Making development financing more conducive to development financing in LDCs

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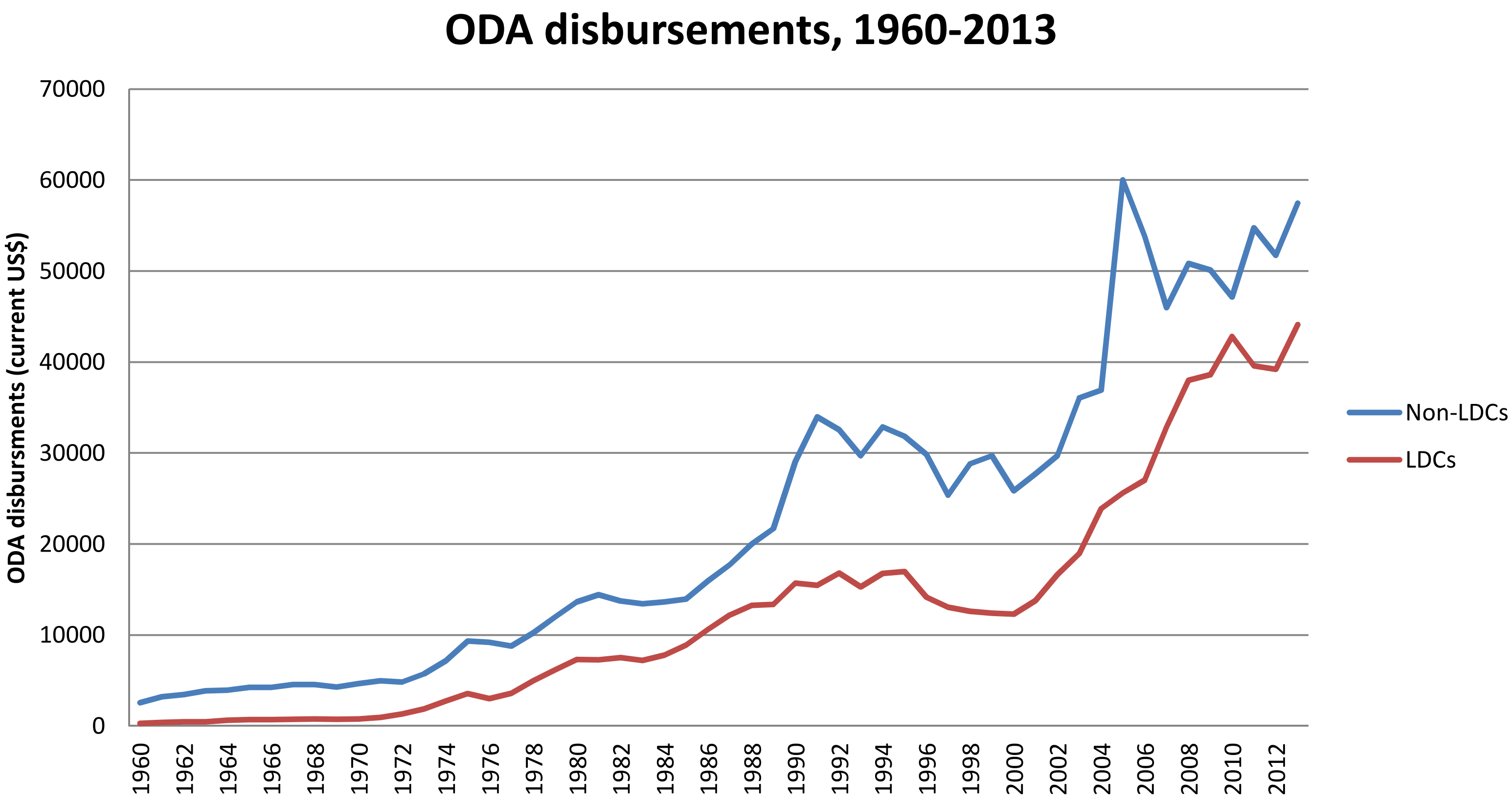
Outline

- (I) Trends in development financing in LDCs: slowing down of ODA in spite of an enhanced interest from international community
- (II) Rationale of a special treatment for LDCs: addressing structural handicaps, in particular vulnerability
- (III) Role of development financing vs trade in the treatment
- (IV) Scaling up ODA to LDCs by targetting : goals and definitions
- (V) Use of criteria beyond the category: implications for MDBs
- (VI) Development finance, LDCs and state fragility
- (VII) Development finance, LDCs , and adaptation to climate change
- (VIII) Other development finance to address LDCs vulnerability

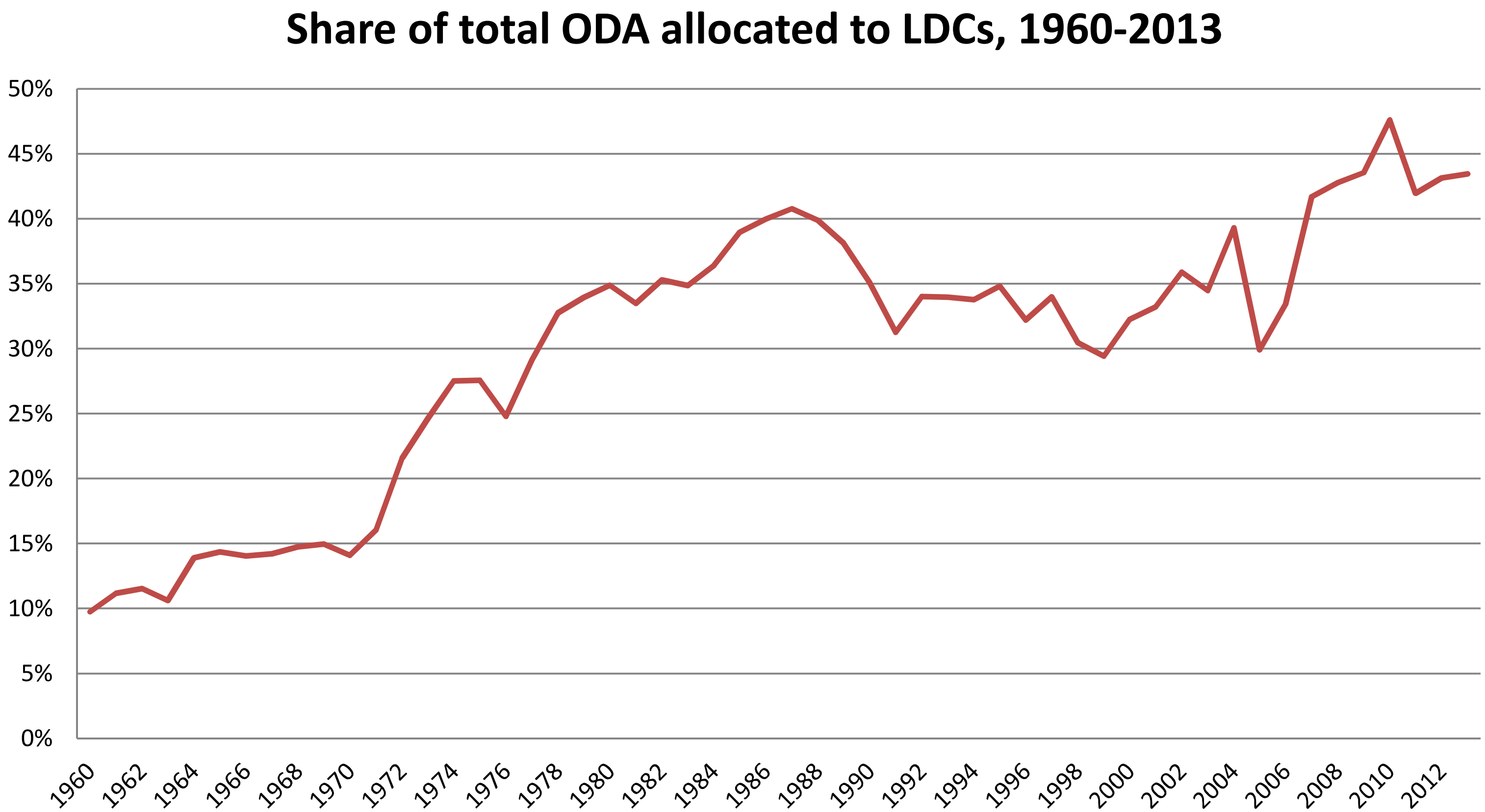
I

Ambiguous trends in ODA to LDCs

- 4 graphs to illustrate this ambiguity
- 1) rapidly rising trend from 2000 to 2009, less clear since 2010
- 2) Share of total ODA allocated to LDCs fluctuating, but not significantly higher in 2007- 2013 than in 1997
- 3) rising average ODA/GDP ratio untill 1994, decline since that date
- 4) and high heterogeneity of this ratio among LDCs



ODA disbursements, 1960-2013
ODA disbursments (current US$)
70000
60000
50000
40000
30000
20000
10000
0
1960
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
Non-LDCs
LDCs


Share of total ODA allocated to LDCs, 1960-2013
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
1960
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
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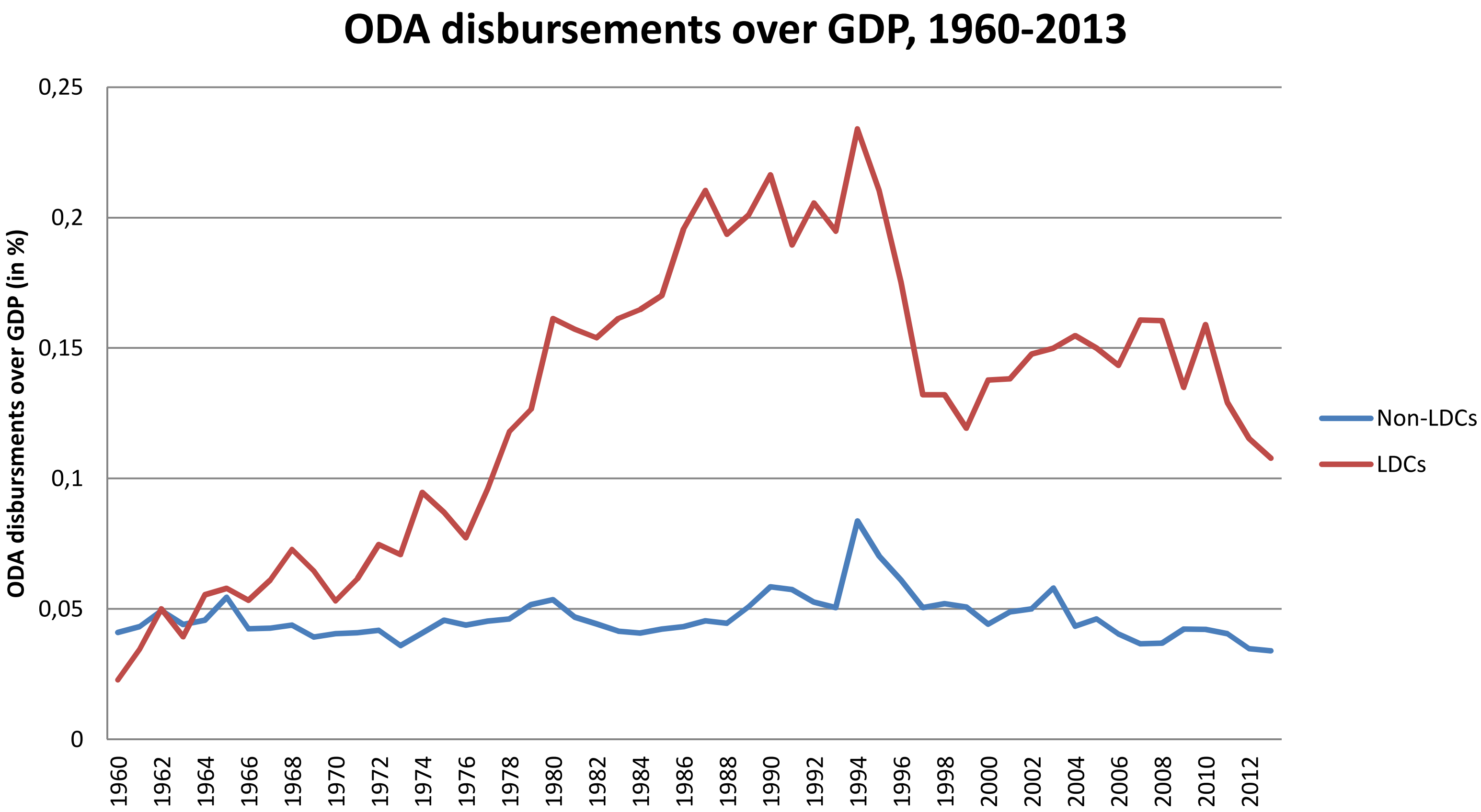
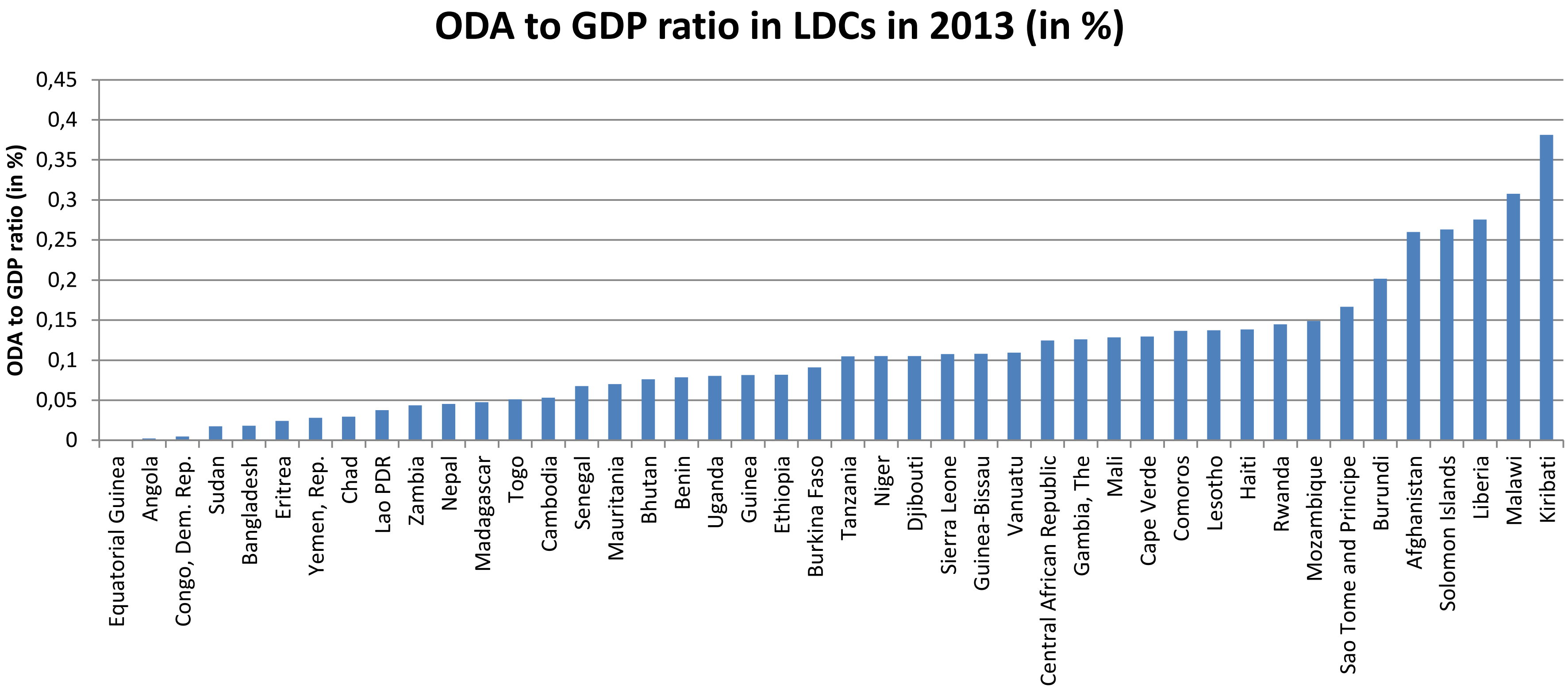
2012


ODA disbursements over GDP, 1960-2013
ODA disbursments over GDP (in %)
0,25
0,2
0,15
0,1
0,05
0
1960
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
Non-LDCs
LDCs


ODA to GDP ratio in LDCs in 2013 (in %)
ODA to GDP ratio (in %)
0,45
0,4
0,35
0,3
0,25
0,2
0,15
0,1
0,05
0
Equatorial Guinea
Angola
Congo, Dem. Rep.
Sudan
Bangladesh
Eritrea
Yemen, Rep.
Chad
Lao PDR
Zambia
Nepal
Madagascar
Togo
Cambodia
Senegal
Mauritania
Bhutan
Benin
Uganda
Guinea
Ethiopia
Burkina Faso
Tanzania
Niger
Djibouti
Sierra Leone
Guinea-Bissau
Vanuatu
Central African Republic
Gambia, The
Mali
Cape Verde
Comoros
Lesotho
Haiti
Rwanda
Mozambique
Sao Tome and Principe
Burundi
Afghanistan
Solomon Islands
Liberia
Malawi
Kiribati

But seemingly enhanced interest of the international community for LDCs: a reversal of attitudes?

- In Busan Declaration (few months after Istanbul), LDCs vanish
- In the report of the High Level Panel, LDCs quoted 1 time…..
- In report of the SDSN, 1 time again, but « vulnerable countries » 9 times
- In the 2013 report of the UNSG on SDGs, 5 times
- In the Intergovernmental Committee of Experts on Sustainable Development Financing (2014): 26 times
- In the present state of the document on SDGs: 26 occurrences of « LDCs » (indeed among 169 targets…)
- And invarious recent reports (eg Kharas-Rogerson)

II
Rationale of a special treatment for LDCs: addressing structural handicaps, in particular vulnerability

- LDCs designed as poor countries facing structural handicaps to growth and sustainable development (UN only official sub-group of developing countries), and as such more likely to stay poor
- Structural handicaps identified by a low level of human capital (measured by the HAI index) and a high structural economic vulnerability (measured by the EVI index)
- Possibility to discuss the working of the category and the details of its criteria, but clear rationale of a differentiation within a universal agenda for poor and vulnerable countries, being so mainly for structural reasons, beyond their present will…
- Then legitimacy of a special support given to these countries, and of a support likely to address the structural vulnerability of these countries

(III)
Role of development financing vs trade in the treatment of LDCs

- Two categories of international measures: binary measures (such as EBA), vs progressive measures (such as ODA)
- Trade measures (preferences, RoO, …) are mainly binary, development finance are both, but mainly progressive
- More and more difficult to give effective preferences to LDCs within a globalized/liberalized trade
- Still much to be done on the development finance side, through ODA volume and modalities, but also through other kinds of finance

(IV)

Scaling up ODA to LDCs by targetting : goals and definitions

- Historical UN target for ODA to LDCs: 0.15-0.20% of GNI, within the overall 0.7% target (not reached)
- Discussed, not agreed: a target of 50% of total ODA for LDCs, a good signal, but a poor substitute to the 0.15% target, when the total ODA/GNI ratio goes down below 0.3%...
- Agreed: 2 innovations related to LDCs in the new ODA measurement adopted by DAC at the Dec 2014 HLM

Scaling up ODA to LDCs by targetting through definitions
New focus on LDCs in redefining ODA

- Discount rates for the calculation of the grant equivalent of ODA loans = 9% for LDCs and others LICs, 7% for LMICs, 6% for UMICs (10% before for all)
- Required concessionality: to ensure that loans to LDCs and other LICs are provided at highly concessional terms, only loans with a grant element of at least 45% will be reportable as ODA. (for loans to LMICs it is of at least 15%, and those to UMICs of at least 10%): the need for concessionality reduces as countries become richer
- Expected: a comparatively better quality of the aid to LDCs and a higher volume, however difficult to assess

Criteria beyond the category: a way for scaling up ODA to LDCs?

- LDCs are not the only countries needing international support with regard to their vulnerability and other structural handicaps: case made for former LDCs graduated countries
- Referring to the rationale of the category (poor countries suffering from structural handicaps to development)
- The criteria used for the identification of the LDCs are also relevant criteria for aid allocation, offering a continuous treatment (instead of binary measures used in other areas)
- Adoption of such criteria of aid allocation would increase the share of ODA allocated to LDCs, and not only to graduating countries
- And would meet the principles of equity, effectiveness and transparency

Criteria beyond the category: a way for scaling up ODA to LDCs? Towards improvements

- Progress in that direction made by the GA in its 2012 Resolution on smooth transition, *§23 : inviting* development partners to consider least developed country indicators, gross national income per capita, the human assets index and the economic vulnerability index as part of their criteria for allocating official development assistance
- Already done by EC for the new EDF and DCI cycles, from a Ferdi model
- More debated within the MDBs, now more considered too

Criteria beyond the category: a way for scaling up ODA to LDCs? implications for MDBs

- Allocation of concesional resources by the special window of MDBs (IDA, AfDF, AsDF,…) determined according to the PBA
- Ai = f(CPA/CPR, GNIpc, Pop)
- Overwhelming weight given to the CPA/CPR, a subjective assessment of institutions and policies
- Structural handicaps not taken into account, while they influence policy
- Taking them into account, in particular vulnerability, would be favourable to LDCs, and other poor and vulnerable countries
- Possible to improve or adapt the index of structural economic vulnerability…or « build your own index » (ferdi)

(VI)

Development finance, LDCs and state fragility

- LDCs and Fragile states, two competing and overlaping groups
- LDC category, based on structural handicaps (vulnerability)
- FS groupings, based on policy assessments (fragility)
- LDC category and related (structural) criteria are relevant for aid allocation, while state fragilities matter for aid modalities
- Does not correspond to the current practice of the MDBs concessional windows, where FS have become a major exception to the PBA rule
- Since many LDCs are also FS, scaling up may face absorptive capacity problems: aid modalities are key to overcome them.

(VII)

Development finance, LDCs and adaptation to climate change

- Equitable to allocate the expected resources for adaptation to climate change not only according to the level of income pc and possibly governance, but first according to the vulnerability (to climate change) for which the country is not responsible
- Need to use an indicator such the physical PVCCI, set up at Ferdi
- Since the LDCs evidence a high average level of vulnerability to climate change (by the PVCCI), they should normally receive a large share of (concessional) adaptation resources
- Need to agree on the principles of allocation and a relevant index
- Or possible to agree on a minimum share for LDCs

(VIII)
Other improvements in development finance for addressing LDCs vulnerability

- Beside a ODA preference , need to allow LDCs to use nonconcessional finance for large projects with high returns when debt situation is controlled
- Other innovations in development finance can well fit the LDCs needs linked to their vulnerability, often linked to trade
- First contra-cyclical schemes
  - either incorporated ex ante into loan arrangements through debt serviceand according to trade prices ,
  - or working separately ex post, with possible delays, but not linked to debt service
- Second, guarantees to promote FDI and private borrowing…

Other improvements in development finance for addressing LDCs vulnerability

- Major role of financing regional integration, a strong factor of lower vulnerability for small countries, with unstable exports, and and fragile state
- New modalities needed, from special funds or enveloppes, with finance allocated for regional projects according to the country « needs for regional integration » and their « commitment to regional integration »
- Complementary (overlapping?) role of « aid for trade », specially as aid to infrastructure and to all that reduces the cost of trade