



ACCESS TO FINANCING IN THE LDCS

Virtual Regional Roundtable for the African LDCs, Haiti and Yemen
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Co-hosted by Canada and UN-OHRLLS

Olivier Cattaneo, Head of Policy Analysis and Strategy, Financing for
Sustainable Development Division, Development Cooperation Directorate,
OECD

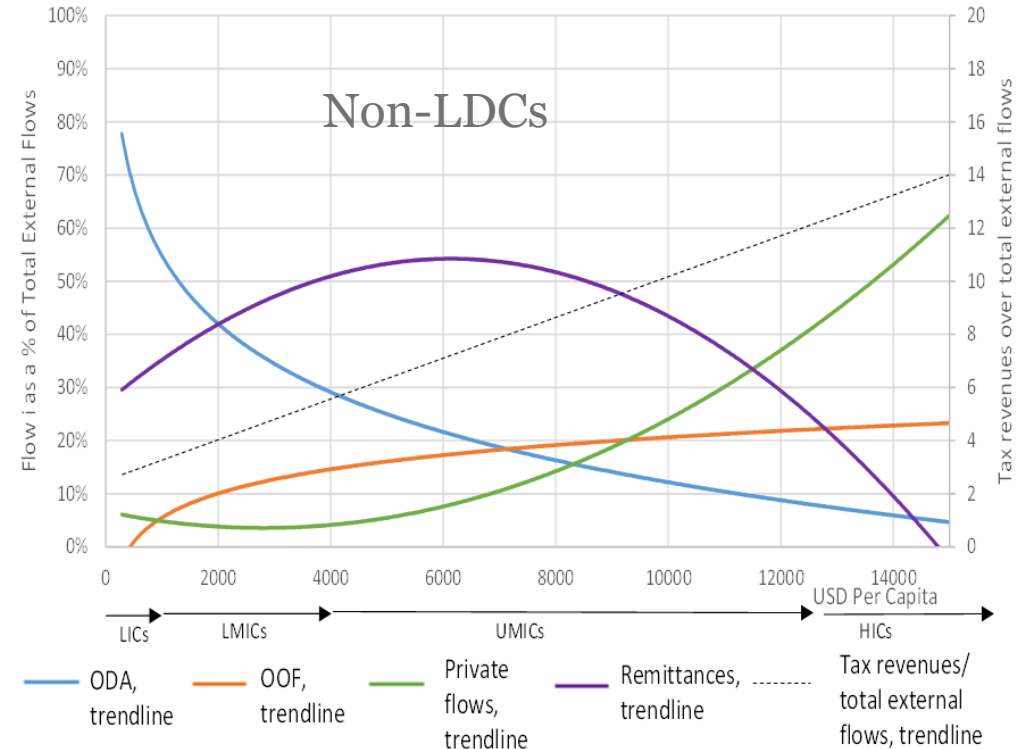
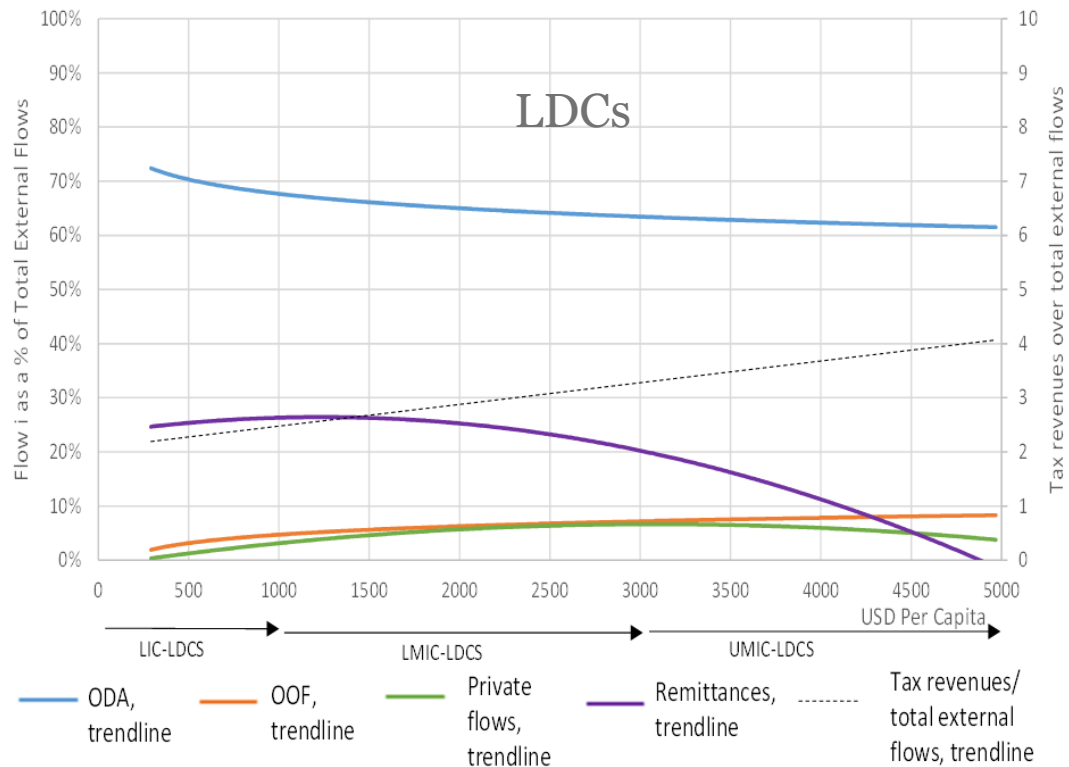


SETTING THE SCENE:
EVIDENCE FROM RECENT OECD
WORK



Reminder: What do we talk about?

- Compared to other countries, LDCs face the following challenges re- access to financing:
 - Volumes and quality of ODA matter** – risk of financing gap (quantity: in particular in social sectors) + financing trap (quality: grant element of ODA decreases by 45% after graduation)
 - Mobilization of domestic resources and private finance is difficult**



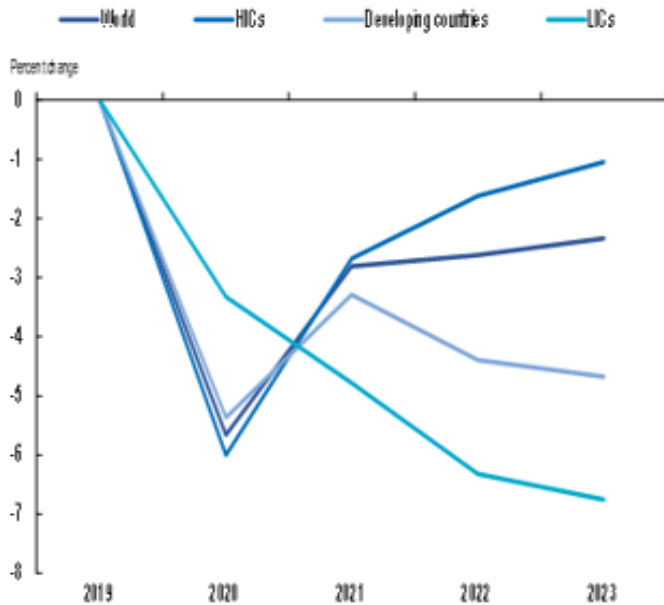
Source: OECD, *Transition Finance Toolkit*, 2020



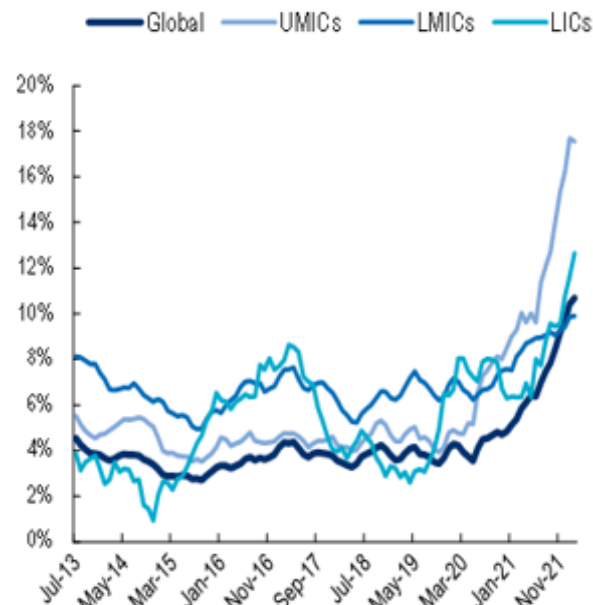
The Big picture: A risk of great divergence for LDCs and increased financing need for protracted recovery

- The **K-shaped recovery** shows an emerging Great Divergence between countries (2019-24)
- **Inflation** hits developing countries through increases in food and energy prices
- The pandemic led to an **increase of low-income countries' financing needs** over the short and long term

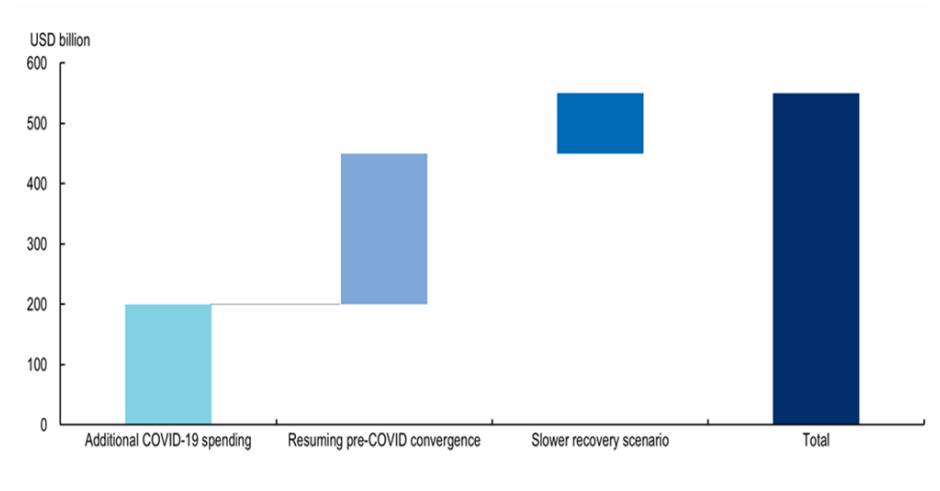
Deviation of GDP growth from pre-pandemic projections



Year-on-year monthly inflation rate by income group



Additional financing required in LICs



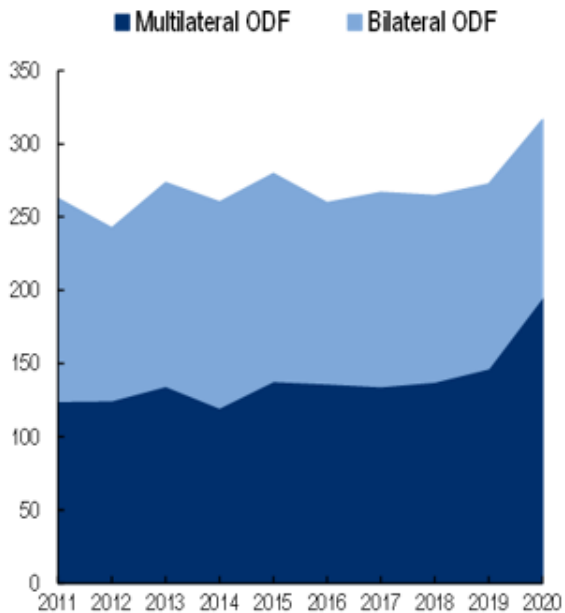
Source: IMF (2021^[40]), *Macroeconomic Developments and Prospects in Low-Income Countries—2021*, <https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/03/30/Macroeconomic-Developments-and-Prospect-Ins-Low-Income-Countries-2021-50312>.



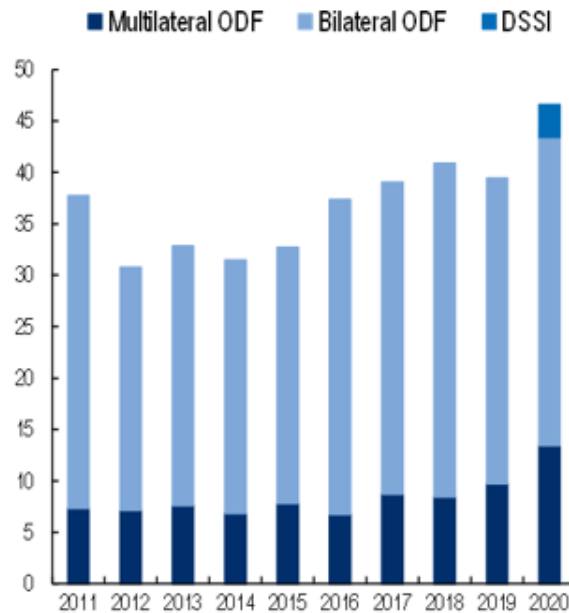
While the risk of collapse of financing for development was avoided...

- **Countercyclical support** from the international community ensured continued financial support to developing countries at the height of the crisis
- **ODA** reached USD 178.9 billion in 2021
- The drop in **capital flows** in 2020 was less pronounced than in previous sudden stop episodes

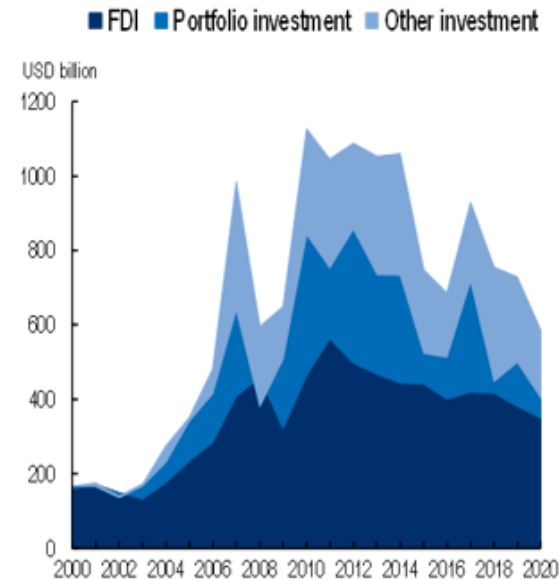
Inflows of ODF to ODA-eligible countries



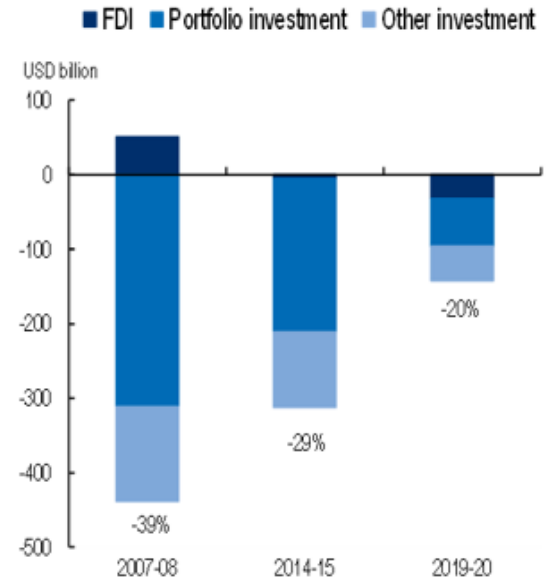
ODF and deferred debt service to LICs



Evolution of capital flows to developing countries



Change in capital flows



Source: ODF flows are measured as a sum of ODA and OOF and accessed from OECD DAC . DSSI deferred debt service is calculated based on World Bank estimates as of 8 February, 2022: World Bank (2022[20])

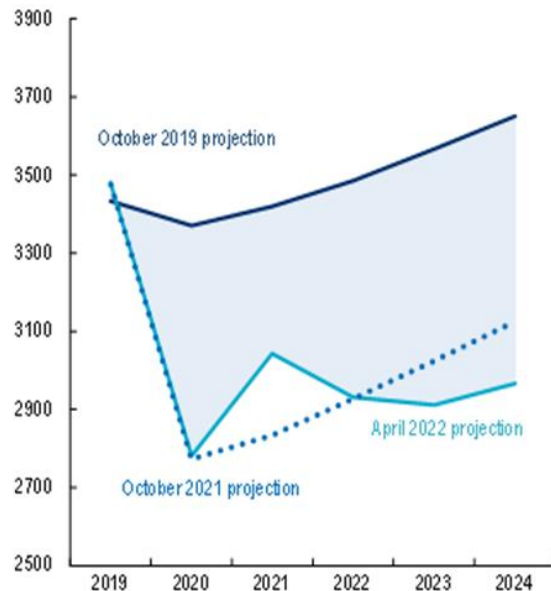
Source: IMF (2021[8]), Balance of Payments and International Investment Position Statistics (database), <https://data.imf.org/?sk=7A51304B-6426-40C0-83DD-CA473CA1FD52>.



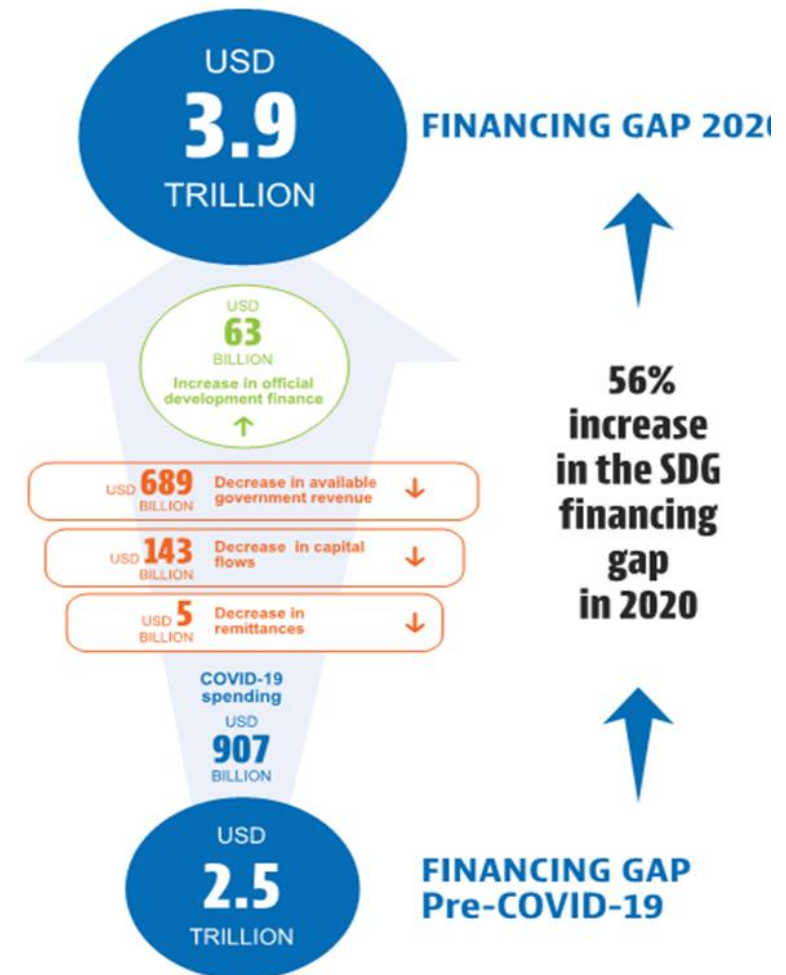
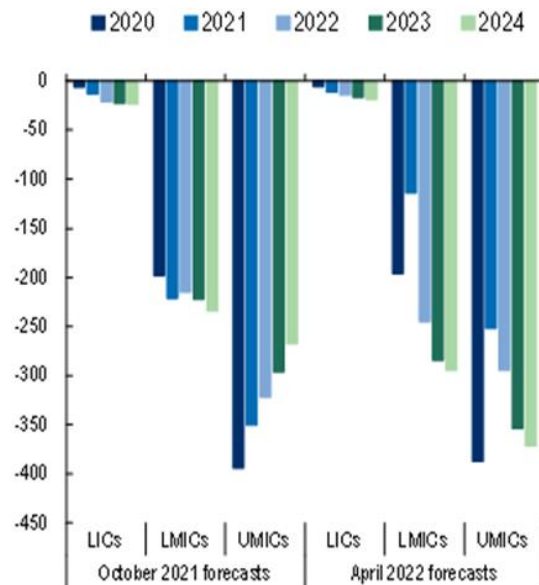
... the financing gap continues to grow, with declining government revenues

- **Government revenue** in developing countries projected to register huge cumulative losses
- Nearly all sources of financing for sustainable development in developing countries declined during the pandemic
- The SDG financing gap in developing countries increased by **56%** in 2019

Government revenue, deviation from pre-COVID projections, USD billion



Loss in government revenue relative to pre-COVID projections, USD billion



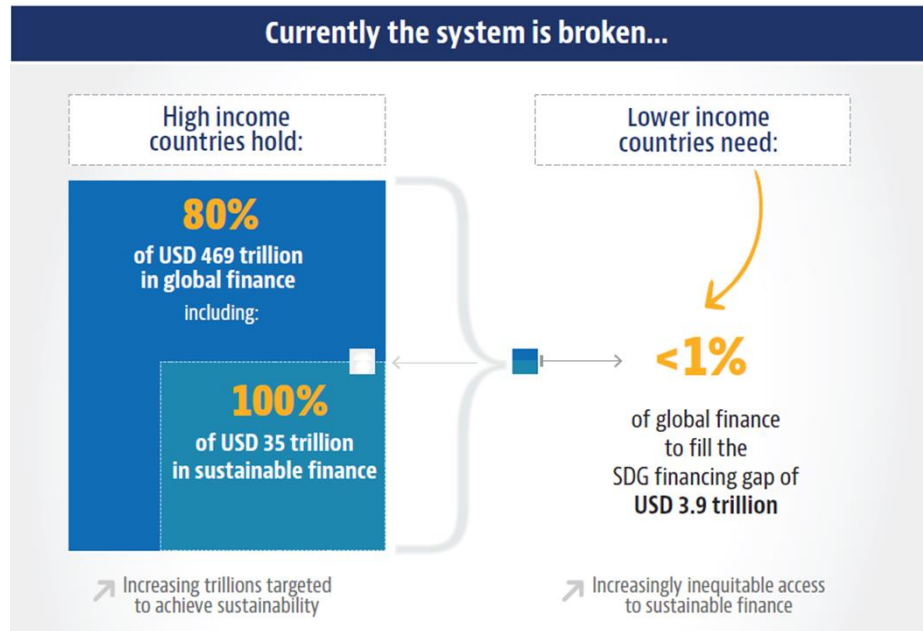


The sustainable finance rush does not benefit LDCs yet... and there is a risk of diversion...

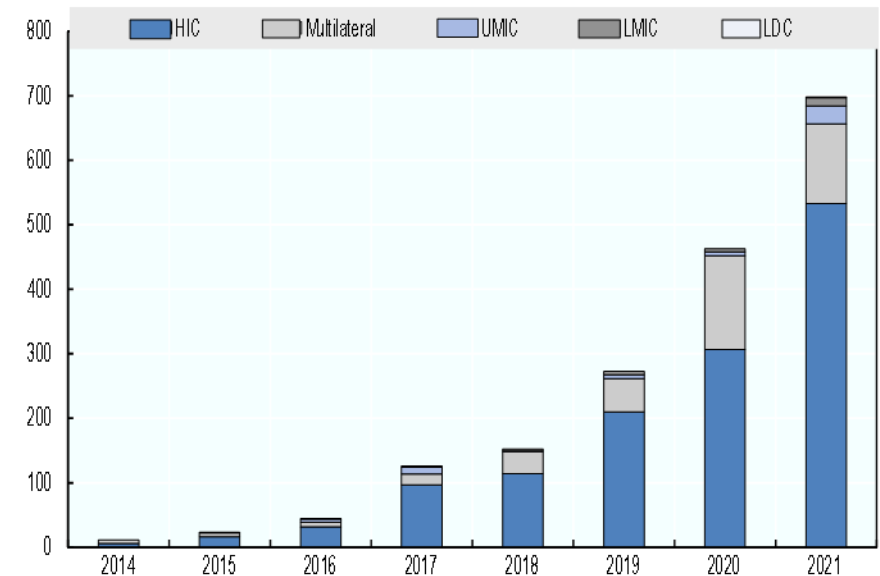
- Global financial assets increased by **11%** to **USD 469 trillion**, in 2019-20
- Sustainable investment grew by **15%** to **USD 35.3 trillion** in 2020
- Climate finance mobilised amounted to **USD 83.3 billion** in 2020, an increase of **4%** from 2019

- **About 97%** of the estimated **USD 1.7 trillion** in total sustainable investment funds are held in HICs
- All ODA-eligible countries account for **less than 7%** and **LDCs for less than 1%** of cumulative total GSSS bonds issued since 2014

IT WOULD TAKE **LESS THAN ONE PERCENT** OF GLOBAL FINANCE TO ACHIEVE SUSTAINABILITY GLOBALLY



Green social, sustainability and sustainability-linked bond issuances by HICs and multilateral agencies have increased significantly (EUR billion)



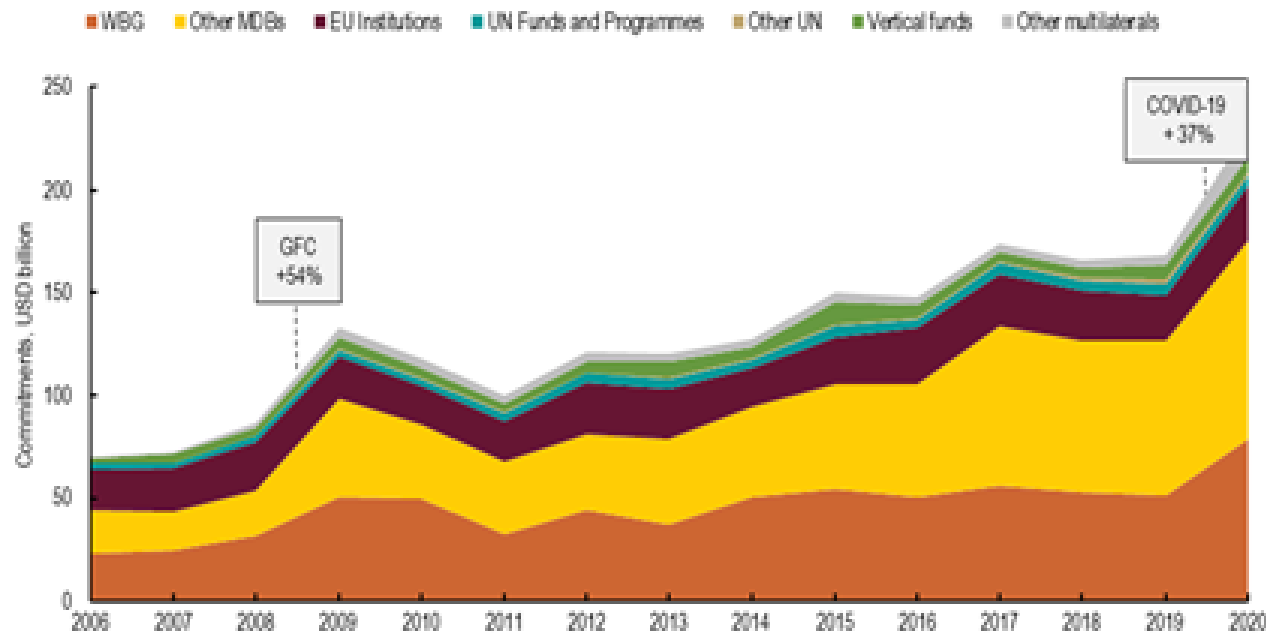
Note: Country classifications are based on the OECD Development Assistance Committee (DAC) ODA-eligibility list (2021).
Source: Authors' calculations based on Luxembourg Stock Exchange (2021_[123]), DataHub, <https://lqxhub-premium.bourse.lu>. (OECD, 2022_[124]).



Focus: Access to multilateral development finance in LDCs

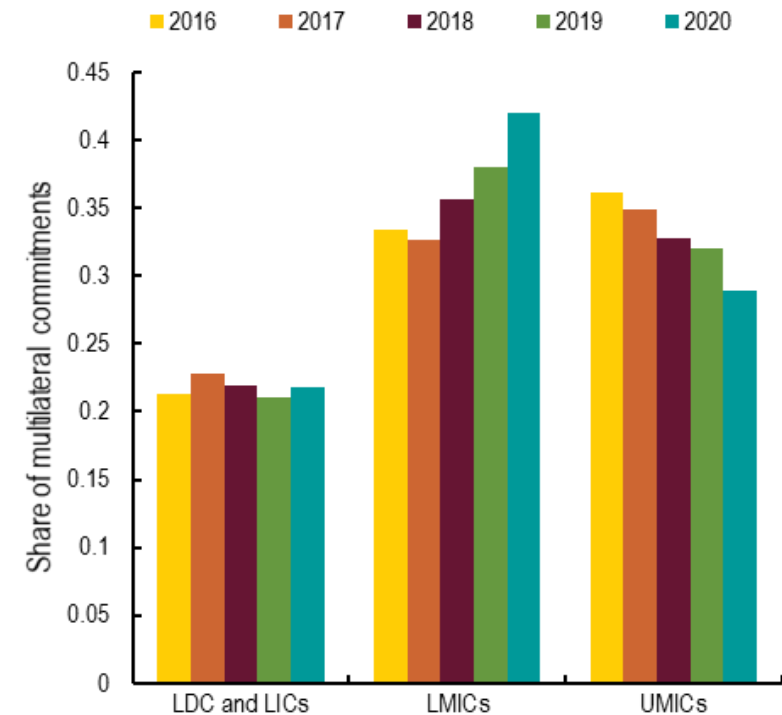
- The **multilateral response** to the pandemic was larger in absolute terms than during the Global Financial Crisis, but smaller in relative terms

- The share of commitments benefiting **LDCs and LICs** remained constant when LMICs went up



Note: GFC=global financial crisis. Calculations are based on commitments, in 2020 constant prices.

Source: Authors' calculations based on (OECD, 2022[7]), "Creditor Reporting System", <https://stats.oecd.org/index.aspx?DataSetCode=crs1>.

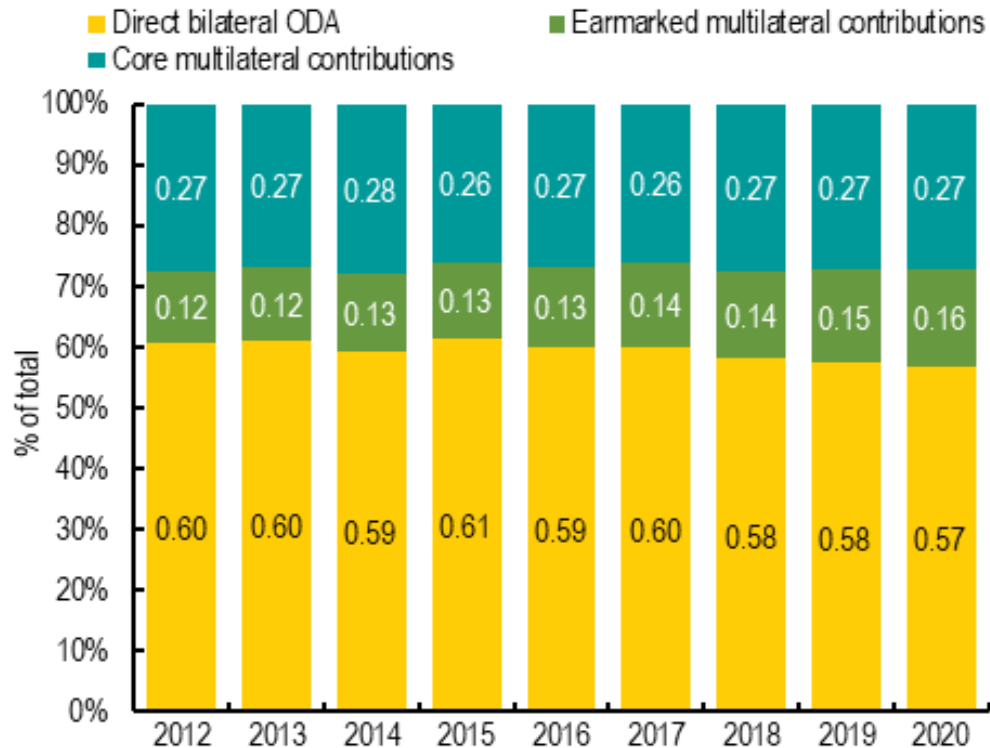


Source: OECD Creditor Reporting System

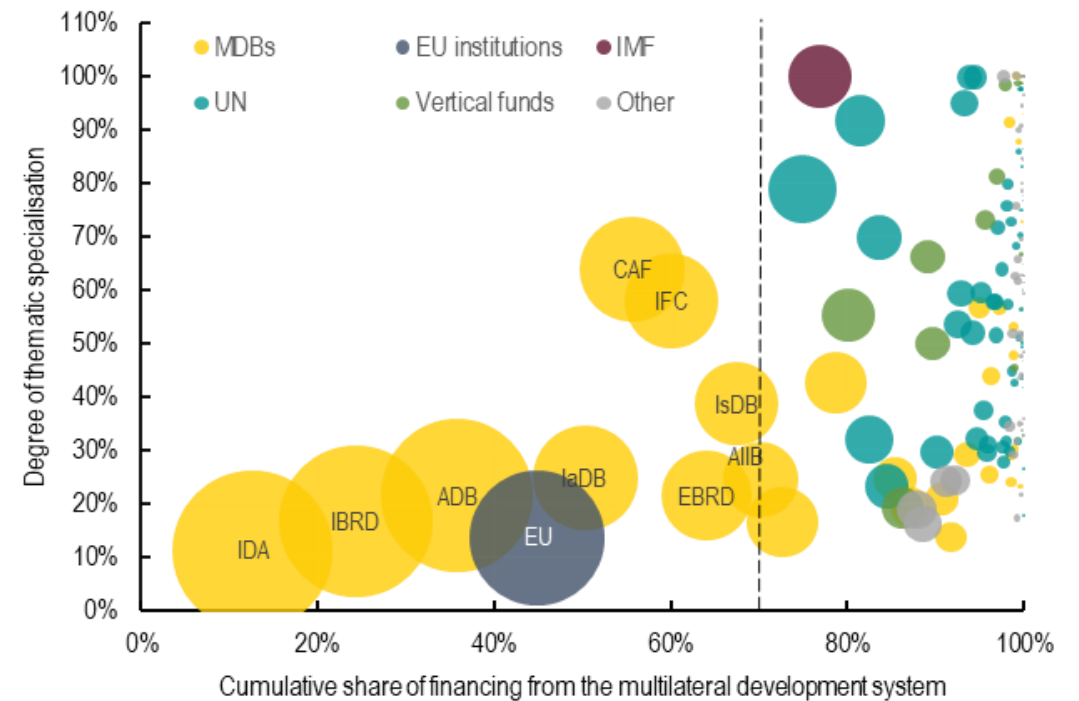


A system increasingly complex to navigate for LDCs

- DAC countries channelled **43% of ODA** through multilateral organisations in 2020, up from 39% in 2015
- A growing share of multilateral ODA is **earmarked**



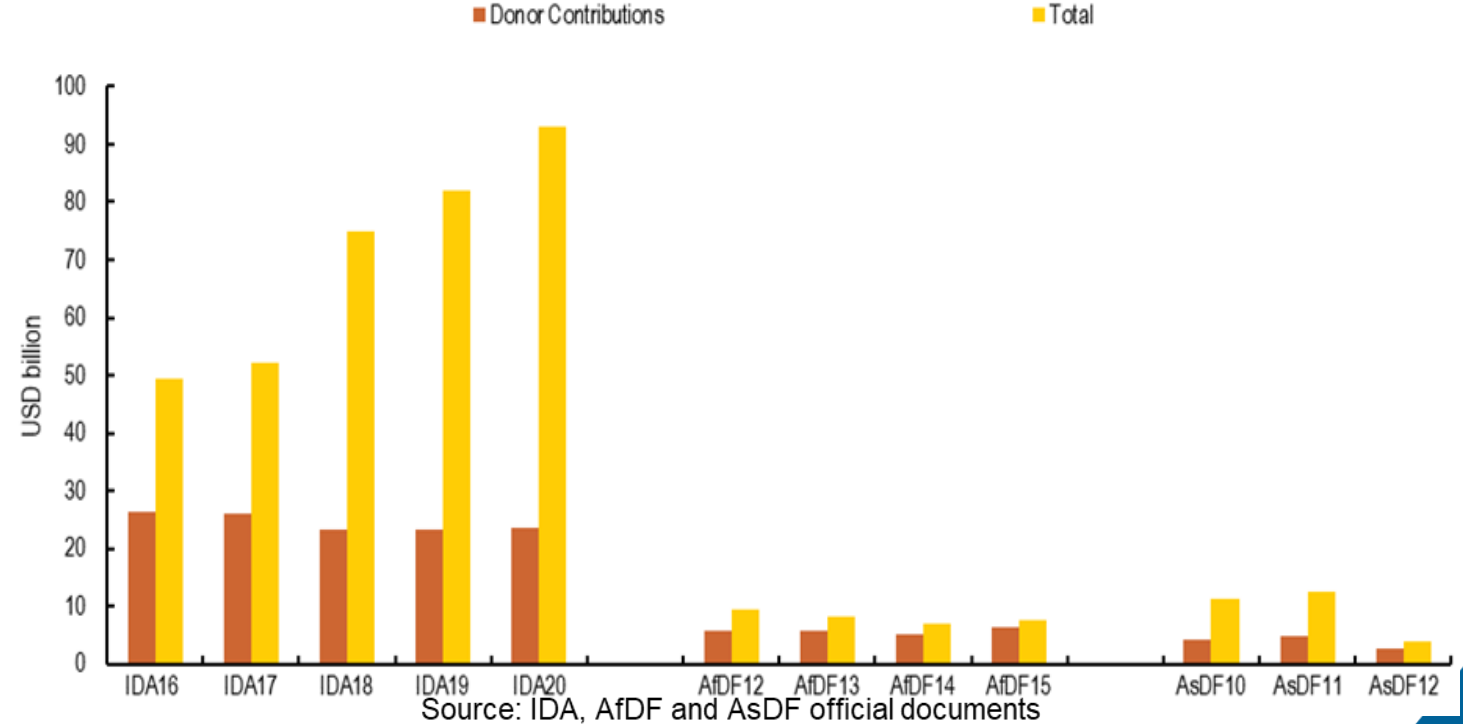
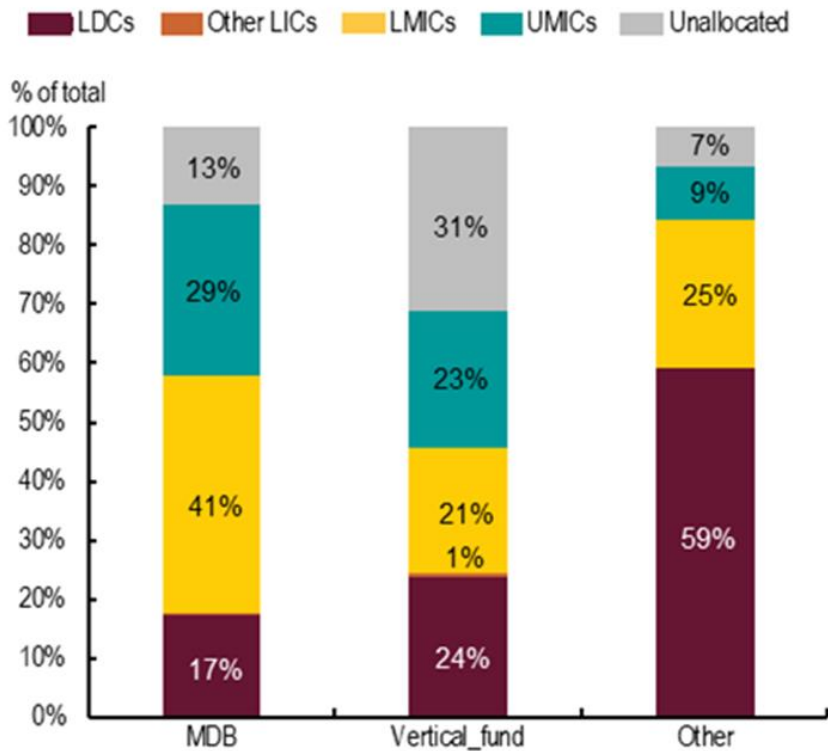
- The **multilateral development finance system** is increasingly crowded, complex and fragmented with **more than 200 institutions**





LDCs and the MDBs conundrum

- MDBs have a growing **focus on middle-income countries** – ex. of climate finance
- MDBs are asked to increasingly capitalise on their unique ability to access global **financial markets**



Source: IDA, AfDF and AsDF official documents



WHAT COULD BE DONE TO INCREASE ACCESS TO FINANCE IN LDCS



1. An overhaul of the global financial system is needed to restore equity, including for climate

The 2022 Bridgetown Initiative

September 23, 2022

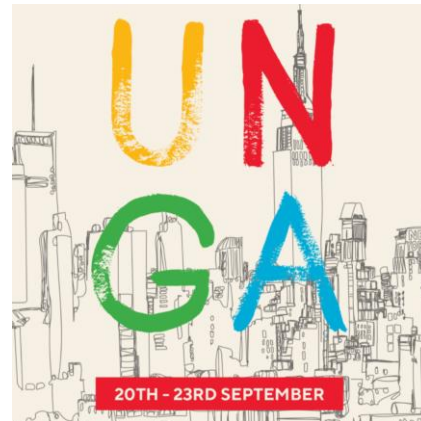


Urgent and Decisive Action Required for an Unprecedented Combination of Crises
The 2022 Bridgetown Agenda for the Reform of the Global Financial Architecture



LDC5

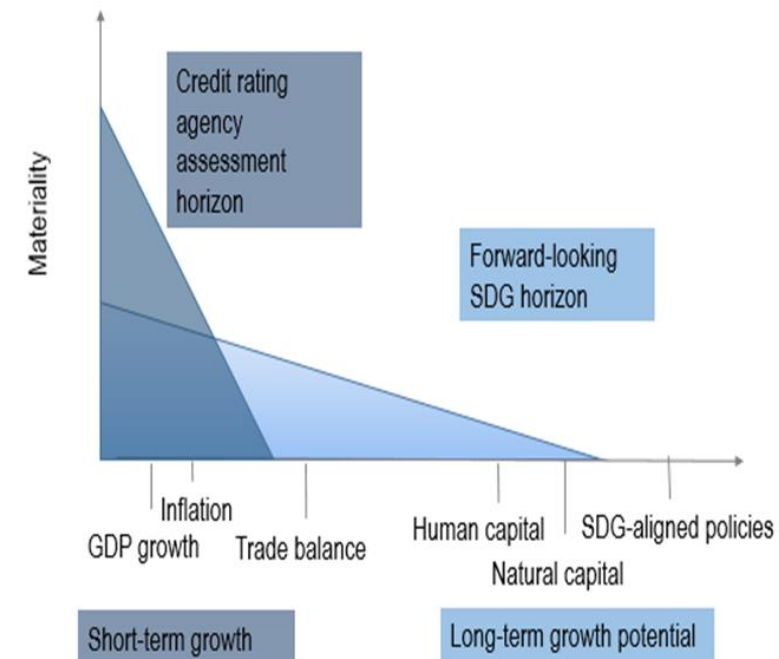
5TH UNITED NATIONS CONFERENCE ON THE LEAST DEVELOPED COUNTRIES





2. The onus to act is not only on LDCs but all actors

- This includes incentives/regulations in **OECD countries**, behavior of **intermediaries**, and support to reforms in **LDCs**
- An example is **risk rating** that highlights the ST vulnerabilities rather than the LT assets of LDCs



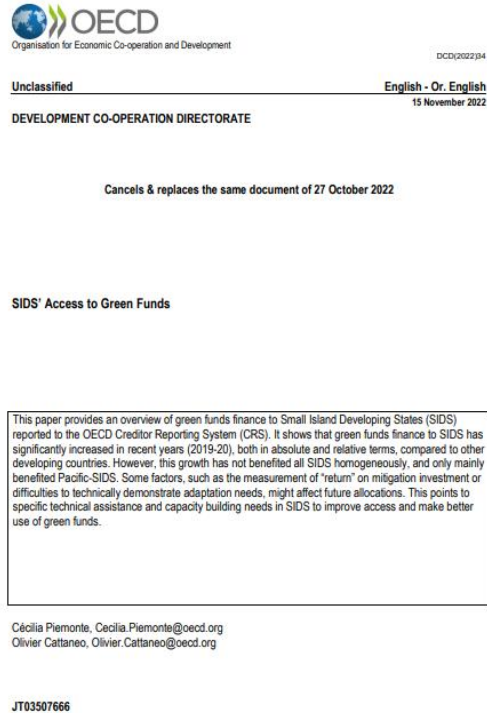
Source: Authors' adapted from Gratcheva et al. (2022^[103]), *Credit Worthy: ESG Factors and Sovereign Credit Ratings*, <https://openknowledge.worldbank.org/handle/10986/36866>.



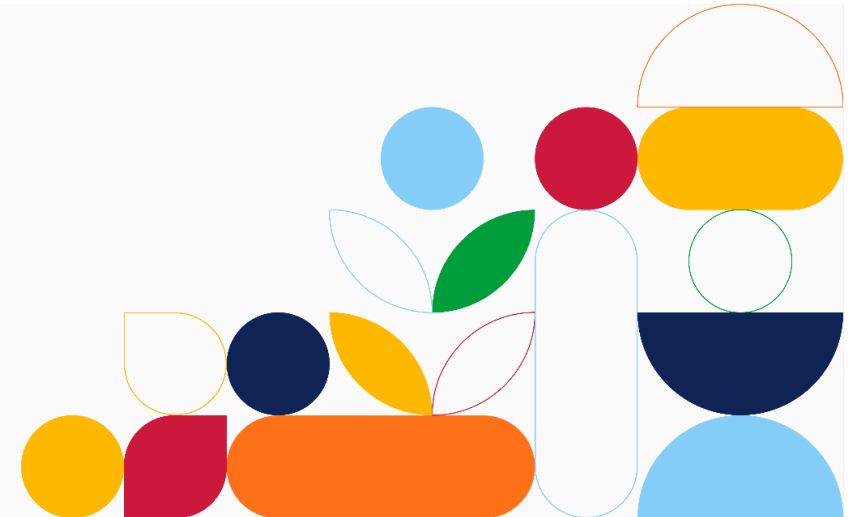
3. There is no access to financing without access to technical assistance on access to financing

- Recent work in SIDS shows TACB is needed to access green funds – **at all stages** of the project cycle, from inception to administration, monitoring and evaluation

- INFF Facility** was launched at FFD Forum
- Aims to **pool TACB resources** and make it accessible to all along Tax Inspectors Without Borders model
- Survey** at the DAC to mirror survey of LDCs



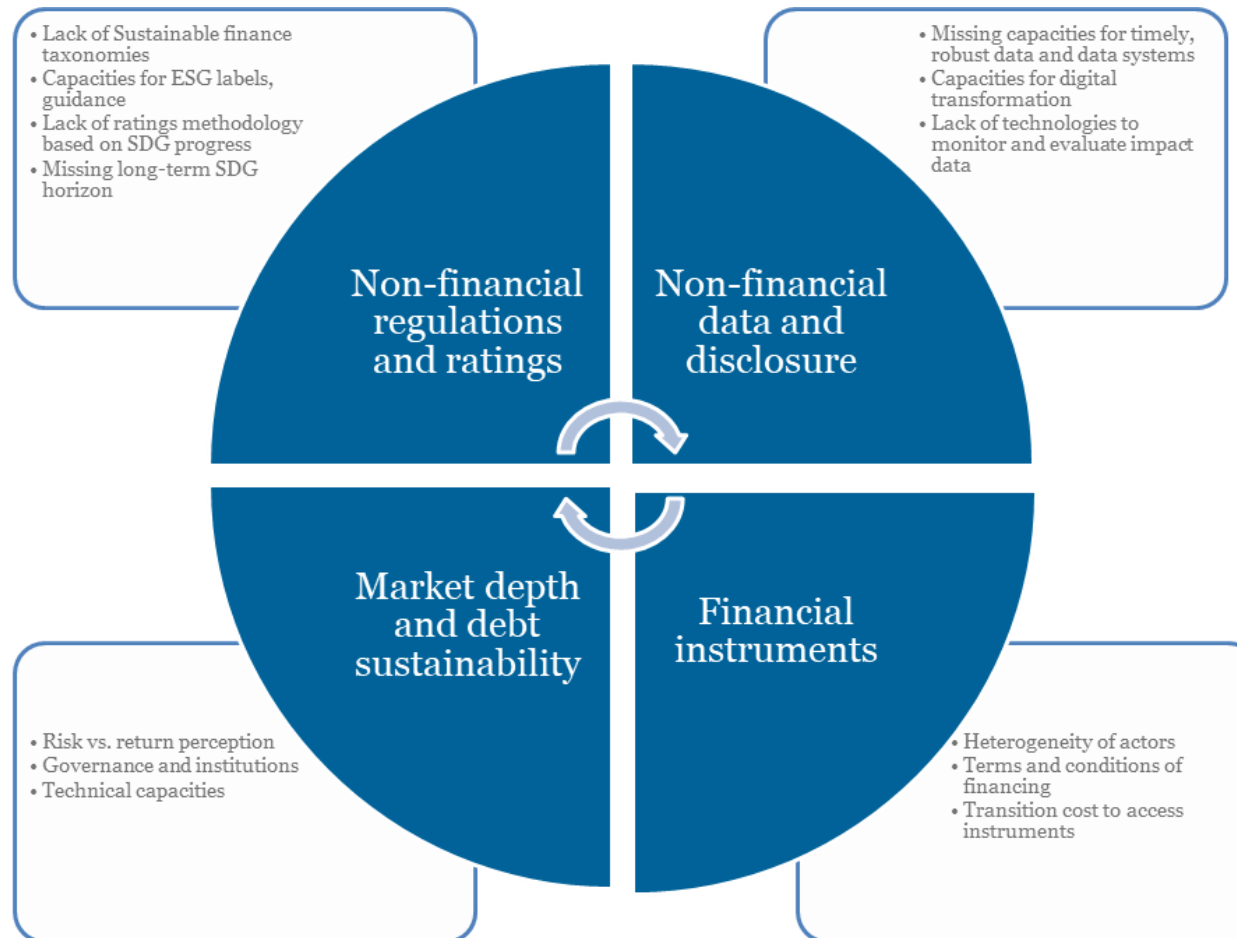
What is the INFF Facility?





4. Make sustainable finance work for LDCs by fighting SDG washing and reducing diversion risks

- Broader access to sustainable finance in the poorest countries requires **support for the implementation of new regulations, standards and norms**



Source: OECD, *Global Outlook on Financing for Sustainable Development 2023*



THANK YOU

Contact: olivier.cattaneo@oecd.org