030 Agenda acknowledges that the most vulnerable countries, including Least Developed Countries (LDCs) and Landlocked Developing Countries (LLDCs) deserve special attention.

The LDCs is a category established by the UN in 1971. The LDCs are not merely low-income countries, but consists of those that face severe structural handicaps to economic growth and development. Of the world’s 47 LDCs, 33 are African, 13 are in the Asia-Pacific, and one only is in the Caribbean. Many of the LDCs share characteristics with other special UN development categories, such as being landlocked (fitting also into the category of landlocked developing countries, the LLDCs) or being small islands (fitting also into the category of small island developing states, or SIDS). The UN system operationalizes the support given to the LDCs by way of special Programmes of Action, the current one being the Istanbul Programme of Action (IPoA) for the decade 2011-2020.

The LLDCs on the other hand, are countries that lack territorial access to the sea. Out of the world’s 32 landlocked countries, 16 are in Africa, and 13 of these are also LDCs. The high transit costs faced by LLDCs when importing and exporting goods provide a fundamental challenge to development. Furthermore, the reliance of LLDCs on the transit countries they border can also be a substantial handicap. Despite their efforts to improve their internal infrastructure and institutions,
such as roads and customs facilities, LLDCs will continue to depend upon similar efforts made in transit countries to improve these factors, which are outside the control of the LLDCs themselves.

The UN system first formalized its work to support the LLDCs at the “International Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation,” in Almaty in 2003. The outcome of this conference was the UN’s Almaty Programme of Action for the LLDCs. This has been succeeded by The Vienna Programme of Action (VPoA), for the LLDCs for the decade 2014 to 2024. The VPoA sets out a holistic approach to improving the integration of LLDCs into the global economy through the following six priority areas: Fundamental Transit Policy Issues; Infrastructure Development and Maintenance; International Trade and Trade Facilitation; Regional Integration and Cooperation, Structural Economic Transformation, and Means of Implementation.

2. LDCs and LLDCs shared realities relative to other African countries

Across the world, 17 of the 32 LLDCs are also LDCs. However, in Africa, 13 of the 16 LLDCs are LDCs. Zimbabwe, which is an LLDC but not an LDC, also fits in with all the thresholds of the LDC category, but since 2006 the country has refused the classification of LDC. Botswana is an LLDC that was previously an LDC, having graduated from the category in 1994. This indicates that in Africa, the difficulties faced by the LLDCs are substantially connected to the rest of the LDCs. The poorest of the African countries, in GDP per capita terms, is both an LDC and an LLDC (Burundi). With 33 of the 47 LDCs being African, and with most of the upcoming and probable graduations from the LDC category being in the Asia-Pacific region, concerns about the status of the LDCs are almost equivalent with concerns about Africa’s least wealthy countries.

The Istanbul Programme of Action for the LDCs targets a growth rate of at least 7 per cent per annum. Without growth at this level and beyond, the LDCs will not be able to catch up to the more developed countries for many decades. Even assuming a growth rate of 7 per cent per annum per capita, the African LDCs would not reach the level of GDP per capita that non-LDC African countries have already attained for 25 years. For just the African LLDCs, which presently have a higher average GDP per capita, this figure would be 18 years. Over the last three years (2016-2018) both the LDCs and the LLDCs have experienced higher growth rates than non-LDC African countries (4 per cent, 3.6 per cent and 2.8 per cent, respectively) but still are considerably distant from the target of 7 per cent.

Progress towards achieving the SDGs and Agenda 2063 has been mixed in LDCs and LLDCs. The poverty headcount ratio (the proportion of people living on less than $1.90 a day) is high in both sets of countries, with the average in African LLDCs being 55.8 per cent and 45.1 per cent in all African LDCs. By contrast, the average of all non-LDC African countries is 8.4 per cent. The average GDP per capita in African LLDCs is $1506, while for the African LDCs it is $911, and for non-LDC African countries, $5208.1

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1 These figures are given as averages for the years 2016-18.
The LLDCs, specifically face substantial infrastructure deficiencies, which are all the more relevant due to their long distances to ports and poor trade facilitation, resulting in high transport and overall trade costs. These high costs reduce competitiveness, diminish export profits, inflate the prices of imported inputs for manufacturing, discourage investment and undermine LLDCs’ efforts to fully reap benefits from regional and global flows of knowledge, technology, capital and innovation. They are also not able to fully tap into the benefits of trade such as investment, finance, technology and services needed to further improve productive capacity in sectors such as agriculture, industry and services that are needed for structural transformation of their economies. In addition to the geographical impediments, LLDCs face challenges linked to delays at borders, bottlenecks related to customs procedures and border crossing regulations, and productivity constraints.

A critical part of participation in a modern economy is access to reliable electricity, and the African LDCs are still a long way from attaining universal access to this necessity. While there have been improvements in rates of electricity access across the LDCs over the period of the Istanbul Programme of Action, the principle of leaving no-one behind requires that those with the least access must be considered. Access to electricity for people in rural areas in Africa is still remarkably low. While countries such as Comoros, Sao Tome and Principe and Eritrea reporting relatively higher access rates of 72 per cent, 39 per cent and 51 per cent of their rural populations, respectively, Burkina Faso, Central African Republic, and Liberia have rural access rates of one per cent or lower. Improving electricity access across all Africa’s LDCs is a key part of the progress that must be made towards the SDGs, as low access currently constitutes a binding constraint on development.

3. Prospects and Challenges of achieving the SDGs in the LDCs and LLDCs through greater financial and infrastructure integration

Trade will continue to be a strong driver of growth in the region as well as a major contributor to government revenues. Successful operationalization of the Africa Continental Free Trade (AfCFTA) is expected to boost/expand intra-African trade, stimulate sustained economic growth and foster inclusive development. However, the success of AfCFTA hinges on improved financial integration as well as reliable and responsive infrastructure. The weak institutions of the LDCs and LLDCs, and the difficult geographic position of the LLDCs in particular, make this financial and physical integration of these countries especially difficult.

Both the LDCs and the LLDCs have highly concentrated exports. While non-LDC African countries have an export concentration index of 0.41, the African LDCs have a concentration index of 0.45, and the LLDCs, 0.48. This shows that the LLDCs, particularly, are highly reliant on very

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3 Computed by the Herfindahl-Hirschman Index (HHI), which measures the extent of concentration of a country’s exports among few categories of exported goods. A value closer to 1 indicates the country exports are concentrated in only very few goods, and a value closer to 0 indicates the country exports a wide variety of goods. The value given is the average over 2016-18.
few products to bring in export earnings. Among the African LLDCs, all of them except for Lesotho and eSwatini are commodity-dependent. This poses specific challenges for the LLDCs given that commodity exports frequently have a low value-to-volume ratio, and require extensive transport and port infrastructure to reach the world market.

*Figure 1: Logistics performance index*

The non-African LDCs outperform the African LDCs and LLDCs in the actual physical mechanics of trading. The World Bank’s Logistics Performance Index tracks data that assesses aspects of trade, and rates countries on a scale of 1 to 5. It includes, for example, the ability to track and trace consignments, efficiency of the clearance process, and frequency with which shipments reach consignee within scheduled or expected time. Figure 1 shows the performance of the three country groupings of concern for this paper: the African LDCs, African LLDCs, and non-LDC African countries. Although all African countries perform poorly on this index, rating generally between 2 and 3, the LDCs and LLDCs fall clearly behind the non-LDC African countries. The top performing African countries are Cote d’Ivoire and South Africa, and the two that rated lowest in 2018 were both LDCs, Angola and Burundi.

3 (i) Challenges in finance and resource mobilization

With an annual financing need estimated at 11 per cent of GDP, about USD 154 billion, Africa’s financing need for achieving the Sustainable Development Goals (SDGs) is enormous. Whilst

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4 UNCTAD, ‘Facilitating the Participation of Landlocked Developing Countries in Commodity Value Chains’, 2015.
domestic resources are a more sustainable way of raising resources to meet LLDCs and LDCs developmental challenges, majority of these countries have limited capacity to meet their total financing needs. Nevertheless, broadening the domestic tax base, improving tax compliance, and curbing tax evasion will contribute to enhanced service delivery contribute to achieving the SDGs and is necessary for raising state capacity. This is particularly important at the current time where there are rising concerns that debt sustainability in Africa is once more becoming a problem. The ECA 2019 Economic Report on Africa identifies five key sources of revenue for improvement: appropriate fiscal policy, taxing hard-to-reach sectors, raising non-tax revenues, using IT to strengthen tax administration, and instituting policies to tackle base erosion and profit shifting. To effectively raise income from these sources, the LLDCs and LDCs will require technical capacity-building assistance.

Mobilizing ever-increasing amounts of resources for achieving the SDGs, however, is particularly difficult for Africa’s LDCs and LLDCs because they are the more indebted of Africa’s countries. The average total government debt among Africa’s LLDCs is 39.7 per cent of GDP, and even more drastically, in Africa’s LDCs it is 51.9 per cent of GDP. In contrast, Africa’s non-LDC countries have average government debt levels of only 15.2 per cent of GDP. The debt burden reduces the available options for LLDCs and LDCs to finance SDG initiatives.

**Figure 2:** Government debt and tax revenue in African countries

![Graph showing government debt and tax revenue in African countries](Source: World Development Indicators, World Bank, author’s calculations (2019)]

The ability to draw internally on financial resources via taxation is also problematic not just in the LDCs and LLDCs, but Africa as a whole. Africa’s weighted average tax to GDP ratio was

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5 Average level of central government debt 2016-18 (World Development Indicators).
17 per cent over the period 2000-2018.\textsuperscript{6} Government revenue, including that from natural resources, over this period was 24.5 per cent. The world’s advanced economies, over the same period, saw ratios of 35.9 per cent. The level of government revenue is critical for developing economies, because African countries cannot rely on external investment or development assistance to finance the achievement of the SDGs and Agenda 2063. Domestic resource mobilization will be a key part of development finance, and the current levels of government revenue in LDCs and the LLDCs are clearly not sufficient. In the LDCs, average tax revenue only 14.2 per cent of GDP, in LLDCs, 16.0 per cent of GDP. The non-LDC African countries fare slightly better at 18.6 per cent of GDP.

Official development assistance (ODA) has some potential to contribute to financing the SDGs in Africa, but will not be able to fill the gap between the current and necessary investment by itself. The Istanbul Programme of Action calls on developed countries to provide more than 0.2 per cent of their GNP as ODA to the LDCs, but in 2016, only seven members (of 29) of the OECD-DAC contributed over 0.15 per cent of their gross national income to LDCs as ODA. The LDCs, which have structural challenges that exceed those of other non-LDC developing countries, should be more appropriate targets for development assistance than non-LDC developing countries. In fact, seven of the DAC countries provided less than 30 per cent of their total ODA to LDCs, with the larger proportion going to other developing countries. 11 countries out of the 29 OECD-DAC provided more than 50 per cent of their total ODA to LDCs and another 11 countries provided between 30 and 50 per cent. The net ODA per capita received by the LDCs and LLDCs is very similar, at around $73 per capita (current USD), while in non-LDC African countries the net ODA per capita received is around $53.

Addressing illicit financial flows also has the potential to free-up billions of dollars in the LLDCs and LDCs, with trade mis-invoicing alone estimated to cost Africa up to US $84 billion per year (about 6 percent of Africa’s GDP), while elimination of base erosion and profit shifting could boost tax revenues by an estimated 2.7 per cent of GDP in Africa. Tackling corruption, particularly in public procurement, would also strengthen the relationship between the public and private sectors to better deliver on SDG-related projects. Creating an enabling environment for higher FDI is also important for funding the SDGs, particularly FDI which enhances productive capacity, transfer know-how and job creation. To stimulate SDG-aligned FDI, African countries must consider policies to direct FDI flows to sectors with high sustainable development potential and encourage partnerships with government to build a portfolio of SDG related projects.

4. How can AfCFTA be leveraged to address the SDGs needs of the LDCs and LLDCs?

The advent of the Africa Continental Free Trade Area (AfCFTA) presents opportunities to mainstream the needs of the continent’s most vulnerable countries (particularly its LDCs and LLDCs) into all its activities and programmes and develop tailored programmes of assistance including finance to break down various structural, geographical, logistical and regulatory barriers to trade and investment and enhance productive capacities. As an instrument for the promotion of

inclusive and sustainable growth and structural transformation of African countries, AfCFTA provides opportunities for region-specific agreements on infrastructure. Therefore, successful implementation of the AfCFTA is imperative for the African LLDCs and LDCs as it can facilitate their integration into regional and global value chains as well as expand their trade and productive capabilities. African landlocked Least Developed countries tend to be disadvantaged in terms of industrialization because of the higher costs of freight and unpredictable transit times as well as structural impediments. Because of this sensitivity, the AfCFTA provides particular benefits: in addition to reduction in tariffs as well as provisions on trade facilitation, transit and customs cooperation, trade integration allows countries to specialize in the production of goods and services for which they have comparative advantage and to exploit economies of scale, thereby improving productivity and growth. Trade integration through the AfCFTA can also foster structural transformation by spreading knowledge and technology and spurring the development of new products (ECA-ARIA). It will not only boost intraregional trade, it will also attract foreign direct investment and facilitate the development of regional supply chains, which have been key engines of economic transformation in other regions. These benefits have been well recognized, as all African LLDCs have signed the consolidated AfCFTA agreement. 11 African LLDCs also signed the protocol for free movement of persons and of the 27 countries that have deposited their instruments of AfCFTA ratification with the AUC Chairperson, nine are LLDCs.

The private sector is a driver of inclusive growth and job creation and is fundamental in achieving the Sustainable Development Goals (SDGs). Yet, the private sector in LDCs and LLDCs remain underdeveloped and unable to compete in the regional and global economy. It is therefore necessary to support the efforts of these countries to build their private sector including through enhancing the doing business environment and addressing trade finance challenges. The growing demand for funding against a backdrop of declining ODA funding has indirectly pushed for domestic resource mobilization (DRM). It is important for LDCs and LLDCs to continue with their efforts to enhance domestic resource mobilization, broaden the tax base and integrate the informal sector into the formal economy in line with country circumstances, and enhance revenue administration through modernized, progressive tax systems, improved tax policy and more efficient tax collection and administration. Therefore, operationalization of the AfCFTA contributes to fair outcomes and more balanced and mutually beneficial regional integration process in support of the LDCs and LLDCs due to its architecture which is built on four elements: fair trade; structural transformation; cross-border investment in infrastructure; and democratic governance.

**Questions for discussions**

1. What are the greatest challenges to inclusiveness and equality in LDCs and LLDCs and how can they be addressed leveraging on AfCFTA?

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7 Ghana, Kenya, Rwanda, Niger, Chad, Congo Republic, Djibouti, Guinea, Eswatini, Mali, Mauritania, Namibia, South Africa, Uganda, Ivory Coast (Côte d’Ivoire), Senegal, Togo, Egypt, Ethiopia, The Gambia, Sierra Leone, Saharawi Republic, Zimbabwe, Burkina Faso, São Tomé and Príncipe, Gabon, and Equatorial Guinea
2. Taking into account the significant levels of debt in Africa’s LDCs and LLDCs, what approaches should be prioritized for mobilizing greater resources for achievement of the SDGs in these countries?

3. What are the primary infrastructure bottlenecks that will reduce the potential benefits of the AfCFTA in LDCs and LLDCs? How can the effect of these bottlenecks be mitigated in the short term, and eliminated in the long term?