USG PRESENTATION

Launch of the Flagship Report
Wednesday, 19 July 2017
15:30 - 16:30
at the Bhutan Mission

H.E. Mr. Masud Bin Momem, Permanent Representative of Bangladesh and Chair of the LDC Group,

Mr. Karma Choeda, Chargé d'Affaires, Bhutan Mission to the UN,

Excellencies,

Distinguished Delegates,

Ladies and Gentlemen,

I would first like to express my sincere gratitude to the Permanent Mission of the Kingdom of Bhutan to the United Nations, for generously agreeing to host the launch of this important report entitled, "the State of the Least Developed Countries 2017".

Earlier today, Ambassador Momen and I conducted a press briefing on the key findings of the two chapters of the report. Chapter 1 assesses the progress made in implementing the eight priority areas of the Istanbul Programme of Action for the LDCs for the decade 2011 to 2020.

For this afternoon, I will focus on Chapter 2. This is because Chapter 1 of the report is largely based on the 2017 report of the Secretary-General on the implementation of the Programme of Action, which I presented at the Coordination and Management Meeting of ECOSOC two weeks ago.

The findings of this report are very timely, especially considering that average GDP growth in LDCs was 3.8 per cent in 2015, the lowest level recorded for the group in the last two decades. This is far below the 7 per cent target growth rate for LDCs by 2020.

To accelerate the progress towards meeting LDCs' development objectives, investment needs to increase. However, this requires an increase in resource mobilization, which is a major challenge for LDCs.

It is for this reason that the special theme of this year's report is '*Financing the SDGs and IPoA for LDCs*'.

The first part of the analysis in Chapter 2 involved estimating the magnitude of the investment that would be required to reach the 7 per cent growth rate. Using the United Nations World Economic Forecasting Model, we find that LDCs need to increase their investment, as a share of GDP by 2.6 percentage points. This is approximately US$24 billion additional investment annually, on average.

I would like to stress that while meeting the 7 per cent growth would contribute towards meeting some of the SDG targets, more resources would be required to meet all of the IPoA objectives by 2020 and also, to meet the development aspirations set through the economic, social and environmental dimensions of sustainable development.

I will now highlight some of the key findings on the main sources of financing in LDCs.

The graph that you are seeing on the slides summarises the trend for the selected financial flows to LDCs, as a percentage of LDCs' GDP.

- Government revenue, as measured by tax revenue to GDP, has been the largest source of development revenue in LDCs since the early 2000s and has reached around 15 per cent in 2015. The literature suggests that 15 per cent is considered to be the minimum below which countries face serious difficulties to execute basic state functions.

- While ODA is still the most important source of external financing for many LDCs, its' contribution to their GDP, on average, has significantly declined, relative to the levels in the 1990s.

- Private sources of financing, in particular, FDI have been exhibiting an increase in the past few years. In 2015, the contribution of remittances to GDP was slightly higher than that of ODA.

- While remittances are private transfers between households, they can contribute to investment in education and the development of the financial sector. Reducing the cost of remittance transfer is urgently needed for LDCs.

I will now get into the details of some of the sources of financing.

On Domestic Resource Mobilisation, disaggregated data shows that a higher contribution of the taxes, especially in recent years, is from taxing goods and services, followed by income tax.

- It is important to note that many LDCs have undertaken reforms of the tax system to reduce tax evasion and broaden the tax base. For instance, in several LDCs, revenue authorities have been removed from ministries and set up as autonomous units responsible for a broad range of taxes.
- Better analysis is needed to ensure tax reforms also reduce inequality. In addition, it is crucial that tax exemptions are assessed carefully.
- However, for LDCs with more than half of the population living in poverty, it is extremely difficult to increase revenues. Tax revenues can increase sufficiently once GDP growth and diversification speed up.

ODA is decreasing further. Net bilateral ODA declined by 4% in real terms in 2016. This is despite the reality that in 2015, about a third of the LDCs relied on ODA for more than 10 per cent of their GNI, as shown on the graph.

- Regarding the target of providing at least 0.15 per cent of GNI in ODA to LDCs, only seven OECD-DAC donors reached the goal in 2015, down from 8 in 2014 and 9 in 2013.
- The negative trend in ODA to LDCs needs to be reversed and development partners should consider to reach the upper IPoA target of 0.2% of GNI.
- In addition, the quality of aid, including its predictability and use of country systems, need to improve further.

South-South cooperation for LDCs has also been increasing, with a focus on infrastructure development.

The highlighted table shows the examples of climate funding that is available. I will not go into the details of each fund but based on the detailed analysis in the report, there is need for better information and, reporting on climate change finance to LDCs is needed. In addition, the percentage of funding to LDCs from the GEF Trust Fund needs to increase, and the LDC Fund replenished.

Furthermore, priority needs to be given to finance adaptation for LDCs. The absorptive capacity of LDCs needs to improve, including support for preparation of bankable projects. Project approval and disbursement processes should be streamlined and simplified.

Moving on to external debt and access to capital markets, some of the key findings are that since 2011, the level of external debt in LDCs has been steadily rising.

It is interesting to note that the composition of public and publicly guaranteed debt in LDCs is changing.

- Historically, the external debt portfolio in LDCs has mostly been made up of bilateral and multilateral sources.
- Commercial bank lending continues to play an important role, as shown in the graph. However, it is worth noting that the increase in international sovereign bond issuances has been more remarkable.
- While access to a diverse portfolio of external finance can contribute to financing long-term investments, debt build-up, especially from private sources poses risks, including those related to currency mismatch and foreign exchange risks.
- Given the risks that borrowing carries, it is important that resources from the loans are mainly used to finance necessary investments to ensure long-term productivity growth in LDCs.
- In addition, GDP-linked bonds and green bonds should be further explored.

While FDI flows to the LDCs increased significantly in 2015 to US$44 billion, led by greenfield investment projects, they declined by 13 per cent in 2016 to US$38 billion, highlighting their volatility.

- FDI is still dominated by a few mineral and oil extracting countries. In addition, the stock of Chinese FDI in LDCs more than tripled to USD 31 billion from 2010 to 2015, making China by far the largest investor.
- South-South cooperation is also growing, for example, through the Asian Investment Infrastructure Bank and Industrial Development Cooperation of South Africa.

The international community should increase coordinated investment support for LDCs with the contribution of all stakeholders, in line with decisions in the Addis Agenda to adopt and implement investment promotion regimes. This include the following: financial and technical support for project preparation and contract negotiation; advisory support in investment-related dispute resolution; access to information on investment facilities; and, enhanced risk insurance and guarantees such as those available through the Multilateral Investment Guarantee Agency. Our Office is working with partners on some elements for this but further discussions are needed.

I would like to conclude by providing the following key messages:

- Due to the large gap in investment, access to all modes of financing needs to increase for LDCs.
- LDCs need enhanced capacity, including in tax administration, project development and negotiations with investors, as well as collection and use of data.
- More development partners should meet or exceed their commitments to provide 0.15 to 0.2 per cent of GNI in ODA to LDCs as agreed in the IPoA, Addis Agenda and SDGs.
- To increase access to climate change funding, support for capacity building provided to LDCs needs to be stepped up to facilitate the preparation and submission of bankable proposals.
    - Not all finance is suitable for all purposes: LDCs need to assess whether the cost of investment is justified by its social returns

Finally, I encourage all to read the report and I thank you for your kind attention.