Session 4
24 February 2021

- 15:00 - 16:45 Lilongwe
- 16:00 - 17:45 Addis Ababa
- 14:00 - 15:45 Paris
- 08:00 - 09:45 New York

SESSION 4

MOBILISING RESOURCES FOR SUSTAINABLE DEVELOPMENT IN AFRICAN LDCs

African LDCs are largely dependent on public resources, domestic and foreign, to finance sustainable development needs. Estimates of financing needs to achieve the SDGs in African LDCs ranged from 15 to 25% of GDP annually until 2030 even before COVID-19 and have probably increased due to its negative effects on all sources of financing, including tax revenues, FDI and remittances.

In terms of domestic resource mobilisation, tax revenues in LDCs have only increased slowly before 2019, despite reforms of the tax system in several of them and have declined in 2020 due to the reduction of GDP in most African LDCs. Tax revenues remain below the 15% threshold that is needed for a functioning government in several African LDCs. Thus, institutions need to be strengthened and international tax cooperation needs to be increased.

Within LDCs, subnational and municipal governments face significant challenges to access public and private finance for investments in local climate resilient infrastructure, public services and local economic development. Similarly, small and medium sized enterprises (SMEs) face major constraints in accessing capital. The use of more innovative and risk-tolerant instruments along with longer term capital market development efforts and fiscal reforms will be needed to make financing available to these key domestic actors.

One major development over the past decade has been the application of digital technology to the provision of financial services such as savings, credit, insurance and remittances in African LDCs. This has helped accelerate financial inclusion. The share of adults in Sub-Saharan Africa that have a mobile money account, has nearly doubled since 2014 to around 21%, which facilitated the transfer of COVID-19 relief in some of the countries. Wider adoption of financial technology (fintech) solutions will help deepen financial inclusion, mobilize domestic resources and help build inclusive digital economies, which are crucial for enhanced resilience to shocks.

ODA to the LDCs from OECD/DAC members increased from US$44.7 billion in 2011 to US$45.9 billion in 2018, reflecting a decline in real terms as well as a shift from grants to loans. The share of total ODA allocated to LDCs declined from 33% in 2011 to 31% in 2018. During the same period the average share of gross national income (GNI) provided as ODA to the LDCs from DAC donors declined from 0.1% to 0.09%. The number of donors providing 0.15% or more of their gross national income (GNI) as ODA to the LDCs — in line with the targets of the IPoA and SDG 17 — fell from 10 in 2011 to six in 2018. While data on 2020 are limited there are indications -

that ODA declined in 2020 due to the recession in major donor countries. Since 2010, total ODA receipts have plateaued at around US$60 per LDC inhabitant. At the same time aid effectiveness is only increasing slowly. Overall, ODA inflows to LDCs are still larger than private flows, FDI or remittances, which all declined sharply in 2020, while their relative importance declined over the past decade.

Private finance is increasingly seen as important for reaching the SDGs, especially through financing of development enablers like infrastructure or poverty reduction through job creation. While blended finance has some potential to increase available finance, only 6 % or USD 13.4 billion of private finance mobilized by ODA went to LDCs between 2012 and 2018. Factors holding back the potential of blended finance include a weak investment climate, lack of sizeable and investable projects, limited use of instruments that allow for taking on early stage risk, and low risk appetites of Development Finance Institutions.

FDI flows to the LDCs remain low and volatile with USD 24 billion in 2018, representing 1.8% of global FDI inflows. While African LDCs accounted for more than ¾ of FDI inflows from 2011 to 2015, this share has declined to around half in 2018 and is mainly concentrated in extractive industries, thus providing weak linkages with local enterprises and limited employment creation and skills transfer. Due to COVID-19 FDI to LDCs has dropped further as several investment projects were cancelled. Investment promotion by LDCs with support from development partners could include information on investment opportunities, risk sharing, harmonization of regional standards, technical assistance as well as guarantees.

Since the debt write-offs in the mid-2000s, debt has been increasing in many African LDCs and Haiti since 2012 with four of them currently in debt distress and 11 more at high risk. COVID-19 has exacerbated the situation. The Debt Service Suspension Initiative (DSSI), which is open to LDCs has brought some short term relief, but is limited in terms of scope and participation of creditors and only postpones obligations to a later period. Increasing debt vulnerabilities in LDCs are not only a result of higher levels of debt, but also due to increased risks from the changing composition of the public and publicly guaranteed debt. Increasing debt service reduces available finance for development objectives further, which has limited fiscal space to react to the economic effects of COVID-19. In addition to improved debt management and responsible lending and borrowing, the use of new instruments like state-contingent lending, taking into account climate risks, is one approach to reduce the risk from high debt for LDCs.

Another issue pertinent to several African LDCs are the Illicit Financial Flows that also divert resources from the SDGs. The IPoA encourages LDCs to curtail IFFs at all levels, enhance disclosure practices and promote transparency in financial information. This needs to be complimented by measures to prevent the transfer abroad of stolen assets and assistance in their recovery and return.

The session aims to discuss proposals on how the challenges that African LDCs are facing with respect to resource mobilisation can be addressed, ranging from reforms and capacity building to concrete initiatives. It will also look into other areas impacting the abilities of countries to leverage domestic resources and take full advantage of international support, such as financial sector reform, development of adequate financial infrastructure or risk reduction, including increasing risks from climate change. Furthermore, it will discuss what reforms at the national, regional and global levels can help LDCs to enhance access to finance, including curbing of IFFs.

Guiding questions:

- How can domestic resources and fiscal space in LDCs be increased without distorting the economy or raising inequality?
- How can digital solutions help expand financial services, build digital economies and mobilize domestic and foreign resources?
- How can aid become more predictable, effective and aligned with priorities of LDCs?
- What innovative sources of finance can be mobilised for building back better in LDCs? What role can blended finance and PPPs play in providing finance to achieve the SDGs?
- How can private investment – both foreign and domestic- contribute to building back better and achieving the SDGs in LDCs?
- How can the increasing debt of African LDCs be brought to sustainable levels and how can more favourable conditions for LDCs be achieved?
- What role can Southern providers play in enhancing different forms of finance?