



BRIEFING PAPER 2

Development Assistance and Financial Flows to LLDCs



2ND UN CONFERENCE
ON LANDLOCKED DEVELOPING COUNTRIES
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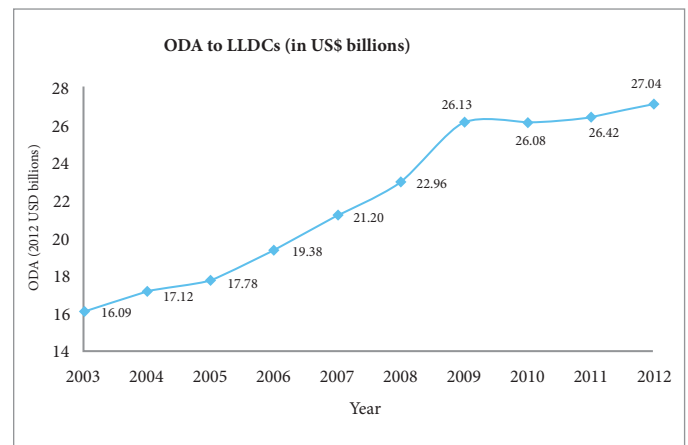
Lack of adequate financial resources and productive capacities are some of the biggest constraints facing Landlocked Developing Countries (LLDCs) in their efforts to achieve sustained growth and sustainable development. The support of development partners, emerging countries, private actors, as well as UN and other international organizations is crucial to complement LLDCs' own efforts towards the establishment and maintenance of effective transit transport systems, integration into the world economy and structural transformation of their economies.

Official Development Assistance (ODA)

The effects of the global economic crisis have caused stagnation in official development assistance (ODA) from OECD countries. Following real increases in ODA flows to LLDCs since 2003, ODA fell slightly in 2010, has largely levelled off in 2011 and increased only marginally in 2012.

More than half of LLDCs (18 out of 32) experienced a real fall in their ODA receipts in 2012. This decrease in aid could threaten development expenditures in many aid-dependent LLDCs.

Allocation of ODA varies greatly amongst LLDCs. For instance, six countries received 55% of the total ODA flows to LLDCs in 2012. A more equitable distribution of ODA based on country-specific priorities and needs of the recipient LLDCs is needed.



Source: OECD DAC data.

Aid for Trade

Aid for Trade plays an essential role in capacity-building in LLDCs in the areas of development and maintaining of trade-related infrastructure, implementation of trade facilitation measures and formulation of trade policies, with a view to increasing value-addition and market competitiveness of their export products. Aid for Trade, in combination with complementary policies, has contributed to improved infrastructure, lowering of trade costs, better border institutions and regulatory procedures and enhanced capacities. The regional nature of Aid for Trade programme also promotes international trade integration.

LLDC receipts of Aid for Trade have almost doubled in real terms between 2002 and 2005. However, Aid for Trade contracted from \$6.5 billion in 2011 to \$6.3 billion in 2012. The Aid for Trade inflows in 2012 were mainly concentrated in three sectors: Transport and Storage (33%), Agriculture (28%) and Energy (18%), which added up to 79% of the total amount.

Foreign Direct Investment (FDI)

FDI is the major proportion of private capital flows that is considered as the more stable foreign investment. FDI has the potential to enhance economic development in LLDCs through job creation, improving management system, transfer of skills, technology and business processes. FDI is also essential to local infrastructure and capacity building. Enabling policy environment, at the international and national level, is crucial in promoting attraction of more sustainable and diversified foreign direct investment.

FDI inflows to LLDCs amounted to \$34.6 billion in 2012, more than four times the amount in 2003. LLDCs also managed to avoid fall in their FDI inflows immediately following the global crisis. However, compared to transit countries, LLDCs only received one tenth of the amount in this inflow in 2012. The majority of LLDCs do not attract sufficient FDI to accelerate their economic development. Only about 18% of FDI inflows to LLDCs went to the least developed landlocked countries.

South-South and Triangular Assistance and Cooperation

Support from South-South and triangular partners, in the form of financial and technical assistance, as well diversified trading opportunities, technology transfer and sharing of best practices, has become increasingly important for LLDCs. For example, global South-South cooperation, especially assistance from India and China accounted for 41% of FDI to LLDCs in 2011.

Moreover, LLDCs trade with the global South has deepened as 17 out of 32 LLDCs exported more than 50% of their products to Global South countries. Strengthened South-South and triangular cooperation in particular in the area of transit transport cooperation, development of productive capacity and greater integration of LLDCs into world economy, has an important complementary role to play in supporting sustainable growth and development in LLDCs. ■