LDC5
5TH UNITED NATIONS
CONFERENCE ON THE
LEAST DEVELOPED COUNTRIES

High-level Thematic Round Table 7

Resource mobilization and strengthened global partnerships for sustainable development in least developed countries

March 8, 2023
Doha time: 14:00 - 17:00

Thematic Roundtables Hall

Concept Note

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LDCs are largely dependent on public resources to finance sustainable development needs. While financing needs for the LDCs have been growing significantly, access to most forms of financing including ODA and FDI have been either stagnant or declining. Over the past decade, external debt of LDCs has been rising, and is often exacerbated by the large-scale economic loss caused by disasters and structural vulnerabilities.

Therefore, the Doha Programme of Action (DPoA) aims at expanding the resources that LDCs can channel towards implementing the 2030 Agenda, meeting the funding gaps in LDCs, and making progress in reforming the international debt architecture. It stresses the need to incentivize additional financing and investment, strengthen their regulatory and policy environments, and develop pipelines of investable projects.

The high-level thematic round tables will focus on consensus-building to renew and reinvigorate partnerships and mobilize additional international support measures and actions for LDCs to enhance their resilience against multiple shocks and accelerate the achievement of the Sustainable Development Goals.

Financing challenges of LDCs

Mobilization of resources for sustainable development in the LDCs is challenging because of underlying systemic and structural vulnerabilities, which include low levels of income and domestic savings, lack of domestic resource mobilisation, weak financial market infrastructure as well as high dependency on external development finance. These factors limit their capacity to mobilize financial resources. In addition, private finance in support of the sustainable development goals in the LDCs has remained low. As a result, their marginalization in the global economy has continued.[1]

Financing needs to achieve the SDGs have been exacerbated by the slow recovery from COVID-19, coupled with the escalating climate, food and energy crises, over the past years. Declines in revenues and high pre-existing debt burdens put serious constraints to LDCs' capacity to implement comprehensive recovery packages. Fiscal deficits in LDCs, that were widening prior to the pandemic, have grown further, due to increasing spending needs across all sectors. Debt sustainability is at risk and the fiscal space for financing sustainable development has been reduced alarmingly. Urgent measures are needed to ensure that LDCs' governments have fiscal space to support their economies and their health and social protection systems. Such policies have a strong impact on gender equality, because when public services are cut, women are impacted the most.

Support for domestic resource mobilization and fight against illicit financial flows

LDCs are the group of countries with the lowest median tax to GDP ratios, which even declined since 2015 to around 12%. With resources so urgently needed, the DPoA aims to increase tax revenue as a proportion of GDP to at least 15% in all LDCs to enable them to become self-sustainable. It also calls for enhanced international cooperation for the recovery of stolen assets and their return to their countries of origin, in accordance with the United Nations Convention against Corruption as well as enhanced intergovernmental coordination to prevent illicit financial flows.

[1] For more information about financing gaps and sources see: OHRLLS: State of the LDCs 2021 – Building Back Better in Response to COVID-19 and IATF: Financing for Sustainable Development report (FSDR) 2022

While LDCs made efforts to increase government revenue, including through the broadening of the tax base and enhancing compliance and transparency, including through the digitalization of tax systems, they need to continue to undertake fiscal reforms to build effective, transparent, fair and accountable national tax and financial management systems. They also need support from development partners and relevant institutions towards progressive taxation, building capacity and strengthening tax administration, combating tax evasion, savings mobilization, digitalization of tax administration and financial inclusion.

The DPoA also commits to substantially reducing illicit financial flows in order to help LDCs to mobilize resources, including through increased international cooperation, to stem corruption and money-laundering and identify, freeze and recover stolen assets and their return to countries of origin, in accordance with the United Nations Convention against Corruption.

International public and external finance to contribute to sustainable development in least developed countries

ODA remains crucial for financing investment for sustainable development in LDCs, while innovative sources of finance, such as blended finance, remained limited in these countries. There is a clear need for more determined efforts by developed countries to fulfil and, where possible, enhance their relevant ODA commitments to LDCs.

In 2020, gross ODA disbursements made up 5.6% of GDP, a significant increase from previous years, due to the response to Covid-19. ODA contributes a larger share of the financing mix of the LDCs than for other country groups, making them more vulnerable to fluctuations.

The average share of gross national income (GNI) provided as ODA to the LDCs from DAC donors remained relatively stable at around 0.1% over the past decade. 76 DAC donor countries met the target of disbursing 0.15% or above of their gross national income as ODA to the LDCs in 2021, down from ten donor countries in 2011.

Currently, LDCs receive only 6% of private finance mobilized by official development finance interventions, which is concentrated in few profitable sectors, such as energy, banking or financial services, while social sectors are excluded.

In addition to increasing ODA for LDCs, prioritizing the LDC criteria for ODA allocation could also be further explored. In addition, measures to enhance the quality of ODA, for example by aligning with country priorities and the SDGs, need to be implemented. Likewise, new windows of cooperation under South-South and triangular cooperation could be further explored.

Innovative finance, including blended finance, could leverage additional, substantial and predictable finance disbursed in a manner that respects the priorities and special needs of LDCs and does not unduly burden them.

Development partners should ensure that multilateral, regional and national development banks facing capital constraints have a solid financial position to provide necessary and timely support, including concessional finance of multilateral development banks to LDCs, through a simplified access process

Foreign direct investment

While FDI to LDCs increased by 13% in 2021, overall since 2011, FDI flows to LDCs as a group have increased only marginally and were concentrated in a handful of countries. Although investment in SDG sectors remains weak, FDI continues to be an important external source of finance for LDCs.

The DPoA commits to implementing the decision contained in the Addis Ababa Action Agenda to adopt and implement investment promotion regimes for the LDCs, which would provide financial and technical support for project preparation and contract negotiation, advisory support for investment-related dispute resolution, access to information on investment facilities, improving enabling environments, and risk insurance and guarantees such as through the Multilateral Investment Guarantee Agency. In this regard, the DPoA proposed the establishment of an international investment support centre for LDCs in the form of a one-stop shop.

Debt sustainability and debt cancellation initiative through improved and transparent debt architecture

A long-term solution to the debt situation in the LDCs is urgently needed. After the debt relief was introduced through the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI) in the mid 2000's, the stock of LDC debt increased again, with average public debt in LDCs rising from 34% in 2011 to 58% in 2020. As of September 2022, 6 LDCs were classified as in debt distress while the 17 LDCs are at high risk of debt distress and further increases are expected.

Over the past decade the composition of debt of LDCs changed considerably towards less concessional finance. An increasing number of LDCs (mainly in Africa) issued one or more sovereign bonds between 2011 and 2019. Several debt service relief initiatives where initiated due to the COVID-19 crisis, however they are insufficient to cover the increased spending needs.

The DPoA aims to address the debt distress of LDCs by 2025 and provide coordinated and appropriate debt solutions in a timely manner to all LDCs that face debt vulnerabilities or are in debt distress, in order to work towards sustainable debt levels in all LDCs. It encourages the IMF to conduct in-depth reviews of LDCs external debt, effects of the COVID-19 pandemic on their debt servicing capacity and possible policy options at the national and international levels to effectively address their external debt problem.

In this respect it is crucial to ensure that debt relief does not detract from ODA resources and to increase support, including financial and technical assistance, for institutional capacity-building in LDCs countries to enhance sustainable upstream and downstream debt management as an integral part of national development strategies. The inclusion of State-contingent clauses in public debt contracts to enable standstills in times of crisis and to provide an example for private markets, including through granting a suspension of debt service should also be considered.

Remittances

Remittance flows to LDCs had increased relatively rapidly from US$28.2 billion in 2011 to US$ 52.1 billion in 2019, which corresponds to around 5% of GDP. However, remittances to LDCs were also affected by COVID-19. At the same time, costs of remittances to LDCs have remained disproportionally high.

Thus, the DPoA aims to improve access to and the use and quality of financial services to lower the cost of remittances to LDCs to less than 3% of the transaction costs. It is essential to increase transparency and competition in the remittance transfer market and promote the financial literacy and inclusion of migrants and their families through education and training.

Guiding Questions: Speakers, panellists, and participants when intervening should be guided by the following pertinent questions:

1. How can LDCs with support from their development partners increase government revenues, mobilize domestic savings for investment in sustainable development, and reduce inequalities, including gender inequalities?
2. How can traditional and innovative sources of finance be enhanced to meet the funding gaps in LDCs in a predictable and effective manner?
3. What concrete measures can be implemented to promote domestic and foreign investment in LDCs? What role can the proposed international investment support centre play to support the LDCs?
4. How can the increasing debt of LDCs be brought to sustainable levels and how can the international debt architecture be made more favourable for LDCs?
5. How can remittances play a greater role in the development progress of LDCs? What effective measures can be taken to reduce the cost of transaction of remittances to the LDCs?