Tackling vulnerabilities and leveraging scarce resources

On the road to the Fifth United Nations Conference on the Least Developed Countries (UN LDC5)

21 & 23 October 2020
15h00 – 16h30 (Paris time)

First session:

What does COVID-19 mean for LDC's vulnerabilities and support measures?

Ms. Utoikamanu, UN Under Secretary-General and High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, underlined that the first session of this two-day event marked the launch of an "intensive preparatory process" towards the UN LDC5 Conference to take place in Doha, Qatar, in January 2022. To prepare for this important milestone, this session gathered a broad set of stakeholders to assess how LDCs' vulnerabilities- one of the main criteria by which they are defined - have been impacted by the COVID-19 crisis, and what the implications are for international community support.

The COVID-19 crisis has exacerbated LDCs' vulnerabilities

All participants highlighted that the COVID-19 crisis is having a disproportionate impact on LDCs, due to pre-existing vulnerabilities that are now being exacerbated by the pandemic and its multiple socio-economic consequences. This in turn will bring progress towards graduation, the implementation of the IPoA and overall sustainable development, to an abrupt halt.

During his keynote address, Patrick Guillaumont, President of FERDI, recalled that structural and exogenous vulnerability, one of the three definition criteria of LDCs, puts them at a higher risk than other developing countries in facing COVID-19. In LDCs, although the epidemiological shock seems more limited than elsewhere for now, the economic shock will spread through various channels and generate more severe health and socioeconomic consequences, because it is taking place in countries that are more vulnerable to the present recession. Indexes such as the EVI or HAI, which measure the various facets of LDCs' vulnerabilities, will eventually reflect the impact of COVID-19, but not in time for the next CDP when graduation processes will have to be reviewed.

Policy makers from LDCs and experts provided multiple examples of the socio-economic and sometimes humanitarian crises that COVID-19 is provoking due to its multiplying effects on LDCs' vulnerabilities. As noted by Ambassador Perks Liogya, Permanent Representative of Malawi to the UN in New York, the pandemic has exposed the inability of LDCs' health systems to cope with such a shock, as they are mostly dependent on foreign aid. Many participants highlighted that the economic structures of LDCs are working as transmission channels for many of the crisis' negative consequences. Due to lockdowns, the pandemic has had a direct and severe impact on employment, especially in LDCs' large informal sector. COVID-19 has also brought about a steep income shock through its impact on key revenue sources like tourism, remittances and commodities. As a result, poverty and inequality are rising. Global poverty could increase by as much as half a billion people by next year according to UNU Wider.

This could exacerbate pre-existing social conflicts and inequalities within and across countries, as well as humanitarian crises caused by natural disasters or with a food security dimension. The current situation also raises questions on how the crisis will affect conflict-ridden or fragile states. Nabila Musleh, Deputy Minister of Women Affairs of Afghanistan provided important insights on how the consequences of the pandemic have spread through pre-existing vulnerabilities in Afghanistan. In addition to overall bleak economic prospects, despite efforts, the status of women in Afghanistan is still fragile and will be further weakened by the pandemic and ongoing conflicts. Women and girls are more impacted in terms of access to health and education and more vulnerable to the employment and income shock. Furthermore, since the beginning of the pandemic, the country has seen a sharp rise in multiple forms of gender-based violence and abuse.

Key policy issues that need to be addressed as priorities at UN LDC5

In response to this exogenous shock, all participants pointed to the international community's responsibility to provide LDCs with the support they need to create endogenous conditions for their sustainable and resilient recovery. To achieve this, they identified the following key priorities for LDC5:

- **Health systems and social cohesion**: The pandemic has exposed the vulnerabilities of LDCs' health systems and could further deepen social inequalities. In some cases, LDCs have taken measures to fight the consequences of the crisis and were able to define where international support measures would have the most multiplying effect for their development. For instance, as illustrated by Ms. Myriam Dossou-D'Almeida, Minister of Grassroots Development, Youth and Youth Employment, Togo's President's "grassroots development" approach and rapid measures to stall the socio-economic consequences of the pandemic, enabled the creation of strategies to strengthen its health and social protection system. To implement these strategies, Togo will need international community support.
- **Production transformation:** There is a clear need for international support for the transformation of LDCs' production structures. The international community can help LDCs improve their infrastructure and technological capacities, for instance by supporting programs such as the UN Technology Bank. There are also possibilities for synergies among sectors, for instance between agriculture and renewable energy.
- **Development finance - Debt relief and meeting commitments:** LDCs already faced a lack of financial resources before the outbreak. Their narrow fiscal spaces are being further squeezed by the economic shock, just as they are facing tremendous socio-economic and humanitarian threats. As a result, risks of debt distress are rising. Several participants called for an immediate standstill on debt payment and interests, for both official and private creditors, as well as urgent debt relief at the global level through the increase and reallocation of SDRs. ODA will also become a scarcer resource as the crisis unfolds. Participants highlighted the need for the international community to meet its ODA commitments and Susanna Moorehead, Chair of the Development Assistance Committee, noted that LDCs need as much ODA as possible to defeat the pandemic.
- **Gender equality:** Gender equality must be included as a core component of all strategies to respond and recover from the COVID-19 crisis. It should be a key consideration in planning, funding and delivering emergency and development programmes. Women should be involved in the early stages of these 3 phases and plans should account for compounding vulnerabilities like conflict or forced displacement. For instance, in the case of Afghanistan, the international community must ensure continued support for conflict affected and internally displaced women, especially in hard to reach areas. Support should also be provided to develop measures to guarantee continued access to education for conflict affected, displaced and returnee populations.

The international community could also prioritise funding and provide tech support for violence against women services and CSOs that run women protection centres.

Patricia Scotland, Secretary-General of the Commonwealth, took stock of the discussion, noting that despite significant progress, LDCs' structural vulnerabilities remain and will be magnified by COVID, stalling progress towards graduation and the SDGs. She concluded the meeting by asserting that, in the longer term, for LDCs to achieve the SDGs, it will be essential to prioritise collective action to address the digital divide; resist protectionism and uphold a fair multilateral trading system; promote universal access to sustainable infrastructure (energy, using technology for productive purposes); foster the inclusion of vulnerable segments amongst LDCs (especially women and youth); launch the structural transformation of LDCs' economies; finance the recovery from COVID, through improved access to financing and enhanced debt sustainability.

Second session:

Financing the recovery in LDCs: what role for international co-operation?

Why were LDCs off track from meeting the SDGs before the crisis? Three main financial gaps: investment and savings gap, balance of payments gap, and fiscal gap. Indeed, FDI and private capital flows represent a minor share of LDCs' financing. The investment gaps are enormous. As estimated by UNCTAD, the financial gaps they face are three times higher than LDCs' current effective investment. Tax-to-GDP ratio is very low, reaching only 15% on average and making it difficult for LDCs to reach investment goals. Moreover, ODA is particularly critical because it represents on average 10% of GDP and 40% of LDCs' government spending. This is particularly concerning as ODA has stagnated and with the current crisis could be further reduced from levels that were already below the 0.15-0.2% of GNI target to LDCs agreed by DAC members (so far it has reached just 0.1%). Meanwhile, the WB projects that remittances could fall by about 20% by next year. Remittances are critical for several LDCs (particularly Haiti but also South Sudan, Nepal and Lesotho where remittances account for more than 20% of GDP). Most importantly, these countries have significant debt problems. Out of the 8 countries that the IMF has estimated are in debt distress, 5 are LDCs, and out of the 27 at risk, 14 are LDCs.

Given this picture, debt management and sustainability are a major priority for the international co-operation agenda. The DSSI, which was extended for six more months, is a first step but could be insufficient. A reason being that the private sector has not been involved and it is also unclear whether or not non-DAC members are on board. Therefore, a broader or stronger debt initiative should be considered, involving private actors and all bilateral official creditors. Official development finance providers should work on creating the tools and mechanisms required to prevent countries from being downgraded due to the current crisis and ultimately being cut off from financial markets. A combination of debt relief, debt rescheduling and a continued access to financial markets are fundamental.

MDBs play a major role in multilateral institution support. Significant and rapidly allocated resources by the World Bank have been a positive step in the crisis, and it must also be highlighted that this time low-income countries were the priority (in contrast with the Global Financial Crisis). A second positive development is that the AfDB's (African

Development Bank) capitalisation last year. However unlike in 2009, there has been no call to capitalise MDBs this year, despite the fact that development banks are playing an important role in the recovery. In the case of the IMF, credit lines have worked well but have been very small. For recovery and resilience building, global risk pooling needs to be accessible to LDCs.

LDCs face multiple crises including climate shocks: climate finance is needed to support the energy transition and a green and sustainable recovery. In addition to the COVID19 crisis, climate related disasters have increased in many LDCs, causing major social crises by displacing populations and exacerbating financing gaps. Climate change is affecting these countries' access to energy. Equitable green energy will require mobilising huge investments from public and private sources. Ethiopia for instance, requires more than one billion USD of investment per year to achieve universal access to energy. The UN should push for the Climate Investment Platform initiative that was launched in 2019 in New York. The Green Climate Fund must also play an important role for LDCs.

Multiple policy priorities need to be on the agenda for LDC recovery. For instance, expanding LDCs' productive capacity should be an important item in the Programme of Action that will be agreed upon in Doha. To overcome LDCs' low productive capacities, the priority should be to coordinate investment in strategic sectors that open the door to other sources of finance that also create opportunities to diversify the economy in new sectors. More particularly, there should be a focus on health and social protection systems and funding the access and distribution of COVID-19 vaccines when they become available. Additionally, reducing the digital divide will be fundamental given the huge digital access gap. As mentioned, a priority is also the establishment of a risk pooling resource fund to manage climate risks.

The international community needs to rise up to the governance challenge of managing mixed flows.. A long-term policy agenda in the right direction will require huge investment and unlocking the potential of new forms of finance. While the idea of using public investment to mobilise private funds might be one way, it is not the panacea, considering the low levels of private resources mobilised so far compared to what LDCs need. In addition, it is difficult to ensure that private resources, in a mixed strategy, will contribute to the required production transformation and will be aligned with domestic policy priorities. ODA should leverage other sources in the most effective way: blended finance is one option Finally, managing mixed flows is highly complex in terms of the instruments and actors involved. The institutional complexity can be an additional challenge to achieve the required investment.

The real answer to the current crisis needs to come from all actors. From governmental sources to public, private and philanthropy, the sustainable development finance landscape must be crowded and varied. This entails a huge challenge when it comes to coordination. The public sector does have a key role to play, and for this, the Integrated National Financial Frameworks' (INFFs) mapping of sources and flows can be very helpful.. Moreover, it is not just about more financing, it is also about better financing, focused on the main challenges developing countries face, empowering local communities and building resilience. Philanthropy can also play a key role in mobilising other players to narrow the financing gap by: 1) making the case for impact investment, 3) demonstrating successful examples of working together with multiple actors in partnerships (blended finance) and delivering results on the ground, and 4) de-risking and incentivising FDI and other activities.

Finally, on the road to recovery, there needs to be a call for a renewed international commitment to development finance. The international response to COVID-19 has not been commensurate with the needs. On the road to Doha we need to focus on the international community re-committing itself to mobilising all sources of finance, and looking at making this capital more catalytic, more flexible, and truly blended. We need a global recovery that is green, digital, socially just and resilient.

Priorities for the UN LDC5 Conference agenda:

- **Unlocking** climate finance to increase renewable energy production and reduce the impact of climate change
- **Addressing** the universal energy access agenda of LDCs
- **Mobilising** global resources to LDCs by:
    - Implementing a “Marshall Plan for LDCs” beyond assistance and aimed at investing and strengthening capacities
    - Making official development assistance more effective as current levels of ODA to LDCs are well below the target of 0.2% of GNI.
    - Increasing transparency in the disbursement and implementation of projects and fighting illicit financial flows by establishing a clear framework to follow-up and monitor the impact of international flows on development.
- **Addressing** inequalities: COVID has emphasised the need to focus on the human dimension, and climate change is already a key item of the international agenda. However, we cannot afford to once again miss the mark in tackling the inequalities that have perpetuated the socio-economic vulnerabilities of developing countries, in particular in LDCs.
- **Promoting** better financing by getting local communities on board. Effective development co-operation needs to be people-centred and respond to national priorities. Local communities have the knowledge, understand the challenges and know the priorities. Ensuring local ownership of development initiatives built on real local community needs must be a priority.
- **Boosting** blended finance, by pursuing public ends with private means, involving private, philanthropy and public finance towards common objectives on the ground.