Financing the SDGs and IPoA for LDCs

Susanna Wolf
Office of the High Representative for LDCs, LLDCs and SIDS (UN-OHRLLS)
Different forms of financing in LDCs

1. Domestic Resource Mobilization
2. International development cooperation
3. Climate change finance
4. Access to capital markets and external debt
5. Foreign Direct Investment
6. Remittances
Government resources of LDCs

1990-2015 (as a percentage of GDP)
Private flows to LDCs

1990-2015 (as a percentage of GDP)
1. Domestic Resource Mobilisation

Taxes as % of GDP

- Income tax
- Goods and services
- Excise tax
- Corporate income tax
- Trade tax
Improving tax collection in LDCs

• Many LDCs have undertaken reforms of the tax system to reduce tax evasion and broaden the tax base

• Better analysis is needed to ensure tax reforms also reduce inequality

• Tax exemptions need to be assessed carefully

• For LDCs with more than half of the population living in poverty it is extremely difficult to increase revenues

• Only if GDP growth and diversification speed up will tax revenues increase sufficiently
Support for domestic public resource mobilisation

• ODA to leverage DRM benefits only few LDCs

• Support needs to be integrated, with complementarity of training, equipment etc.

• Support needs to take country specificities into account and strengthen ownership

• Support should include all stakeholders, including parliamentarians and civil society
Combat illicit financial flows

• Estimated IFF/GDP ratio more than 5% on average, up to 20%

• IFF occurs not only in extractive industries but also agricultural commodities

• Transparency and better information is crucial (risk and vulnerability assessments)

• Capacity in tax/customs administration needs to increase
2. International development cooperation

- ODA is decreasing further (net bilateral ODA declined by 4% in real terms in 2016)
- 7 DAC members reached the 0.15% of GNI target (down from 9 in 2013)
- Providers of South-South cooperation for LDCs include China, India, Brazil, Saudi Arabia, UAE and Turkey

→ Decline of ODA needs to be reversed and 0.2% target pursued
Development effectiveness and quality of aid

• Unequal distribution of aid among LDCs
• Predictability of ODA is still lower in LDCs
• The use of country systems has improved
• Humanitarian aid is increasing

→ Catalytic use of ODA should be monitored for its contribution to poverty reduction and sustainable development

→ Use of LDC criteria for aid allocation and alignment of aid with LDC priorities
3. Climate change finance

Multilateral finance examples

• **Global Environment Facility (GEF),** ca. USD 1.74 billion (12.2% of total) for LDCs, mainly for mitigation, especially energy

• **LDCs Fund (LDCF),** specific assistance for NAPAs and NAPs, demand for resources exceeds available funds (USD 1.22 billion pledges)

• **Green Climate Fund (GCF),** balance between adaptation and mitigation, 50% of adaptation funding to LDCs, SIDS and Africa (pledges USD 10.3 billion)
Other climate funding

• Public flows from developed to developing countries: *bilateral sources* (e.g. Germany, Norway, UK)

• Private climate change finance from developed to developing countries

• Climate change finance flows between developing countries (estimated USD 3.5 billion in 2014)
Improve climate change finance for LDCs

• Better information and reporting on climate change finance is needed

• Access for LDCs, especially to the GEF, needs to be enhanced and GEF replenished

• Priority needs to be given to adaptation finance for LDCs

• Absorptive capacity of LDCs needs to improve, including preparation of bankable projects

• Project approval and disbursement processes should be streamlined and simplified
4. Composition of external public and publicly guaranteed debt in LDCs
International Sovereign Bonds (ISBs)

• Several LDCs have successfully issued ISBs, mostly for infrastructure finance
• Challenges: higher costs, currency mismatch, macroeconomic volatility
• Risks need to be carefully assessed and exposure limited
• Proceeds need to be invested to generate revenue
• Other forms of bonds, like GDP-linked bonds and green bonds should be further explored
5. Foreign Direct Investment

- FDI flows to LDCs increase but fluctuate, declined by 13% in 2016 to USD 38 billion
- Still dominated by a few mineral and oil extracting countries
- The stock of Chinese FDI in LDCs more than tripled to USD 31 billion from 2010-2015, making China by far the largest investor
FDI in infrastructure

PPPs in LDCs by sector (in USD millions):

- Total number of projects in LDCs by sectors (2011 - 2016)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2011 - 2013</th>
<th>2014 - 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>50</td>
<td>23</td>
</tr>
<tr>
<td>ICT</td>
<td>33</td>
<td>8</td>
</tr>
<tr>
<td>Transport</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Water and Sewage</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

2011 - 2013 2014 - 2016
Public-Private Partnerships (PPPs)

- PPPs mainly in energy and ICT
- Concentrated in few LDCs
- Balance of risk and return between public and private sector
- Transparency and performance assessments are needed
- Project development needs to be supported
Investment promotion in LDCs

• Investment promotion agencies in LDCs need to be strengthened and partnerships with Outward Investment Agencies forged

• Investment policies and rules are crucial

• Home country support needs to be targeted to LDCs and sectors with high spillover effects

• South-South cooperation, e.g. through AIIB and Industrial Development Cooperation of RSA

• Investment guarantees are crucial
6. Remittances

- Remittances to LDC have grown but slowed down, USD 40 billion in 2015
- 5 LDCs have a share of remittances in GDP of more than 20%
- Remittance cost to LDCs slowly declining (4-17% of remitted amount)
- Policies to enhance remittance: preferential interest and exchange rates, foreign currency accounts, mobile money
- Enhance development effects of remittances: support use of remittances for creating businesses, channel remittances through the banking system
Main messages

• Due to the large gap in investment, access to all modes of financing needs to increase for LDCs.

• Public providers should increase accessibility and allocate a minimum share of finance to LDCs.

• Not all finance is suitable for all purposes: LDCs need to assess whether the cost of investment is justified by its social returns.

• LDCs need enhanced capacity, including in tax administration, project development and negotiations with investors.

• A conducive environment, including at the regional level, is needed for investment to take place and have the most impact.
Thank you