BACKGROUND

Acquiring the means to finance their development agenda remains a big challenge for most countries, more so for Least Developed Countries (LDCs). LDCs have remained large beneficiaries of Overseas Development Assistance (ODA) to finance their development needs. This financing model underpinned MDG implementation through the Monterrey (2002) and other commitments which focused on domestic resource mobilisation and traditional ODA. Increased aid flows and cancellation of multilateral debt constituted a large share of development financing complementing domestic resource mobilisation efforts, which also have been increasing in LDCs in the past years. Other forms of finance (private finance, sovereign wealth funds, remittances, Diaspora funds/bonds) were either non-existent or much less than ODA in LDCs.

The current development finance landscape is very different from the early 2000s as most emerging economies and LDCs are among the fastest growing economies in the world therefore creating scope for significant increases in domestic resource mobilisation coupled with stagnant or reduced traditional ODA. Moreover, there are a lot of actors in development broadening the sources of development finance. There are now plenty of ‘innovative’ sources and mechanisms of development finance, many of which seek to combine public and private resources in non-traditional ways to meet development needs. These facts have created a lot of optimism on the future of economic growth in most LDCs.

EMERGING FACTS

- Developing countries have been driving global growth and expanding domestic tax revenues at a rapid rate, giving much more scope for development to be funded domestically. The average tax-to-gross domestic product (GDP) ratio rose from 23% in 2000 to nearly 29% in 2011.
- All the main sources of development finance such as tax revenue, private flows, sovereign wealth funds, FDI, remittances, philanthropic and non-governmental organizations financing have been expanding over the past decade, but the relative importance of ODA vis-à-vis other forms of finance has declined.
- Workers’ remittances have increased since the year 2000, and the amounts have been twice as high as aid flows since 2005.
- These trends are very uneven across countries, with private cross-border flows heavily concentrated in MICs. The majority of LDCs have remained dependent on ODA.
- While ODA is now under pressure, there has been rapid growth in new ‘aid-like’ forms of development finance, which are not classified as ODA but nevertheless have a public interest purpose. This includes South-South Cooperation (SSC), climate finance, philanthropy and other private development assistance. All these flows have been growing over the past decade and are likely to do so in future.

ISSUES FOR DISCUSSION

This session therefore explores a variety of non-traditional development financing mechanisms, associated drivers and challenges, and a framework for harnessing them for enhanced productive capacity in LDCs. Harnessing these resources calls for the removal of some binding constraints from implementation of policies that would encourage inclusive growth, broadening of tax bases and improvements in tax administration, and the creation of conducive environments for private investments. It also includes policies to increase the availability of long-term financing and access to finance for small and medium enterprises (SMEs). The role of new forms of development financing (including South-South and triangular cooperation), its sustainability and ways of redefining the role of traditional ODA as well as sharing of emerging knowledge and experiences will be critical to strengthening productive capacities in LDCs.