BACKGROUND
Building productive capacity in LDCs requires resources well beyond domestic resources available in LDCs. As the majority of LDCs lacks or, at best, has limited access to international financial markets, much of the financing gap will be bridged, in the short term, by ODA and debt relief. Recent trends point to worrisome developments, however. ODA to LDCs started to decline in 2011, after experiencing a decade-long steady rise. The drop in aid flows to LDCs further accelerated in 2012, with aid from DAC members retreating by 9.4%. As a result of this recent decrease in ODA flows, the share of LDCs in total aid from DAC countries eroded from 0.34% in 2010 to 0.31% in 2012. Looking forward, the outlook is daunting, with country programmable aid—a good measure of aid effectively received by recipient countries—expected to decrease by 5% in 2014. Progress in improving the quality of aid continues to be mixed. While important strides have been made in reducing the share of tied aid, using recipients’ public financial management systems and shifting aid allocation towards productive sectors, aid fragmentation and predictability persist.

On debt relief front, the enhanced Heavily Indebted Poor Countries (HIPC) debt initiatives, the Multilateral Debt Relief Initiative (MDRI), coupled with robust economic growth, have helped lessen the debt burden of many LDCs. The relative sizes of external debt stock and debt service have reached sustainable levels in these countries. Yet pronounced economic vulnerability of LDCs to shocks implies that they will continue to face a high risk of debt distress.

OBJECTIVE
The session will discuss how to improve the quantity and quality of aid channelled to LDCs but also how to use ODA to leverage other new sources of finance. It will also serve as a venue to explore practical ways of bringing debt burden of all LDCs to sustainable levels.

ISSUES FOR DISCUSSION
• How could the volume of aid to LDCs be increased so as to bridge the financing gap associated with productive capacity building? Could setting a target share of ODA to LDCs be an important step towards that direction?
• What are the changes in the current aid architecture that will contribute to scaling up the leveraging impact of aid on other sources of finance?
• What are some good practices in terms of ownership, alignment, harmonisation, managing for results and mutual accountability in the context of the partnerships between LDCs and their development partners?
• How could the debt service burden of LDCs align with their repayment capacity?