Financing the SDGs in Africa’s landlocked least developed countries through strengthened trade ties within the framework of the AfCFTA
5 December 2019, NY

Concept note

Background

Achieving the Sustainable Development Goals (SDGs) in Africa requires substantive human, financial and material investments. This is more so when we consider that Africa’s over two-decades’ long continued economic growth has not translated into meaningful and irreversible improvements in social and economic development outcomes, particularly with regard to job creation and poverty reduction. While this has been true for the majority of African countries, it has been more acute in the continent’s Least Developed Countries (LDCs) and landlocked developing countries (LLDCs) which are “extremely challenged to eradicate extreme poverty by 2030” as prescribed in SDG 1 (no poverty). In Africa, in particular, the link between landlockedness and least developed country status is quite clear. Out of the thirty-two (LLDCs) of the world, sixteen are in Africa, of which, thirteen are Least Developed Countries (LDCs). The Addis Ababa Action Agenda (AAAA), which is an integral part of the 2030 Agenda, emphasizes the importance of infrastructure investment for achieving the SDGs. It also recognizes the special challenges and needs of the LLDCs and LDCs and stresses the need to support them to enable them to structurally transform their economies, harness benefits from international trade, and develop efficient transport and transit systems. It notes “that both public and private investment have key roles to play in infrastructure financing, including mechanisms such as public-private partnerships.” To finance the 2030 Agenda, the world must respond to a dual challenge: mobilizing societies’ resources for sustainability, and doing this in a manner that leaves no one behind.

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 LLDCs and LDCs deserve special attention. The Vienna Programme of Action (VPoA) for the LLDCs for the decade 2014 to 2024 is an integral part of the 2030 Agenda offering a holistic approach to improving the integration of LLDCs into the global economy through the following 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.
LDCs on the other hand through the Istanbul Programme of Action (IPoA) advocates for sustained, equitable and inclusive economic growth in least developed countries, to at least the level of 7 per cent per annum. This important target has been reinforced in the 2030 Agenda, as target SDG 8.1. In recent years, few LDCs have advanced significantly. While only five countries (out of a total of 52) have graduated since the inception of the LDC category in 1971, another twelve are at different stages of the multi-year graduation process. This progress also highlights the importance of international support to graduation and smooth transition out of the category. At the same time, the fact that the objective of enabling half of the LDCs to meet the graduation criteria by 2020 will not be met underscores the need for additional concerted efforts. To date, two thirds of the world’s LDCs are in Africa (33 of 47), and in 2018, approximately 654 million people lived in Africa’s LDCs. Angola and Sao Tome and Principe are scheduled to graduate from the LDC category in the next few years, and Equatorial Guinea graduated in 2017. Of these three graduating African countries, though, it bears noting that both Angola and Equatorial Guinea qualified for graduation on the income-only criterion. These two economies are highly commodity dependent, and continue to face challenges diversifying their economics in a way that ensures a non-volatile, broad-based development path. Commodity dependence and undiversified economies are reoccurring issues across Africa’s LDCs, including those which are landlocked.

Progress towards achieving the SDGs and Agenda 2063 has been mixed in LDCs and LLDCs, particularly among the most vulnerable populations. While there are several overlaps between the two groups of countries, LDCs are typically low-income countries that face severe structural impediments to sustainable development. By their nature, LLDCs lack territorial access to the sea and face geographical remoteness from world markets which increases their trade costs. In particular, the LLDCs face infrastructure deficiencies, 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 gain 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.

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 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. The AfCFTA not only reduces or eliminates barriers to trade and harmonises standards, it also provides an overarching framework within which regions can address their peculiar challenges in a targeted
manner. This way, the AfCFTA will help Africa trade more, and do so more competitively, with itself and with the rest of the world, which is even more true for the continent’s least-developed and landlocked countries. The ongoing Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) Corridor project, and the fresh efforts by the Government of Djibouti to establish an IGAD-based Corridor Management Authority are examples of integrated infrastructure and logistics projects that can only benefit from this AfCFTA drive to eliminate barriers and harmonise standards.

Empowerment of LDCs and LLDCs, including in the area of development finance, is important for the international community. LDCs and LLDCs are often marginalized in global decision-making processes and are unable to fully benefit from economic globalization. There are measures in place to support the LDCs, yet these are often insufficient. Too many people in LDCs and LLDCs remain disempowered by poverty and the lack of access to basic services, and do not benefit from economic growth. Many governments lack resources and the capacity to mobilize them, due to both domestic limitations and international factors. The per capita income of LDCs remains equivalent to two per cent of the per capita income of OECD members. Massive amounts of resources continue to flow out of LDCs and LLDCs in the form of illicit financial flows. Moreover, these countries’ fiscal policy spaces are restricted, and a large number of LDCs and LLDCs are in debt distress or at high risk of it.¹ ODA to the LDCs in 2017 reached $27.9 billion, up from $26 billion in 2014. It represents around 16 per cent of total ODA flows to developing countries. However, while ODA inflows to LDCs are still larger than private flows, the number of donors providing 0.15 per cent or more of their gross national income (GNI) as ODA to the LDCs -in line with the targets of the Istanbul Programme of Action (IPoA) and SDG 17 - fell further from six to five², all of them exceeding the higher threshold of 0.20 per cent of GNI.

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 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.

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

² Denmark, Luxembourg, Norway, Sweden and United Kingdom of Great Britain and Northern Ireland
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.

There is also need to foster a regional approach in infrastructure development in particular for transport, ICT and energy leveraging on the AfCFTA. To support trade integration, financial integration should focus on developing the regional financial infrastructure. This includes developing and harmonizing regional payment systems to further facilitate cross-border payments; creating swap arrangements across central banks and a multicurrency clearing center in the region to reduce risks from trading in several different regional currencies; and further coordinating the supervision of Pan-African banks that can facilitate intraregional trade.

As already alluded to earlier on, successful implementation of the AfCFTA is therefore 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 2012). 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 273 countries that have deposited their instruments of AfCFTA ratification with the AUC Chairperson, nine are LLDCs.

The Economic Commission for Africa (ECA), as one of the five United Nations regional commissions, has as one of its primary aims to work towards achieving Agenda 2030, as well as Agenda 2063, for the “Africa We Want”. In order to respond better to the challenges and needs of African Member States and in an effort to support implementation of both development agendas, ECA recently undertook reforms of its programmes, accompanied by the adoption of a new strategic direction. The new strategic direction of the commission include critical components on macroeconomic and structural policy options and regional integration, notably: (i) developing macroeconomic and structural policy options to accelerate economic diversification and job creation; (ii) designing and implementing innovative financing models for infrastructure, and for human, physical and social assets for a transforming Africa; (iii) contributing solutions to regional and transboundary challenges, with a focus on peace security and social inclusion as an important development nexus.

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3 Ghana, Kenya, Rwanda, Niger, Chad, Congo Republic, Djibouti, Guinea, Swaziland, Mali, Mauritania, Namibia, South Africa, Uganda, Ivory Coast (Côte d’Ivoire), Senegal, Egypt, Ethiopia, The Gambia, Sierra Leone, Sahrawi Republic, Zimbabwe, Burkina Faso, São Tomé and Príncipe, Gabon, and Equatorial Guinea
Part of ECA’s current regional integration work is centered on supporting member States, including Africa’s LDCs and LLDCs, in the realization of the benefits of the AfCFTA. In the particular case of Africa’s LLDCs and LDCs, ECA’s interventions continue to be anchored on the Commission’s mandate to promote the implementation of both the VPoA and IPOA in the Africa regions. It is against this background that the Commission is organizing this Side Event to discuss the -ever-growing development needs of Africa’s LLDCs and LDCs, focusing especially on how to overcome the financial resources constraints (including limited budgets and borrowing capacities) that have continued to slow down the pace of attainments of the noble goals articulated in both the VPoA and the IPOA for these categories of countries. The ultimate goal of the event is to proffer some actionable recommendations on how to enhance resource mobilization to advance the VPoA and IPOA and support the achievement of the SDGs and Agenda 2063 in Africa’s LDCs and LLDCs within the context of the AfCFTA. The Side event which will be hosted the Egypt UN Mission and facilitated by UN-OHRLLS is being held on 5 December 2019 on the margins of the high level global midterm review on the implementation of the Vienna Programme of Action for the Decade 2014–2024.

Objectives
The overall objective of the side event is to explore how to enhance resource mobilization for the implementation of LDCs’ IPOA and LLDCs’ VPoA within the framework of the AfCFTA and support the achievement of the SDGs and Agenda 2063.

More specifically, the side event is expected to:

- Review the key trends of financing transport, energy and ICT infrastructure in regions with the LDCs and LLDCs – identifying the major challenges and opportunities;
- Share ideas, lessons and best practices on how to improve use of the different sources of financing - including domestic resources, official development assistance, public and private sector partnerships, South-South and Triangular cooperation, dedicated trust funds and special windows in multi-lateral and regional resources, and innovative sources of funding;
- Identify alternative and innovative sources of finance that can be used for implementation of IPOA and VPoA and provide guidance on how the LDCs and LLDCs can access the resources;
- Propose recommendations on how to better utilise available resources and how to expand the resource envelope; and
- Mainstreaming IPOA and VPoA in the ongoing work on the development of AfCFTA Strategies in African LDCs and LLDCs

The deliberations at the meeting should build on available reports, analysis, think pieces, research papers and statistics.

Participation
The side event will be attended by senior government officials, especially from Ministries dealing directly with the implementation of the VPoA and IPOA and related issues of transit, trade, transport, structural economic transformation and finance, from the 16 Africa LLDCs4, as well as representatives of transit countries from the region and development partners. The UN system, relevant regional and sub-regional organizations, other international organizations.

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4 Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Lesotho, Malawi, Mali, Niger, Rwanda, South Sudan, Swaziland, Uganda, Zambia, Zimbabwe.
regional and international financial institutions; and the private sector will also be invited to attend. The event envisages to leverage the presence of officials at the global midterm review of the VPoA.

**Format**
The meeting will take place over the period of one and half hour, consisting of opening remarks followed by the presentation of the Issues Paper, interactive session which will conclude with a closing remarks. At its conclusion, the meeting will adopt an outcome document that will form input into global midterm review of the VPoA.

**Venue**
The Venue of the Side Event will be at the **Egyptian UN Mission Conference Room** from 6:15 to 7:45PM.

**Background Documentation**

- Vienna Programme of Action for the Landlocked Developing Countries for the Decade 2014-2024
- 2018 Report of the Secretary-General on the implementation of the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024 (A/73/297)
- General Assembly Resolution A/RES/72/232
- Africa Regional Review meeting on the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024 - Parliamentary Document
- Achieving the SDGs in Landlocked Developing Countries through Connectivity and Trade Facilitation (UN-OHRLLS, 2018)
- Africa Regional Report on Improving Transit Cooperation, Trade and Trade Facilitation for the Benefit of the Landlocked Developing Countries – Current Status and Policy Implications (UN-OHRLLS, 2016)